1993

Comment letters on Proposed Statement of Position Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising

American Institute of Certified Public Accountants. Not-for-Profit Organizations Committee

File

AICPA

December 14, 1996

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File 3605.ja

Dear J. T. and David:

At its October 22, 1996 meeting, AcSEC voted to issue the proposed Statement of Position, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising,* subject to FASB and GASB review. Enclosed for the Boards' consideration is a December 14, 1996 draft of the proposed SOP.

Also enclosed, for your information, are:

Not included

- A summary of substantive changes made to the ED. (Because there have been extensive changes made in the format of the document, a marked draft of the ED showing changes made to arrive at the December 14, 1996 draft is not enclosed.)
- Comment letters numbered 1 to 312 received on the ED
- A December 14, 1996 draft of an analysis of comment letters received on the ED and a December 14, 1996 draft *Tabular Staff Summary of Key Issues (on Which a Significant Number of Comments were Received) in the ED*
- A December 4, 1996 draft analysis of comment letters numbered 47 and 114
- Field test and a December 4, 1996 Summary of Field Test Results (Please note that the field test includes and is based on a July 16 draft of the SOP, which has been revised to result in the draft SOP submitted for

copy in NPO July 1996 files

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Not included

clearance. Also, please note that the entity providing the information for case number 2 [telemarketing] has asked that the case not be made public. Accordingly, please do not share the materials for case number 2 with others.)

- Other letters received concerning the project

It is my understanding that draft documents sent to the FASB become part of the public file. For reasons similar to those held by the FASB, we request that the comment letter analysis and summary of field test results be considered confidential and be excluded from the public file. We have marked those items "confidential."

Please address any questions or comments you may have to Joel Tanenbaum, the technical manager assigned to the project (212 596-6164).

Sincerely,

Jane

Jane B. Adams
Director
Accounting Standards

JA:jmt

enclosures

cc: AcSEC (without enclosures)
NPO Committee (without comment letters and analysis)
Greg Capin
Mike Crooch
Julie Erhardt
Mary Foelster (without comment letters and analysis)
Ken Schermann
Annette Schumacher
Joel Tanenbaum
Bill Titera (without comment letters and analysis)
Sue Weiss
Ken Williams

STATEMENT OF POSITION 96-XX

Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising

Amendment to AICPA Audit and Accounting Guides *Health Care Organizations*, *Not-for-Profit Organizations*, and *Audits of State and Local Governmental Units*

Issued by the Accounting Standards Executive Committee

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Summary

This statement of position (SOP) applies to all not-for-profit organizations (NPOs) and state and local governmental entities required to report fund-raising expenses or expenditures.

This SOP requires--

- If the criteria of purpose, audience, and content as defined in this SOP are met, the costs of joint activities that are identifiable with a particular function should be charged to that function and joint costs should be allocated between fund raising and the appropriate program or management and general function.

- If any of the criteria of purpose, audience, and content are not met, all costs of the activity should be reported as fund-raising costs, including costs that are otherwise identifiable with program or management and general functions.

- Certain financial statement disclosures if joint costs are allocated.

Some commonly used and acceptable allocation methods are described and illustrated though no methods are prescribed or prohibited.

This SOP amends existing guidance in AICPA Audit and Accounting Guides *Health Care Organizations*, *Not-for-Profit Organizations* (which was issued in August 1996 and supersedes SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, because the provisions of SOP 87-2 are incorporated into the Guide), and *Audits of State and Local Governmental Units*.

This SOP is effective for financial statements for years beginning on or after **[its issuance date]**. Earlier application is encouraged in fiscal years for which financial statements have not been issued.

Foreword

The accounting guidance contained in this document has been cleared by the Financial Accounting Standards Board (FASB). The procedure for clearing accounting guidance in documents issued by the Accounting Standards Executive Committee (AcSEC) involves the FASB reviewing and discussing in public board meetings (1) a prospectus for a project to develop a document, (2) a proposed exposure draft that has been approved by at least ten of AcSEC's fifteen members, and (3) a proposed final document that has been approved by at least ten of AcSEC's fifteen members. The document is cleared if at least five of the seven FASB members do not object to AcSEC undertaking the project, issuing the proposed exposure draft or, after considering the input received by AcSEC as a result of the issuance of the exposure draft, issuing the final document.

The criteria applied by the FASB in their review of proposed projects and proposed documents include the following.

1. The proposal does not conflict with current or proposed accounting requirements, unless it is a limited circumstance, usually in specialized industry accounting, and the proposal adequately justifies the departure.

2. The proposal will result in an improvement in practice.

3. The AICPA demonstrates the need for the proposal.

4. The benefits of the proposal are expected to exceed the costs of applying it.

In many situations, prior to clearance, the FASB will propose suggestions, many of which are included in the documents.

Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising

Introduction

1. Some not-for-profit organizations (NPOs) and state and local governmental entities,[1] such as governmental colleges and universities and governmental health care providers, solicit support through a variety of **fund-raising activities.**[2] These activities include direct mail, telephone solicitation, door-to-door canvassing, telethons, special events, and others. Sometimes fund-raising activities are conducted with activities related to other functions, such as **program activities** and supporting services, such as **management and general activities.**[3] Sometimes fund-raising activities include components that would otherwise be associated with program or supporting services, but in fact support fund raising.

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[1] This SOP uses the term *entity* to refer to both NPOs and state and local governments.

[2] Terms that appear in the Glossary are set in **boldface type** the first time they appear.

[3] The functional classifications of fundraising, program, and management and general are discussed throughout this SOP for purposes of illustrating how the guidance in this SOP would be applied by entities that use those functional classifications. Some entities have a functional structure that does not include fundraising, program, or management and general, or that includes other functional classifications, such as **membership development**.

2. External users of financial statements--including contributors, creditors, accreditation agencies, and regulators--want assurance that fund-raising costs, as well as program costs and management and general costs, are stated fairly.

3. In 1987, the AICPA issued Statement of Position (SOP) 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal.*[4] SOP 87-2 required that all circumstances concerning informational materials and activities that include a fund-raising appeal be considered in accounting for **joint costs** of those materials and activities and that certain criteria be applied in determining whether joint costs of those materials and activities should be charged to fund raising or allocated to program or management and general. Those criteria include requiring verifiable indications of the reasons for conducting the activity, such as the content, audience, and action, if any, requested of the participant, as well as other corroborating

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[4] In August 1996, the AICPA issued the Audit and Accounting Guide, *Not-for-Profit Organizations.* The Guide supersedes SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, because the provisions of SOP 87-2 are incorporated into paragraphs 13.31 to 13.40 of *Not-for-Profit Organizations*. *Not-for-Profit Organizations* applies to all NPOs other than those required to follow the Audit and Accounting Guide *Health Care Organizations*. The discussion in this SOP of SOP 87-2 refers to both SOP 87-2 and the guidance included in paragraphs 13.31 to 13.40 of *Not-for-Profit Organizations*.

evidence. Further, SOP 87-2 required that all joint costs of those materials and activities be charged to fund raising unless the appeal is designed to motivate its audience to action other than providing financial support to the organization.

4. The provisions of SOP 87-2 have been difficult to implement and have been applied inconsistently in practice. (**Appendix A**, "Background," discusses this further.)

5. This SOP establishes financial accounting standards for accounting for **costs of joint activities**. In addition, this SOP requires financial statement disclosures about the nature of the activities for which joint costs have been allocated and the amounts of joint costs. **Appendix** F provides explanations and illustrations of some acceptable allocation methods.

Scope

6. This SOP applies to all NPOs and state and local governmental entities required to report fund-raising expenses or expenditures.

Conclusions

Accounting for Joint Activities

7. If the criteria of purpose, audience, and content are met, the costs of a **joint activity** that are identifiable with a particular function should be charged to that function and joint costs should be allocated between fund-raising and the appropriate program or management and general function. If any of the criteria are not met, all costs of the joint activity should be reported as fund-raising costs, including costs that are otherwise identifiable with program or management and general functions.

Purpose

8. The purpose criterion is met if the purpose of the joint activity includes accomplishing program or management and general functions, other than public education.[5]

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[5] For purposes of applying the guidance in this SOP, public education is defined as educational activities that do not motivate the audience to action. In some circumstances, activities that would otherwise be considered educational may implicitly call for specific action by recipients. For example, activities that educate recipients about lifesaving techniques implicitly call for recipients to perform those techniques in applicable circumstances. If the need for and benefits of the action are clearly evident from the educational message, the message is considered to include a call for specific action by the recipient.

9. The following factors should be considered, in the order in which they are listed[6], to determine whether the purpose criterion is met:

a. *Whether* ***compensation*** *or fees for performing the activity are based on contributions raised.* The purpose criterion is <u>not</u> met if a majority of compensation or fees for any party's performance of any component of the discrete joint activity varies based on **contributions** raised for that discrete joint activity.[7]

b. *Whether a similar program or management and general activity is conducted separately and on the same scale.* The purpose criterion is met if either of the following two conditions is met:

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[6] In determining whether the purpose criterion is met, the factor in **paragraph 9*a*** (the compensation or fees test) is the preeminent guidance. If the factor in **paragraph 9*a*** is not applicable, the factor in **paragraph 9*b*** (whether a similar program or management and general activity is conducted separately and on the same scale) should be considered. If the factor in **paragraph 9*b*** is not applicable, the factor in **paragraph 9c** (other evidence) should be considered.

[7] The *compensation or fees test* is a negative test in that it either (1) results in failing the purpose criterion or (2) is not determinative of whether the purpose criterion is met. Therefore, if the activity fails the purpose criterion based on this factor (the compensation or fees test), the activity fails the purpose criterion and the **factor in paragraph 9*b*** should not be considered. If the purpose criterion is not failed based on this factor, this factor is not determinative of whether the purpose criterion is met and the **factor in paragraph 9*b*** should be considered.

(1) Condition 1:

- The program component of the joint activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity, and

- A similar program component is conducted without the fund-raising component using the same **medium** and on a scale that is similar to or greater than the scale on which it is conducted with the fund raising.[8]

(2) Condition 2:

A management and general activity that is similar to the management and general component of the joint activity being accounted for is conducted without the fund-raising component using the same medium and on a scale that is similar to or greater than the scale on which it is conducted with the fund raising.

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[8] Determining the scale on which an activity is conducted may be a subjective determination. Factors to consider in determining the scale on which an activity is conducted may include dollars spent, the size of the audience reached, and the degree to which the characteristics of the audience are similar to the characteristics of the audience of the activity being evaluated.

If the purpose criterion is met based on **the factor in paragraph 9*b***, the **factor in paragraph 9*c*** should not be considered.

c. *Other evidence*. If the factors in **paragraph 9*a* or 9*b*** do not determine whether the purpose criterion is met, other evidence may determine whether the criterion is met. All available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, the purpose criterion is met.

10. The following are examples of indicators that provide evidence for determining whether the purpose criterion is met:

a. Evidence that the purpose criterion may be met include:

- Measuring program results and accomplishments of the activity. The facts may indicate that the purpose criterion is met if the entity measures program results and accomplishments of the activity (other than public education).

- Medium. The facts may indicate that the purpose criterion is met if the program component of the joint activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity and the entity conducts the program component without a significant fund-raising component in a different medium. Also, the facts may indicate that the purpose criterion is met if the entity conducts the management and general component of the joint activity without a significant fund-raising component in a different medium.

b. Evidence that the purpose criterion may not be met include:

- Evaluation/compensation. The facts may indicate that the purpose criterion is not met if (a) the evaluation of any party's performance of any component of the discrete joint activity or (b) some, but less than a majority, of compensation or fees for any party's performance of any component of the discrete joint activity varies based on contributions raised for that discrete joint activity.

c. Evidence that the purpose criterion may be either met or not met include:

- Evaluation of measured results of the activity. The entity may have a process to evaluate measured program results and accomplishments of the activity (other than public education). If the entity has such a process, in evaluating the effectiveness of the joint activity, the entity may place significantly greater weight on the activity's effectiveness in accomplishing program goals or may place significantly greater weight on the activity's effectiveness in raising contributions. The former may indicate that the purpose criterion is met. The latter may indicate that the purpose criterion is not met.

- Qualifications. The qualifications and duties of those performing the joint activity should be considered

  - If a third party, such as a consultant or contractor, performs part or all of the joint activity, such as producing brochures or making telephone calls, the third party's experience and the range of services provided to the entity should be considered in determining whether the third party is performing fund-raising, program (other than public education), or management and general activities on behalf of the entity.

  - If the entity's employees perform part or all of the joint activity, the full range of their job duties should be considered in determining whether those employees are performing fund-raising, program (other than public education), or management and general activities on behalf of the entity. For example, (1) employees who are not members of the fund-raising department and (2) employees who are members of the fund-raising department but who perform non-fund-raising activities are more likely to perform activities that include program or management and general functions than are employees who otherwise devote significant time to fund raising.

- Tangible evidence of intent. Tangible evidence indicating the intended purpose of the joint activity should be considered. Examples of such tangible evidence include

  - The entity's written mission statement, as stated in its fund-raising activities, bylaws, or annual report.

  - Minutes of board of directors', committees', or other meetings.

  - Restrictions imposed by donors (who are not related parties) on gifts intended to fund the joint activity.

  - Long-range plans or operating policies.

  - Written instructions to other entities, such as script writers, consultants, or list brokers, concerning the purpose of the joint activity, audience to be targeted, or method of conducting the joint activity.

  - Internal management memoranda.

Audience

11. A rebuttable presumption exists that the audience criterion is not met if the audience includes prior donors or is otherwise selected based on its ability or likelihood to contribute to the entity. That presumption can be overcome only if the audience is also selected for one or more of the reasons in **paragraph 12**. In determining whether that presumption is overcome, entities should consider the extent to which the audience is selected based on its ability or likelihood to contribute to the entity and contrast that with the extent to which it is selected for the reasons that may overcome that presumption. For example, if the audience's ability or likelihood to contribute is a significant factor in its selection and it has a need for the action related to the program component of the joint activity, but having that need is an insignificant factor in its selection, the presumption would not be overcome.

12. The audience criterion is met if the audience is selected for one or more of the following reasons:

a. The audience's need to use or reasonable potential for use of the action called for by the program component of the joint activity *b.* The audience's ability to take action to assist the entity in meeting the goals of the program component of the joint activity other than by making contributions to the entity

c. The entity is required to direct the management and general component of the joint activity to the particular audience or the audience has reasonable potential for use of the management and general component

Content

13. The content criterion is met if the joint activity supports program or management and general functions, as follows:

a. Program. The joint activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity. If the need for and benefits of the action are not clearly evident, information describing the action and explaining the need for and benefits of the action is provided.

b. *Management and general.* The joint activity fulfills one or more of the entity's management and general responsibilities through a component of the joint activity.[9]

14. Information identifying and describing the entity, the needs or concerns to be met, or how the contributions provided will be used is considered in support of fund raising. Educational activities are considered in support of fund raising unless they motivate the audience to action other than making contributions to the entity.

Allocation Methods

15. The cost allocation methodology used should be rational and systematic, it should result in an allocation of joint costs that is reasonable, and it should be applied consistently given similar facts and circumstances.

Incidental Activities

16. Some fund-raising activities conducted in conjunction with program or management and general activities are incidental to such

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[9] Some states or other governing bodies require that certain disclosures be included in conjunction with all charitable solicitations. For purposes of applying the guidance in this SOP, such disclosures are considered fund-raising activities, and are not considered management and general activities.

program or management and general activities. For example, an entity may conduct a fund-raising activity by including a generic message, "Contributions to Organization X may be sent to [address]" on a small area of a message that would otherwise be considered a program or management and general activity based on its purpose, audience, and content. That fund-raising activity likely would be considered incidental to the program or management and general activity being conducted. Similarly, entities may conduct program or management and general activities in conjunction with fund-raising activities that are incidental to such fund-raising activities. For example, an entity may conduct a program activity by including a generic program message, such as "Continue to pray for [a particular cause]," on a small area of a message that would otherwise be considered fund raising based on its purpose, audience, and content. That program activity would likely be considered incidental to the fund-raising activity being conducted. Similarly, an entity may conduct a management and general activity by including a generic management and general message, "The organization's latest annual report can be obtained by calling 123-4567" on a small area of a message that would otherwise be considered a program or fund-raising activity based on its purpose, audience, and content. That management and general activity would likely be considered incidental to the program or fund-raising activity being conducted. In circumstances in which a fund-raising, program, or management and general activity is conducted in conjunction with another activity and is incidental to that other activity, and the conditions in this SOP for allocation are met, joint costs are permitted but not required to be allocated and may therefore be charged to the functional classification related to the primary activity. However, in circumstances in which the program or management and general activities are incidental to the fund-raising activities, it is unlikely that the conditions required by this SOP to permit allocation of joint costs would be met.

Disclosures

17. Entities that allocate joint costs should disclose the following in the notes to their financial statements:

a. The types of activities for which joint costs have been incurred

b. A statement that such costs have been allocated

c. The total amount allocated during the period and the portion allocated to each functional expense category

18. This SOP encourages, but does not require, that the amount of joint costs for each kind of joint activity be disclosed, if practical.

Effects on Other Guidance

19. For nongovernmental organizations, this SOP amends the AICPA Audit and Accounting Guide *Health Care Organizations* and paragraphs 13.31 to 13.40 of the AICPA Audit and Accounting Guide *Not-for-Profit Organizations*.

20. For governmental entities that have applied the accounting and financial reporting principles in SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, or the Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* (modified by all applicable FASB pronouncements issued through November 30, 1989, and by most applicable GASB pronouncements) in conformity with Governmental Accounting Standards Board (GASB) Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, this SOP amends the principles--based on SOP 78-10 and *Audits of Voluntary Health and Welfare Organizations*, as modified--that those entities apply. For governmental entities that have applied the accounting and financial reporting principles in the 1973 AICPA Industry Audit Guide *Audits of Colleges and Universities*, as amended by SOP 74-8 and as modified by applicable FASB pronouncements issued through November 30, 1989, and all applicable GASB pronouncements in conformity with GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, this SOP amends the principles--based

on *Audits of Colleges and Universities*, as amended and modified--that those entities apply. For other governmental organizations, this SOP amends the Audit and Accounting Guide *Audits of State and Local Governmental Units*.

Effective Date

21. This SOP is effective for financial statements for years beginning on or after **its issuance date**. Earlier application is encouraged in fiscal years for which financial statements have not been issued. If comparative financial statements are presented, retroactive application is permitted but not required.

The provisions of this Statement of Position need not be applied to immaterial items.

Appendix A - Background

A-1. As stated in **paragraph 4**, the provisions of Statement of Position (SOP) 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, have been difficult to implement and applied inconsistently in practice. That difficulty has been due in part to the following:

- The second sentence of paragraph 1 of SOP 87-2 stated that "some of the costs incurred by such organizations are clearly identifiable with fundraising, such as the cost of fund-raising consulting services." It is unclear whether activities that would otherwise be considered program activities should be characterized as program activities if they are performed or overseen by professional fund raisers. Also, it is unclear whether activities would be reported differently (for example, as program rather than fund raising) depending on whether the fund-raising consultant is compensated by a predetermined fee or by some other method, such as a percentage of contributions raised.

- SOP 87-2 was unclear about whether allocation of costs to program expense is required if the activity for which the costs were incurred would not have been undertaken without the fund-raising component.

- SOP 87-2 defined joint costs through examples, and it is therefore unclear what kinds of costs were covered by SOP 87-2. For example, it is unclear whether salaries and indirect costs can be joint costs.

- Some believe the guidance in SOP 87-2 was inadequate to determine whether joint activities, such as those that request contributions and also list the warning signs of a disease, are designed to motivate their audiences to action other than to provide contributions to the entity. It is unclear what attributes the targeted audience should possess in order to conclude that a program function is being conducted.

A-2. In 1992, the Accounting Standards Executive Committee (AcSEC) undertook a project to supersede SOP 87-2, to provide clearer guidance than that provided by SOP 87-2, as well as provide guidance that would improve on the guidance in SOP 87-2. In September 1993, AcSEC released an exposure draft of a proposed SOP, *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal*, for public comment. AcSEC received more than 300 comment letters on the exposure draft. AcSEC redeliberated the issues based on the comments received.

A-3. In 1996, after redeliberating the issues based on the comments received and making certain revisions to the draft SOP, AcSEC conducted a field test of the draft SOP. The objectives of the field test were to determine whether the provisions of the draft SOP were sufficiently clear and definitive to generate consistent and comparable application of the SOP. Based on the field test results, AcSEC concluded that the provisions of the draft SOP, with certain revisions, were sufficiently clear and definitive to generate consistent and comparable application of the SOP.

A-4. **Appendix** B discusses the key issues in the exposure draft and comments received on those issues, as well as the basis for AcSEC's conclusions on those and certain other issues.

Appendix B - Basis for Conclusions

B-1. This section discusses considerations that were deemed significant by members of AcSEC in reaching the conclusions in this SOP. It includes reasons for accepting certain views and rejecting others. Individual AcSEC members gave greater weight to some factors than to others.

Overall Framework

B-2. This SOP uses the model in Statement of Position (SOP) 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, as a starting point and clarifies guidance that was unclear, provides more detailed guidance, revises some guidance, and expands the scope of costs covered to include all costs of joint activities. The model established by SOP 87-2 was to account for joint costs as fund raising unless an entity could demonstrate that a program or management and general function had been conducted. SOP 87-2 used verifiable indications of the reasons for conducting the activity, such as content, audience, the action requested, if any, and other corroborating evidence as a basis for determining whether a program or management and general function had been conducted.

B-3. On an overall basis, the majority of respondents who commented on the September 1993 exposure draft of a proposed SOP, *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal* (ED), opposed it, for various reasons, including the following:

- The guidance in SOP 87-2 is operational, results in sound financial reporting, and should be retained.

- The guidance in SOP 87-2 should be retained but clarified.

- The guidance proposed in the exposure draft should be revised. (Some commented that it overstates fund raising; others commented that it understates fund raising.)

B-4. AcSEC concluded that it supports the model in the exposure draft, subject to certain revisions. AcSEC believes that this SOP provides clear, detailed accounting guidance that, when applied, will increase comparability of financial statements. Those statements will also include more meaningful disclosures without incurring increased costs.

B-5. Some respondents commented that the model in the exposure draft would adversely affect entities both financially and operationally. Various reasons were given, including the following:

- It would inhibit the ability of entities, particularly small entities and entities that raise contributions through direct solicitations, to generate the necessary revenue to perform their program services.

- Most entities would not meet the criteria in this SOP for reporting costs of joint activities as program or management and general, because they must combine their mission statements, public information and education, and fund-raising appeals due to a lack of resources. Some noted that this may result in unsatisfactory ratings from public watchdog groups.

AcSEC did not find these arguments compelling. This SOP provides accounting guidance; it provides no guidance concerning how entities should undertake their activities. Also, this SOP does not prohibit allocation merely because activities carrying out different functions are combined. In fact, this SOP provides guidance for reporting costs as program or management and general in circumstances in which those activities are combined. Moreover, actions taken by financial statement users are not the direct result of the requirements of this SOP. Rather, those actions may result from more relevant and useful information on which to base decisions.

B-6. Some respondents commented that the exposure draft is biased toward reporting expenses as fund raising. AcSEC believes that determining whether the costs of joint activities should be classified as program, management and general, or fund raising sometimes is difficult, and such distinctions sometimes are subject to a high degree of judgment. AcSEC believes that external financial statement users focus on and have perceptions about amounts reported as program, management and general, and fund-raising. That focus and those perceptions provide incentive for entities to report expenses as program or management and general rather than fundraising. Therefore, in circumstances in which joint activities are conducted, a presumption exists that expenses should be reported as fundraising rather than as program or management and general. The criteria in this SOP provide guidance for entities to overcome that presumption.

Accounting for Joint Activities

B-7. This SOP requires that if any of the criteria of purpose, audience, and content are not met, all costs of the activity should be reported as fund-raising, including costs that are otherwise identifiable with program or management and general functions. (This SOP expands on the model established by SOP 87-2 by including all costs of joint activities, rather than merely joint costs.)

B-8. AcSEC concluded that unless the criteria of purpose, audience, and content are met, costs of joint activities should be presumed to be fund-raising costs. AcSEC believes that those three criteria are each relevant in determining whether a joint activity should be reported as fundraising, program, or management and general because each provides significant evidence about the benefits expected to be obtained by undertaking the activity.

B-9. Some respondents commented that reporting costs that are otherwise identifiable with program or management as fund raising is misleading and that the scope of the SOP should include only joint costs of joint activities. Some commented that reporting costs that are otherwise identifiable with program or management as fundraising conflicts with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*, which defines fund raising, program, and management and general and requires NPOs to report information about expenses using those functional classifications. AcSEC believes that the purpose for which costs other than joint costs are incurred may be fund raising, program, or management and general, depending on the context in which they are used in the activity undertaken. For example, a program-related pamphlet may be sent to an audience in need of the program. In that context, the pamphlet is used for program purposes. However, in order to demonstrate to potential donors that the entity's programs are worthwhile, that same pamphlet may be sent to an audience who is likely to contribute, but who has no need or reasonable potential for use of the program. In that context, the pamphlet is used for fund raising. AcSEC believes this broader scope will result in more comparability and more meaningful financial reporting by covering all costs of activities that include fund raising. AcSEC concluded that, although costs may otherwise be identifiable with program or management and general functions, those costs are in support of fund raising if the criteria in this SOP are not met. AcSEC believes the guidance does not conflict with FASB Statement No. 117, because such costs are not incurred to support program or management and general functions in circumstances in which the criteria in this SOP are not met.

Criterion of Purpose, Audience, and Content

Call to Action

B-10. The definition of *program* in FASB Statement No. 117 includes public education. As noted in **paragraph** B-6, AcSEC believes that in circumstances in which joint activities are conducted, a presumption exists that expenses should be reported as fund raising rather than as program or management and general. AcSEC believes that in order to overcome that presumption, it is not enough that the purpose of the activity include public education, that the audience have a need or reasonable potential use for any educational component of the activity, or that the audience have the ability to assist the entity in meeting the goals of the program component of the activity by becoming educated. Therefore, AcSEC concluded that for purposes of this SOP, program activities are required to call for specific action by the recipient, other than becoming educated, that will help accomplish the entity's mission and that is unrelated to making contributions to the entity in order to conclude that the criteria of purpose, audience, and content are met.

Purpose

B-11. AcSEC believes meeting the purpose criterion demonstrates that the activity includes accomplishing program or management and general functions. Inherent in the notion of a joint activity is that the activity accomplishes more than one function. Accordingly, the purpose criterion provides guidance for determining whether the purpose of the activity includes accomplishing program or management and general functions in addition to fund raising.

Compensation and Evaluation Tests

B-12. The exposure draft proposed that all costs of the joint activity should be charged to fund raising if (a) substantially all compensation or fees for performing the activity or (b) the evaluation of the party performing the activity is based on amounts raised. Some respondents commented that basing the method of compensation or evaluating the performance of the party performing the activity based on contributions raised should not lead to the conclusion that all costs of the activity should be charged to fund raising. Others commented that the method of compensation is unrelated to whether the purpose criterion is met. The reasons given included the following:

- It is counterintuitive to imply that those performing multipurpose activities that include fund raising would not be compensated or evaluated based on amounts raised.

- Such guidance would create a bias toward entities that use employees to raise contributions and against entities that hire professional fund raisers and public relations firms and is therefore not neutral.

Some respondents gave examples of circumstances in which substantially all compensation is based on contributions raised and asserted that the activity was nevertheless a program activity. In each of those examples, AcSEC considered all the facts presented and concluded that the activity was fund raising.

B-12A. AcSEC continues to support the spirit of the proposed guidance, because AcSEC believes that basing a majority of compensation on funds raised is persuasive evidence that the activity is a fund-raising activity. Nevertheless, AcSEC believes that the proposed guidance was unclear and would be difficult to implement, primarily because of the broad definition of "based on contributions raised" included in the glossary of the exposure draft. In connection with that issue, AcSEC was concerned that any joint activities performed by a fund-raising department or by individuals whose duties include fund-raising, such as executive officers of small NPOs who are employed based on their ability to raise contributions, would be required to be reported as fund raising because the compensation of the parties performing those activities is based on amounts raised. Also, AcSEC had concerns that it would be difficult to determine whether fixed contract amounts were negotiated based on expected contributions. Therefore, AcSEC concluded that the compensation test should be revised to provide that the purpose criterion is not met if a majority of compensation or fees for any party's performance of any component of the discrete joint activity varies based on contributions raised for that discrete joint activity. AcSEC believes that guidance is sound and is operational.

B-13. AcSEC believes that the guidance in **paragraph** 9*a* is not biased against entities that hire professional fund raisers, because it applies to the entity's employees as well as professional fund raisers. For example, if a majority of an employee's compensation or fees for performing a component of a discrete joint activity varies based on contributions raised for that discrete joint activity, the purpose criterion is not met.

Similar Function-Similar Medium Test

B-14. Some respondents misinterpreted the exposure draft as providing that, in order to meet the purpose criterion, the program or management and general activity must be conducted without the fund-raising component, using the same medium and on a scale that is similar to or greater than the program or management and general component of the activity being accounted for. That was not a requirement proposed by the exposure draft. The exposure draft proposed that meeting that condition would result in meeting the purpose criterion. Failing the criterion merely leads to consideration of other evidence, such as the indicators in **paragraph** 10. AcSEC has revised the SOP to state this more clearly.

Other Evidence

B-15. The compensation test and the similar function-similar medium test may not always be applicable because the attributes that they consider may not be present. Therefore, this SOP includes indicators that should be considered in circumstances in which the compensation test and the similar function-similar medium test are not applicable. The nature of those indicators is such that they may be present in varying degrees. Therefore, all available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, the purpose criterion is met.

Audience

B-16. The exposure draft proposed that if the audience for the materials or activities is selected principally on its ability or likelihood to contribute, the audience criterion is not met and all the costs of the activity should be charged to fund-raising. Further, the exposure draft proposed that if the audience is selected principally based on its need for the program or because it can assist the entity in meeting its program goals other than by financial support provided to the entity, the audience criterion is met. Some respondents commented that the audience criterion is too narrow, because it is based on the principal reason for selecting the audience. They asserted that for some activities no principal reason exists for selecting an audience; entities select the audience for those activities for multiple reasons, such as both the audience's ability to contribute and its ability to help meet program goals. Some commented that for some activities, entities select audiences that have provided past financial support because, by providing financial support, those audiences have expressed an interest in the program.

B-16A. AcSEC believes that meeting the audience criterion should demonstrate that the audience is selected because it is a suitable audience for accomplishing the activity's program or management and general functions. Therefore, the reasons for selecting the audience should be consistent with the program or management and general content of the activity. However, AcSEC believes it is inherent in the notion of joint activities that the activity accomplishes more than one function, including fundraising, and acknowledges that it may be difficult to determine the principal reason for selecting the audience. Accordingly, AcSEC concluded that if the audience includes prior donors or is otherwise selected based on its ability or likelihood to contribute, a rebuttable presumption should exist that the audience was selected to raise funds. AcSEC believes that the reasons for selecting the audience that can overcome that presumption, which are included in **paragraph** 12 of this SOP, demonstrate that the audience is selected because it is a suitable audience for accomplishing the activity's program or management and general functions based on the program or management and general content of the activity.

Content

B-17. AcSEC believes that meeting the content criterion demonstrates that the content of the activity supports the activity's program or management and general functions. Those functions are based on the entity's mission, programs, and management and general responsibilities. AcSEC believes that accounting guidance should not impose value judgments about whether the entity's mission, programs, and responsibilities are worthwhile.

B-18. As part of the content criterion, this SOP requires that the activity should call for specific action by the recipient that will help accomplish the entity's mission. The exposure draft proposed that slogans, general calls to prayer, and general calls to protest do not meet the content criterion; some respondents disagreed. AcSEC concluded that this SOP should be silent concerning whether slogans, general calls to prayer, and general calls to protest are calls to action that meet the content criterion. AcSEC believes that determining whether those items are calls to action that meet the content criterion requires judgements based on the particular facts and circumstances.

B-19. Some respondents commented that public education should satisfy the content criterion. They noted that this is particularly relevant for NPOs subject to Internal Revenue Code (IRC) Section 501(c)4, because those NPOs are involved in legislative reform. Also, some noted that it may be the entity's mission or goal to educate the public about conditions that its programs are designed to address or about a particular cause. They believe that, in those cases, the NPO's program is public education. As discussed in **paragraph B-10**, AcSEC concluded that education that does not motivate the audience to action other than to make contributions to the entity is in fact done in support of fund raising. However, this SOP acknowledges that some educational messages implicitly motivate the audience to action other than to make contributions to the entity, and those messages meet the content criterion. AcSEC believes that that provision will result in the activities of some NPOs subject to IRC Section 501(c)4 (and some other entities, whose mission or goal is to educate the public about conditions that its programs are designed to address or about a particular cause) meeting the content criterion without explicitly calling for specific action.

INCIDENTAL ACTIVITIES

B-20. Many entities conduct fund-raising activities in conjunction with program or management and general activities that are incidental to such program or management and general activities. Similarly, entities may conduct program or management and general activities in conjunction with fund-raising activities that are incidental to such fund-raising activities. Such efforts may be a practical and efficient means for entities to conduct activities, though the principal purpose of the activity may be to fulfill either fund-raising, program, or management and general functions. The exposure draft proposed that incidental activities need not be considered in applying this SOP. Some respondents disagreed with that guidance, while others commented that it was confusing. AcSEC continues to support that guidance. AcSEC believes that guidance is necessary to avoid requiring complex allocations in circumstances in which the activity is conceptually a joint activity but in fact is primarily either fund-raising, program, or management and general.

ALLOCATION METHODS

B-21. Respondents had various comments concerning allocation methods, including the following:

- The SOP should focus on allocation methods rather than on circumstances in which entities should allocate.

- The SOP should prescribe allocation methods.

- The approach taken in the SOP--discussing, rather than requiring or prohibiting allocation methods--is sound.

- Certain allocation methods should be prohibited.

- The SOP should set maximum allocation percentages.

AcSEC believes that no particular allocation method or methods are necessarily more desirable than other methods in all circumstances. Therefore, this SOP neither prescribes nor prohibits any particular allocation methods. AcSEC believes entities should apply the allocation methods that result in the most reasonable cost allocations for the activities of those entities. **Appendix** F of this SOP illustrates several cost allocation methods, any one of which may result in a reasonable or unreasonable allocation of costs in particular circumstances. The methods illustrated are not the only acceptable methods. However, AcSEC believes that the methods illustrated in this SOP are among those most likely to result in meaningful cost allocations.

DISCLOSURES

B-22. Respondents made various comments concerning the required and encouraged disclosures, including recommendations for additional disclosures and recommendations that certain disclosures be deleted. AcSEC was not persuaded that the costs of the other disclosures recommended by respondents are justified by their benefits. AcSEC believes that, with the exception of one disclosure, the disclosures prescribed by the exposure draft provide relevant information about the kinds of activities for which joint costs have been incurred and the manner in which those costs are reported in the financial statements. In considering disclosures proposed by the exposure draft about the allocation method, AcSEC observed that there are no requirements to disclose methods of allocating other expenses and questioned the utility of disclosing the allocation method in this circumstance. AcSEC concluded that the requirement to disclose the allocation method should be deleted.

B-23. **Paragraph 18** encourages, but does not require, certain disclosures. AcSEC believes those disclosures provide useful information but that they should be encouraged rather than required because the costs of making them may not be justified by the benefits in all cases.

B-24. Accounting Principles Board (APB) Opinion No. 20 states in paragraph 7 that "the term *accounting principle* includes 'not only accounting principles and practices but also the methods of applying them.'" APB Opinion No. 20 also states in paragraphs 15 and 16 that

> ...In the preparation of financial statements there is a presumption that an accounting principle once adopted should not be changed in accounting for events and

transactions of a similar type....The presumption that an entity should not change an accounting principle may be overcome only if the enterprise justifies the use of an alternative acceptable accounting principle [allocation method] on the basis that it is preferable.

A change in cost allocation methodology may be a change in accounting principle for entities covered by this SOP. Accordingly, **paragraph** 15 of this SOP provides that the cost allocation methodology used should be applied consistently, given similar facts and circumstances.

Effective Date

B-25. Some respondents commented that the effective date should be deferred. AcSEC believes that the accounting systems required to implement this SOP are already in place and knows of no reason to delay implementation of this SOP. Though some entities may change their operations based on the reporting that would result from this SOP, implementation should be relatively straightforward. Therefore, AcSEC concluded that this SOP should be effective for financial statements for years beginning on or after **[its issuance date]**.

Cost-Benefit

B-26. Some respondents commented that the guidance would increase record-keeping costs. AcSEC believes that implementing this SOP will not significantly increase record-keeping costs, which are primarily the costs of documenting reasons for undertaking joint activities. Further, AcSEC believes that the costs of making the disclosures required by this SOP should be minimal, because entities should already have the information that is required to be disclosed. AcSEC believes that implementing this SOP will result in more relevant, meaningful, and comparable financial reporting and that the cost of implementing this SOP will be justified by its benefits.

Appendix C - Discussion of Conclusions

SCOPE

C-1. This SOP applies only to costs of joint activities. It does not address allocations of costs in other circumstances.

C-2. Paragraph 26 of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 117 *Financial Statements of Not-for-Profit Organizations* requires NPOs to report expenses by function.

C-3. Paragraph 26 of FASB Statement No. 117 specifies that a statement of activities or notes to the financial statements should provide information about expenses reported by their functional classification, such as major classes of program services and supporting activities. Paragraph 13.30 of the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*, provides that the financial statements of not-for-profit organizations should disclose the total fund-raising expenses.

C-4. For entities that have not adopted FASB Statement No. 117,[1] some are required to report expenses by function using the functional classifications of program, management and general, and fund raising. Other entities that report expenses or expenditures by function have a functional structure that does not include fund raising, program, or management and general. Still other entities

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[1] Governmental Accounting Standards Board (GASB) Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities,* provides that governmental entities should not change their accounting and financial reporting to apply the provisions of FASB Statements No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117. GASB Statement No. 29 permits governmental entities that have applied the accounting and financial reporting principles in SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations,* or the Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* (modified by all applicable FASB pronouncements issued through November 30, 1989, and by most applicable GASB pronouncements) to continue to do so, pending GASB pronouncements on the accounting and financial reporting model for governmental entities. Alternatively, those governmental entities are permitted to change to the current governmental financial reporting model.

GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, requires governmental colleges and universities to use one of two accounting and financial reporting models. One model, referred to as the "AICPA College Guide Model," encompasses the accounting and financial reporting guidance in the 1973 AICPA Industry Audit Guide *Audits of Colleges and Universities*, as amended by SOP 74-8 and as modified by applicable FASB pronouncements issued through November 30, 1989, and all applicable GASB pronouncements. (The other model, referred to as the "Governmental Model," is based on the pronouncements of the National Council on Governmental Accounting [NCGA] and the GASB.)

do not report expenses or expenditures by function. Examples of those various reporting requirements are as follows:

- Entities subject to the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*, as well as those that follow SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, and that receive significant amounts of contributions from the public, are required to report separately the costs of the fundraising, program, and management and general functions.

- Entities subject to the AICPA Industry Audit Guide *Audits of Colleges and Universities*, as amended by SOP 74-8, *Financial Accounting and Reporting by Colleges and Universities*, are required to report fund raising as part of the "institutional support" function.

C-5. This SOP applies to all entities that are required to report fund-raising expenses or expenditures. It is not intended to require reporting the functional classifications of fund raising, program, and management and general. Rather, those functional classifications are discussed throughout this SOP for purposes of illustrating how the guidance in this SOP would be applied by entities that use those functional classifications. Some entities may use other functional classifications, such as membership development. Entities that do not use the functional classifications of fund raising, program, and management and general should apply the guidance in this SOP for purposes of accounting for joint activities, using their reporting model.

C-6. **Paragraph** 7 provides: "If the criteria of purpose, audience, and content are met, the costs of a joint activity that are identifiable with a particular function should be charged to that function and joint costs should be allocated between fund raising and the appropriate program or management and general function. If any of the criteria are not met, all costs of the joint activity should be reported as fund-raising costs, including costs that are otherwise identifiable with program or management and general functions." For example, if the criteria are met, the costs of materials that accomplish program goals and that are unrelated to fund raising, such as the costs of a program-related pamphlet included in a joint activity, should be charged to program, while joint costs, such as postage, should be allocated between fundraising and program. However, if the pamphlet is used in fund-raising packets and the criteria are not met, the costs of the pamphlets used in the fund-raising packets, as well as the joint costs, should be charged to fund raising. (If some pamphlets are used in activities other than activities that include fund raising, such as separate program activities that include no fund-raising activities, the cost of those pamphlets should be charged to program.)

Contributed Services or Time

C-7. As discussed in **the Glossary** of this SOP, fund raising includes activities undertaken to solicit contributions. Because contributed services or time are contributions, soliciting contributed services or time is a fund-raising activity, regardless of whether the services or time are recognized as contributions in conformity with paragraph 9 of FASB Statement No. 116.

Compensation Test

C-8. **Paragraph** *9a* provides: "The purpose criterion is not met if a majority of compensation or fees for any party's performance of any component of the discrete joint activity varies based on contributions raised for that discrete joint activity." Some compensation contracts provide that compensation for performing the activity is based on a factor other than contributions raised, but not to exceed a specified portion of contributions raised. For example, a contract may provide that compensation for performing the activity is $10 per contact hour, but not to exceed 60 percent of contributions raised. In such circumstances, compensation is not considered based on amounts raised, unless it is probable that the stated maximum percentage will be met.

Audience

C-9. The source of the names and the characteristics of the audience should be considered in determining the reason for selecting the audience. Some entities use lists compiled by others to reach new audiences. The source of such lists may indicate the purpose or purposes for which they were selected. For example, lists acquired from entities with similar or related programs are more likely to meet the audience criterion than are lists acquired from entities with dissimilar or unrelated programs. Also, the characteristics of those on the lists may indicate the purpose or purposes for which they were selected. For example, a list based on a consumer profile of those who buy environmentally friendly products may be useful to an entity whose mission addresses environmental concerns and could therefore indicate that the audience was selected for its ability to take action to assist the entity in meeting program goals. However, a list based on net worth would indicate that the audience was selected based on its ability or likelihood to contribute, unless there was a correlation between net worth and the program or management and general components of the activity.

C-10. Some audiences may be selected because they have an interest in or affinity to the program. For example, homeowners may have an interest in the homeless because they are sympathetic to the plight of the homeless. Nevertheless, including homeowners in the audience of a program activity to provide services to the homeless would not meet the audience criterion, because they do not have a need or reasonable potential for use of services to the homeless.

C-11. **Paragraph 12c** provides that the audience criterion is met if the entity is required to direct the management and general component of the joint activity to the particular audience or the audience has reasonable potential for use of the management and general component. Examples of circumstances in which the audience is selected because the entity is required to direct the management and general component of the joint activity to the particular audience or the audience has reasonable potential for use of the management and general component include the following:

- The entity sends prior donors a written acknowledgement or other information to comply with requirements of the Internal Revenue Service and includes a request for contributions.

- The entity sends its annual report to donors and includes a request for contributions.

Content

C-12. **Paragraph** 13 provides that, to meet the content criterion, program activities should call for specific action "by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity." As discussed in the **Glossary**, the action should benefit the recipient or society. Examples of actions that benefit the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or society (such as by addressing societal problems) include the following:

a. Actions that benefit the recipient--

- *Stop smoking*. Specific methods, instructions, references, and resources should be suggested.

- *Do not use alcohol or drugs*. Specific methods, instructions, references, and resources should be suggested.

b. Actions that benefit society:

- *Write or call*. The party to communicate with and the subject matter to be communicated should be specified.

- *Complete and return the enclosed questionnaire*. The results of the questionnaire should help the entity achieve its mission. For example, if the entity discards the questionnaire, it does not help the entity achieve its mission.

- *Boycott.* The particular product or company to be boycotted should be specified.

C-13. Paragraph **13** provides that to meet the content criterion, management and general functions are required to fulfill one or more of the entity's management and general responsibilities through a component of the joint activity. Some states or other governing bodies require that certain disclosures be included in conjunction with all charitable solicitations. **Paragraph 13, footnote 9**, of this SOP provides that for purposes of applying the guidance in this SOP, such required disclosures are considered fund-raising activities and are not considered management and general activities. Some examples of such disclosures include the following:

- Information filed with the Attorney General concerning this charitable solicitation may be obtained from the attorney general of [*the state*] by calling 123-4567. Registration with the attorney general does not imply endorsement.

- A copy of the registration and financial information may be obtained from the division of consumer services by calling toll-free, within [*the state*], 1-800-123-4567. Registration does not imply endorsement, approval, or recommendation by *[the state]*.

- Information about the cost of postage and copying, and other information required to be filed under *[the state]* law, can be obtained by calling 123-4567.

- The organization's latest annual report can be obtained by calling 123-4567.

Allocation Methods

C-14. **Paragraph** 15 of this SOP states, "The cost allocation methodology used should be rational and systematic, it should result in an allocation of joint costs that is reasonable, and it should be applied consistently given similar facts and circumstances." The allocation of joint costs should be based on the degree to which costs were incurred for the functions to which the costs are allocated (that is, program, management and general, or fund raising). For purposes of determining whether the allocation methodology for a particular joint activity should be consistent with methodologies used for other particular joint activities, facts and circumstances that may be considered include factors related to the content and relative costs of the components of the activity. The audience should not be considered in determining whether the facts and circumstances are similar for purposes of determining whether the allocation methodology for a particular joint activity should be consistent with methodologies used for other particular joint activities.

Practicability of Measuring Joint Costs

C-15. The **Glossary** of this SOP includes a definition of *joint costs*. Some costs, such as utilities, rent, and insurance, commonly referred to as indirect costs, may be joint costs. For example, the telephone bill for a department that, among other things, prepares materials that include both fund-raising and program components may commonly be referred to as an indirect cost. Such telephone bills may also be joint costs. However, for some entities, it is impracticable to measure and allocate the portion of the costs that are joint costs. Considerations about which joint costs should be measured and allocated, such as considerations about materiality and the costs and benefits of developing and providing the information, are the same as considerations about cost allocations in other circumstances.

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APPENDIX D - Flowchart

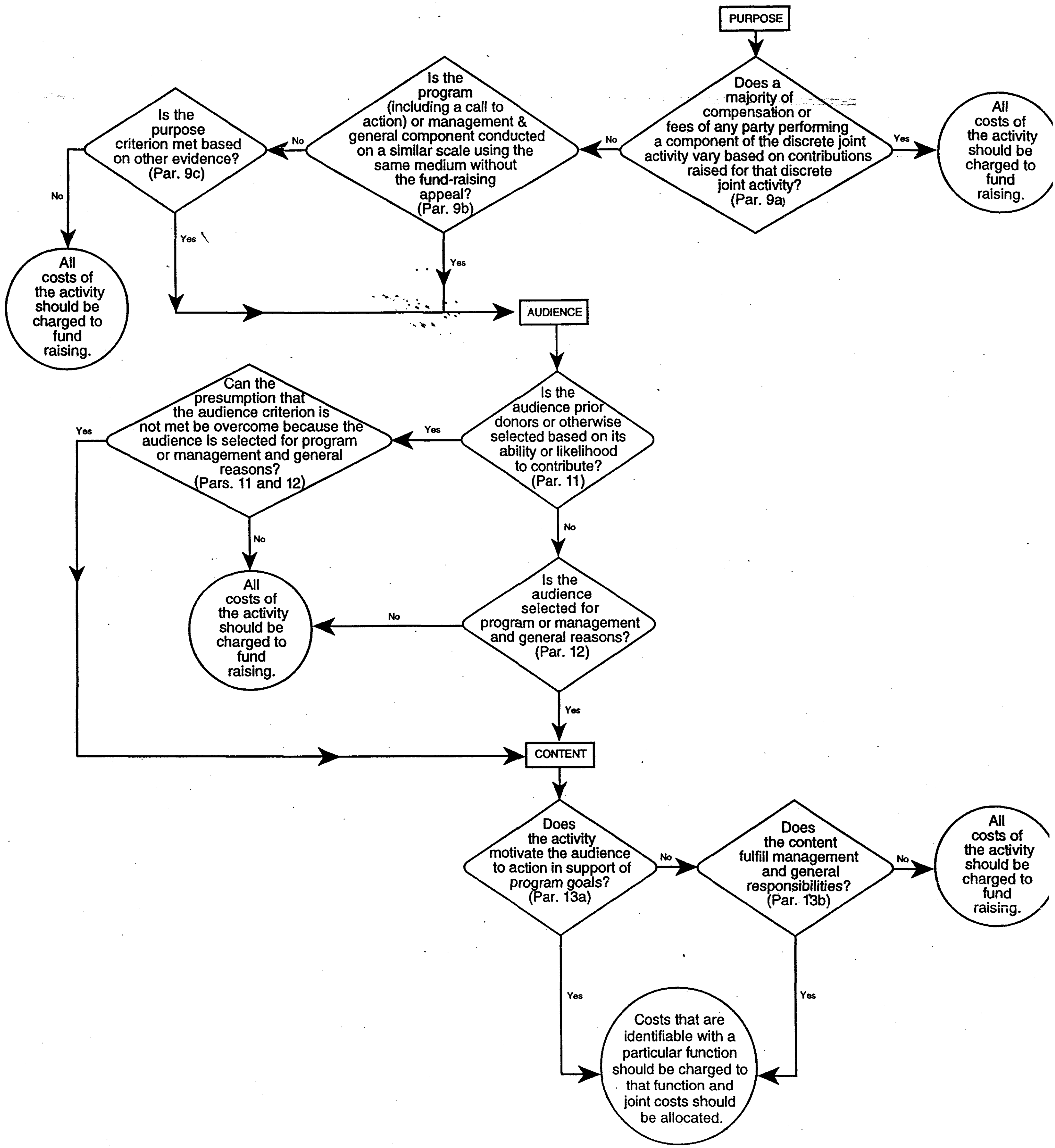
ACCOUNTING FOR JOINT ACTIVITIES[1]

[See separate page for the Flowchart.]

[1] Note: This flow chart summarizes certain guidance in this SOP and is not intended as a substitute for the SOP.

12/14/96

ACCOUNTING FOR JOINT ACTIVITIES*



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* **Note**—This flowchart summarizes certain guidance in this SOP and is not intended as a substitute for the SOP.

APPENDIX E - Illustrations of Applying the Criteria of Purpose, Audience, and Content to Determine Whether a Program or Management and General Activity Has Been Conducted

Illustration 1

Facts

E-1. Entity A's mission is to prevent drug abuse. Entity A's annual report states that one of its objectives in fulfilling that mission is to assist parents in preventing their children from abusing drugs.

E-2. Entity A mails informational materials to the parents of all junior high school students explaining the prevalence and dangers of drug abuse. The materials encourage parents to counsel children about the dangers of drug abuse and inform them about how to detect drug abuse. The mailing includes a request for contributions. Entity A conducts other activities informing the public about the dangers of drug abuse and encouraging parents to counsel their children about drug abuse that do not include requests for contributions and that are conducted in different media. Entity A's executive director is involved in the development of the informational materials as well as the request for contributions.

The executive director's annual compensation includes a significant bonus if total annual contributions exceed a predetermined amount.

Conclusion

E-3. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-4. Neither of the factors in **paragraphs** *9a* or *9b* is determinative of whether the purpose criterion is met. (Though entity A's executive director's annual compensation varies based on annual contributions, the executive director's compensation does not vary based on contributions raised for this discrete joint activity.) Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is met based on the other evidence, because *(a)* the program component of this activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity (encouraging parents to counsel children about the dangers of drug abuse) and it otherwise conducts the program activity in this illustration without a request for contributions and *(b)* performing such programs helps accomplish Entity A's mission (Note that had Entity A conducted the activity using the same medium on a scale that is similar to or greater than the scale on which it is conducted with the request for contributions, the purpose criterion would have been met under **paragraph** *9b*.)

E-5. The audience criterion is met because the audience (parents of junior high school students) is selected based on its need to use or reasonable potential for use of the action called for by the program component.

E-6. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity A (encouraging parents to counsel children about the dangers of drug abuse and inform them about how to detect drug abuse) and that will help accomplish the entity's mission (assisting parents in preventing their children from abusing drugs), and it explains the need for and benefits of the action (the prevalence and dangers of drug abuse).

Illustration 2

Facts

E-7. Entity B's mission is to reduce the incidence of illness from ABC disease, which afflicts a broad segment of the population. One of Entity B's objectives in fulfilling that mission is to inform the public about the effects and early warning signs of the disease and specific action that should be taken to prevent the disease.

E-8. Entity B maintains a list of its prior donors and sends them donor renewal mailings. The mailings include messages about the effects and early warning signs of the disease and specific action that should be taken to prevent it. That information is also sent to a similar-sized audience but without the request for contributions. Also, Entity B believes that recent donors are more likely to contribute than nondonors or donors who have not contributed recently. Prior donors are deleted from the mailing list if they have not contributed to Entity B recently, and new donors are added to the list. There is no evidence of a correlation between recent contributions and participation in the program component of the activity. Also, the prior donor's need to use or reasonable potential for use of the messages about the effects and early warning signs of the disease and specific action that should be taken to prevent it are an insignificant factor in their selection.

Conclusion

E-9. The purpose and content criteria are met. The audience criterion is not met.[1] All costs, including those that would otherwise be identifiable as program, should be charged to fundraising.

E-10. The purpose criterion is met because the program component of the activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity (informing the public about the effects and early warning signs of ABC disease and specific action that should be taken to prevent it), and the program is also conducted using the same medium on a scale that is similar to or greater than the scale on which it is conducted with the request for contributions (a similar mailing is done without the request for contributions, to a similar-sized audience).

E-11. The audience criterion is not met. A rebuttable presumption exists that the audience criterion is not met because the audience is prior donors. That presumption cannot be overcome. Though the

[1] **Paragraph** 7 of this SOP provides that all costs of joint activities should be charged to fund raising if any of the criteria of purpose, audience, or content are not met. Accordingly, if one or more criteria are not met, the other criteria need not be considered. However, the illustrations in this Appendix provide conclusions about whether each of the criteria would be met in circumstances in which one or more criteria are not met in order to provide further guidance.

audience has a need to use or reasonable potential for use of the program component, that was an insignificant factor in their selection.

E-12. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity B (actions to prevent ABC disease) an that will help accomplish the entity's mission (to reduce the incidence of ABC disease), and it explains the need for and benefits of the action (to prevent ABC disease).

Illustration 3

Facts

E-13. Entity C's mission is to reduce the incidence of illness from ABC disease, which afflicts a broad segment of the population. One of Entity C's objectives in fulfilling that mission is to increase governmental funding for research about ABC disease.

E-14. Entity C maintains a list of its prior donors and its employees call them on the telephone reminding them of the effects of ABC disease, asking for donations, and encouraging them to contact their elected officials to urge increased governmental funding for research about ABC disease. The callers are educated about ABC, do not otherwise perform fund-raising functions, and are not compensated or evaluated based on donations raised. Entity C's research indicates that recent donors are likely to contact their elected officials about such funding while nonrecent donors are not. Prior donors are deleted from the calling list if they have not contributed to Entity C recently, and new donors are added to the list.

Conclusion

E-15. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-16. Neither of the factors in **paragraph** 9*a* or 9*b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is met based on the other evidence, because *(a)* the qualifications and duties of the personnel performing the activity indicate that it is a program activity (the callers are educated about ABC and do not otherwise perform fund-raising functions), *(b)* the method of compensation for performing the activity does not indicate that it is a fund-raising activity (the employees are not compensated or evaluated based on donations raised), and *(c)* performing such programs helps accomplish Entity C's mission.

E-17. The audience criterion is met because the audience (recent donors) is selected based on its ability to assist Entity C in meeting the goals of the program component of the activity other than by making contributions to Entity C. (recent donors are likely to contact their elected officials about such funding while nonrecent donors are not).

E-18. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity C (contacting elected officials concerning funding for research concerning ABC disease) and that will help accomplish the entity's mission (to reduce the incidence of ABC disease), and it explains the need for and benefits of the action (to prevent ABC disease).

Illustration 4

Facts

E-19. Entity D is an organization whose mission is to improve the quality of life for senior citizens. One of Entity D's objectives included in that mission is to increase the physical activity of senior citizens. One of Entity D's programs to attain that objective is to send representatives to speak to groups about the importance of exercise and to conduct exercise classes.

E-20. Entity D mails a brochure on the importance of exercise that encourages exercise in later years to residents over the age of 58 in three zip code areas. The last two pages of the four-page brochure include a perforated contribution remittance form on which Entity D explains its program and makes an appeal for contributions. The content of the first two pages of the brochure is primarily educational; it explains how seniors can undertake a self-supervised exercise program and encourages them to undertake such a program.

E-21. The brochure is distributed to educate people in this age group about the importance of exercising and to raise contributions for Entity D. These objectives are documented in a letter to the public relations firm that developed the brochure. The audience is selected based on age, without regard to ability to contribute. Entity D believes that most of the recipients would benefit from the information about exercise.

Conclusion

E-22. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-23. Neither of the factors in **paragraphs** 9*a* or 9*b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is met based on the other evidence, because *(a)* performing such programs helps accomplish Entity D's mission and *(b)* the objectives of the program are documented in a letter to the public relations firm that developed the brochure.

E-24. The audience criterion is met because the audience (senior citizens in certain zip codes) is selected based on its need to use or reasonable potential for use of the action called for by the program component.

E-25. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity D (exercising) and that will help accomplish the entity's mission (increasing the physical activity of senior citizens), and the need for and benefits of the action are clearly evident (explains the importance of exercising).

Illustration 5

Facts

E-26. The facts are the same as those in **Illustration** 4, except that Entity E employs a fund-raising consultant to develop the brochure and pays that consultant 30 percent of contributions raised.

Conclusion

E-27. The content and audience criteria are met. The purpose criterion is not met, however, because a majority of compensation or fees for the fund-raising consultant varies based on contributions raised for this discrete joint activity (the fund-raising consultant is paid 30 percent of contributions raised). All costs, including those that would otherwise be identifiable as program, should be charged to fund raising.

Illustration 6

Facts

E-28. Entity F's mission is to protect the environment. One of Entity F's objectives included in that mission is to take action that will increase the portion of waste recycled by the public.

E-29. Entity F conducts a door-to-door canvass of a community that recycles a low portion of its waste. The purpose of the activity is to help increase recycling by educating the community about environmental problems created by not recycling, and to raise contributions. Based on the information communicated by the canvassers, the need for and benefits of the action are clearly evident. The ability or likelihood of the residents to contribute is not a basis for communities selected, and all neighborhoods in the geographic area are covered if their recycling falls below a predetermined rate. The canvassers are selected from individuals who are well-informed about the organization's environmental concerns and programs and who previously participated as volunteers in program activities such as answering environmental questions directed to the organization and developing program activities designed to influence legislators to take actions addressing those concerns. The canvassers have not previously participated in fund-raising activities.

Conclusion

E-30. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-31. Neither of the factors in **paragraph** 9*a* or 9*b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is met based on the other evidence, because *(a)* the qualifications and duties of the personnel performing the activity indicate that it is a program activity (the canvassers are selected from individuals who are well-informed about the organization's environmental concerns and programs and who previously participated as volunteers in program activities such as answering environmental questions directed to the organization and developing program activities designed to influence legislators to take actions addressing those concerns) and *(b)* performing such programs helps accomplish Entity F's mission (to protect the environment).

E-32. The audience criterion is met because the audience (neighborhoods whose recycling falls below a predetermined rate) is selected based on its need to use or reasonable potential for use of the action called for by the program component.

E-33. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity F (help increase recycling) and that will help accomplish the entity's mission (to protect the environment), and the need for and benefits of the action are clearly evident (increased recycling will help alleviate environmental problems).

Illustration 7

Facts

E-34. Entity G's mission is to provide summer camps for economically disadvantaged youths. Educating the families of ineligible youths about the camps is not one of the program objectives included in that mission.

E-35. Entity G conducts a door-to-door solicitation campaign for its camp programs. In the campaign, volunteers with canisters visit homes in middle-class neighborhoods to collect contributions. Entity G believes that people in those neighborhoods would not need the camp's programs but may contribute. The volunteers explain the camp's programs, including why the disadvantaged children benefit from the program, and distribute leaflets to the residents regardless of whether they contribute to the camp. The leaflets describe the camp, its activities, who can attend, and the benefits to attendees. Requests for contributions are not included in the leaflets.

Conclusion

E-36. The audience and content criteria are not met. The purpose would likely not be met based on an evaluation of other evidence, such as the indicators in **paragraph** 10. All costs should be charged to fund raising.

E-37. Neither of the factors in **paragraph** *9a* or *9b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10 should be considered. It is likely that the purpose criterion would not be met based on the other evidence, because Entity G believes that people in those neighborhoods would not need the camp's programs but may contribute.

E-38. The audience criterion is not met, because the audience is selected based on its ability or likelihood to contribute, rather than based on its *(a)* need to use or reasonable potential for use of the action called for by the program component or *(b)* ability to take action to assist the entity in meeting the goals of the program component of the activity other than by making contributions to Entity G. (Entity G believes that people in those neighborhoods would not need the camp's programs but may contribute.)

E-39. The content criterion is not met because the activity does not call for specific action by the recipient that is unrelated to providing contributions to Entity G.

Illustration 8

Facts

E-40. Entity H's mission is to educate the public about life saving techniques in order to increase the number of lives saved. One of Entity H's objectives in fulfilling that mission, as stated in the minutes of the board's meetings, is to produce and show television broadcasts including information about lifesaving techniques.

E-41. Entity H conducts an annual national telethon to raise contributions and to reach the American public with lifesaving educational messages, such as summary instructions concerning dealing with certain life-threatening situations. Based on the information communicated by the messages, the need for and benefits of the action are clearly evident. The broadcast includes segments describing Entity H's services. Entity H broadcasts the telethon to the entire country, not merely to areas selected on the basis of giving potential or prior fundraising results. Also, Entity H uses national television broadcasts devoted entirely to lifesaving educational messages to conduct program activities without fund raising.

Conclusion

E-42. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-43. The purpose criterion is met because the program component of the activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity and a similar program activity is conducted without the fund raising using the same medium and on a scale that is similar to or greater than the scale on which it is conducted with the appeal (Entity H uses national television broadcasts devoted entirely to lifesaving educational messages to conduct program activities without fund raising).

E-44. The audience criterion is met because the audience (a broad segment of the population) is selected based on its need to use or reasonable potential for use of the action called for by the program activity.

E-45. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity H (saving lives) and that will help accomplish the entity's mission (to save lives by educating the public), and the need for and benefits of the action are clearly evident (saving lives is desirable).

Illustration 9

Facts

E-46. Entity I's mission is to provide food, clothing, and medical care to children in developing countries.

E-47. Entity I conducts television broadcasts in the United States that describe Entity I's programs, show the needy children, and end with appeals for contributions. Entity I's operating policies and internal management memoranda state that these programs are designed to educate the public about the needs of children in developing countries and to raise contributions. The employees producing the programs are trained in audio-visual production and are familiar with Entity I's programs. Also, the executive producer is paid $25,000 for this activity, with a $5,000 bonus if the activity raises over $1,000,000.

Conclusion

E-48. The purpose, audience, and content criteria are not met. All costs should be charged to fund raising.

E-49. Neither of the factors in **paragraph** *9a* or *9b* is determinative of whether the purpose criterion is met. (Though the executive producer will be paid $5,000 if the activity raises over $1,000,000, that amount would not be a majority of the executive producer's total compensation for this activity, because $5,000 would not be a majority of the executive producer's total compensation of $30,000 for this activity.) Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is not met based on the other evidence. Though the qualifications and duties of the personnel performing the activity indicate that the employees producing the program are familiar with Entity I's programs, the fact that some, but less than a majority, of the executive producer's compensation varies based on contributions raised, and that the operating policies and internal management memoranda state that these programs are designed to educate the public about the needs of children in developing countries (with no call for specific action by recipients) and to raise contributions indicate that the purpose is fund raising.

E-50. The audience criterion is not met because the audience is selected based on its ability or likelihood to contribute, rather than based on its *(a)* need to use or reasonable potential for use of the action called for by the program component or *(b)* ability to take action to assist the entity in meeting the goals of the program component of the activity other than by making contributions to Entity I. (The audience is a broad segment of the population of a country that is not in need of or has no reasonable potential for use of the program activity.)

E-51. The content criterion is not met because the activity does not call for specific action by the recipient that is unrelated to providing contributions to Entity I and that will help accomplish Entity I's mission.

Illustration 10

Facts

E-52. Entity J is a university that distributes its annual report, which includes reports on mission accomplishments, to those who have made contributions over the previous year, its board of trustees, and its employees. The annual report is primarily prepared by management and general personnel, such as the accounting department and executive staff. The activity is coordinated by the public relations department. Internal management memoranda indicate that the purpose of the annual report is to report on how management discharged its stewardship responsibilities, including the university's overall performance, goals, financial position, cash flows, and results of operations. Included in the package containing the annual report are requests for contributions and donor reply cards.

Conclusion

E-53. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-54. Neither of the factors in **paragraph** *9a* or *9b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is met based on the other evidence, because *(a)* the employees performing the activity are not members of the fund-raising department and perform other non-fund-raising activities and *(b)* internal management memoranda indicate that the purpose of the annual report is to fulfill one of the university's management and general responsibilities.

E-55. The audience criterion is met because the audience is selected based on its reasonable potential for use of the management and general component. Though the activity is directed primarily at those who have previously made significant contributions, the audience was selected based on its presumed interest in Entity J's annual report (prior donors who have made significant contributions are likely to have an interest in matters discussed in the annual report).

E-56. The content criterion is met because the activity (distributing annual reports) fulfills one of the entity's management and general responsibilities (reporting concerning management's fulfillment of its stewardship function).

Illustration 11

Facts

E-57. Entity K is an NPO. In accordance with internal management memoranda documenting its policies requiring it to comply with Internal Revenue Service (IRS) regulations, it mails prior donors who have made quid pro quo payments in excess of $75 documentation required by the IRS. Included in the mailing of the documentation are requests for contributions and donor reply cards.

Conclusion

E-58. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-59. Neither of the factors in **paragraph** *9a* or *9b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is met based on the other evidence, because internal management memoranda indicate that the purpose of the activity is to fulfill one of Entity K's management and general responsibilities.

E-60. The audience criterion is met because the entity is required to direct the management and general component of the activity to the particular audience. Though the activity is directed at those who have previously contributed, the audience was selected based on its need for the documentation.

E-61. The content criterion is met because the activity (sending documentation required by the IRS) fulfills one of the entity's management and general responsibilities (complying with IRS regulations).

Illustration 12

Facts

E-62. Entity L is an animal rights organization. It mails a package of material to individuals included in lists rented from various environmental and other organizations that support causes that Entity L believes are congruent with its own. In addition to donor response cards and return envelopes, the package includes *(a)* materials urging recipients to contact their legislators and urge the legislators to support legislation to protect those rights and *(b)* postcards addressed to legislators urging support for legislation restricting the use of animal testing for cosmetic products. The mail campaign is part of an overall strategy that includes magazine advertisements and the distribution of similar materials at various community events, some of which are undertaken without fund-raising appeals. The advertising and community events reach audiences similar in size and demographics to the audience reached by the mailing.

Conclusion

E-63. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-64. The purpose criterion is met because the activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions to the entity and a similar program component is conducted using the same medium on a scale that is similar to or greater than the scale on which it is conducted with the request for contributions (magazine advertisements and the distribution of similar materials at various community events).

E-65. The audience criterion is met because the audience (individuals included in lists rented from various environmental and other organizations that support causes that Entity L believes are congruent with its own) is selected based on its ability to take action to assist the entity in meeting the goals of the program component of the activity other than by making contributions to the entity.

E-66. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity L (mailing postcards to legislators urging support for legislation restricting the use of animal testing for cosmetic products) and that will help accomplish the entity's mission (to protect animal rights) and the need for and benefits of the action are clearly evident (to protect animal rights).

Illustration 13

Facts

E-67. Entity M is a performing arts organization. Entity M's mission is to make the arts available to residents in its area. Entity M charges a fee for attending performances and sends advertisements, including subscription forms, for the performances to residents in its area. These advertisements include a return envelope with a request for contributions. Entity M evaluates the effectiveness of the advertising based on the number of subscriptions sold as well as donations received. In performing that evaluation, entity M places more weight on the number of subscriptions sold than on the donations received. Also, Entity M advertises the performances on local television and radio but on a smaller scale than the mail advertising.

Conclusion

E-68. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-69. Neither of the factors in paragraph *9a* or *9b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. The purpose criterion is met based on the other evidence, because *(a)* the entity measures program results and accomplishments of the activity, and evaluation of the effectiveness of the activity is skewed principally to the activity's effectiveness in the accomplishment of program goals (Entity M evaluates the effectiveness of the advertising based on the number of subscriptions sold as well as donations received and places more weight on the number of subscriptions sold than on the donations received), *(b)* it otherwise conducts the program activity in this illustration without a request for contributions, and *(c)* performing such programs helps accomplish Entity M's mission (to make the arts available to residents in its area).

E-70. The audience criterion is met because the audience (a broad segment of the population in Entity M's area) is selected based on its need to use or reasonable potential for use of the action called for by the program component.

E-71. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity M (attending the performances) and that will help accomplish Entity's M's mission (making the arts available to area residents), and the need for and benefits of the action are clearly evident (attending the performance would be a positive cultural experience). (Note that the purchase of subscription forms is a reciprocal transaction and, therefore, is not a contribution.)

Illustration 14

Facts

E-72. Entity N's mission is to reduce the incidence of illness from ABC disease, which primarily afflicts people over 65 years of age. One of Entity N's objectives in fulfilling that mission is to have all persons over 65 screened for ABC disease.

E-73. Entity N rents space at events attended primarily by people over 65 years of age and conducts free screening for ABC disease. Entity N's employees, who are educated about ABC disease and screening procedures and do not otherwise perform fund-raising functions, educate interested parties about the effects of ABC disease and the ease and benefits of screening for it. Entity N also solicits donations at the events. The effectiveness of the activity is evaluated primarily based on how many screening tests are performed, and only minimally based on contributions raised.

The employees are not compensated or evaluated based on contributions raised.

Conclusion

E-74. The purpose, audience, and content criteria are met, and the joint costs should be allocated.

E-75. Neither of the factors in **paragraph** *9a* or *9b* is determinative of whether the purpose criterion is met. Therefore, other evidence, such as the indicators in **paragraph** 10, should be considered. **The purpose criterion is met based on the other evidence, because *(a)* a process exists to evaluate measured program results and accomplishments, and evaluation of the effectiveness of the activity is skewed principally to the activity's effectiveness in the accomplishment of program goals (Entity N evaluates the effectiveness of the activity based on the number of screening tests conducted as well as donations received and places more weight on the number of tests conducted rather than on the** donations received); *(b)* the qualifications and duties of the personnel performing the activity indicate that it is a program activity (the employees are educated about ABC and the testing procedures and do not otherwise perform fund-raising functions); *(c)* the method of compensation for performing the activity does not indicate that it is a fund-raising activity (the employees are not compensated or evaluated based on contributions raised); and *(d)* performing such programs helps accomplish Entity N's mission (to prevent ABC disease).

E-76. The audience criterion is met because the audience (people over 65 years of age) is selected based on its need to use or reasonable potential use for the action called for by the program component.

E-77. The content criterion is met because the activity calls for specific action that is unrelated to providing contributions to Entity N (being screened for the disease) and that will help accomplish the entity's mission (to reduce the incidence of ABC disease), and it explains the need for and benefits of the action (to prevent ABC disease).

Illustration 15

Facts

E-78. Entity O's mission is to provide educational television programming to residents in its area. Entity O owns a public television station and holds a membership drive in which it solicits new members. The drive is conducted by station employees and consists of solicitations that are shown during long breaks between the station's regularly scheduled programs. The audience is members of the general public who watch the programs shown during the drive. Member benefits include tokens of appreciation with a nominal value.

Conclusion

E-79. The purpose, audience, and content criteria are not met, and all costs should be charged to fundraising.

E-80. No program or management and general activity is conducted in conjunction with the membership-development activity. Also, no significant benefits or duties are connected with membership. Therefore, the substance of the membership-development activities is, in fact, fundraising.

APPENDIX F - Illustrations of Allocation Methods

F-1. Some commonly used cost allocation methods follow:

Physical Units Method

F-2. Joint costs are allocated to materials and activities in proportion to the number of units of output that can be attributed to each of the materials and activities. Examples of units of output are lines, square inches, and physical content measures. This method assumes that the benefits received by the fund-raising, program, or management and general component of the materials or activity from the joint costs incurred are directly proportional to the lines, square inches, or other physical output measures attributed to each component of the activity. This method may result in an unreasonable allocation of joint costs if the units of output, for example, line counts, do not reflect the degree to which costs are incurred for the joint activity. For example, a joint cost allocation based on line counts may not reflect the purpose for which the activity was undertaken. Use of the physical units method may also result in an unreasonable allocation if the physical units cannot be clearly ascribed to fund raising, program, or management and general. For example, direct mail and telephone solicitations sometimes include content that is not identifiable with fund raising, program, or management and general; or the physical units of such content are inseparable.

Illustration

F-3. Assume a direct mail campaign is used to conduct programs of the entity and to solicit contributions to support the entity and its programs. Further, assume that the appeal meets the criteria for allocation of joint costs to more than one function.

F-4. The letter and reply card include a total of one hundred lines. Forty-five lines pertain to program because they educate the recipient about the entity's program and include a call to action by the recipient that will help accomplish the entity's mission and that is unrelated to providing contributions to the entity itself, while fifty-five lines pertain to the fund-raising appeal. Accordingly, 45 percent of the costs are allocated to program and 55 percent to fund-raising.

Relative Direct Cost Method

F-5. Joint costs are allocated to each of the components on the basis of their respective direct costs. Direct costs are those costs that are incurred in connection with the multipurpose materials or activity and that are specifically identifiable with a function (program, fund raising, or management and general).

This method may result in an unreasonable allocation of joint costs if the joint costs of the materials and activity are not incurred in approximately the same proportion and for the same reasons as the direct costs of the materials and activity. For example, if a relatively costly booklet informing the reader about the entity's mission (including a call to action by the recipient that will help accomplish the entity's mission and that is unrelated to providing contributions to the entity itself) is included with a relatively inexpensive fund-raising letter, the allocation of joint costs based on the cost of these pieces may be unreasonable.

Illustration

F-6. **The costs of a direct mail campaign that can be specifically identified with program services are the costs of separate program materials and a postcard which calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to providing contributions to the entity. They total** $20,000. The direct costs of the fund-raising component of the direct mail campaign consist of the costs to develop and produce the fund-raising letter. They total $80,000. Joint costs associated with the direct mail campaign total $40,000 and would be allocated as follows under the relative direct cost method:

Program	\$20,000/\$100,000 x \$40,000 = \$8,000
Fund raising	\$80,000/\$100,000 x \$40,000 = \$32,000

Stand-Alone Joint-Cost-Allocation Method

F-7. Joint costs are allocated to each component of the activity based on the ratio that the cost of conducting each component would have borne to the total costs of conducting each of the joint components had each component been conducted independently. This method assumes that efforts for each component in the stand-alone situation are proportionate to the efforts actually undertaken in the joint cost situation. This method may result in an unreasonable allocation because it ignores the effect of each function, that is performed jointly with other functions, on other such functions. For example, the programmatic impact of a direct mail campaign or a telemarketing phone message may be significantly lessened when performed in conjunction with a fund-raising appeal.

Illustration

F-8. Assume that the joint costs associated with a direct mail campaign including both program and fund-raising components are the costs of stationery, postage, and envelopes at a total of $100,000. The costs of stationery, postage, and envelopes to produce and distribute each component separately would have been $90,000 for the program component and $70,000 for the fund-raising component. Under the stand-alone joint-cost-allocation method, the $100,000 in joint costs would be allocated as follows: $90,000/$160,000 x $100,000 = $56,250 to program services and $70,000/$160,000 x $100,000 = $43,750 to fund raising.

APPENDIX G - Illustrations of Disclosures

G-1. The disclosures discussed in **paragraphs** 17 and 18 are illustrated below. Alternative 1 reports the required and encouraged information in narrative format. Alternative 2 reports that information in tabular format, as well as information concerning joint costs incurred for each kind of activity by functional classification, which is neither required nor encouraged, but which is not prohibited.

Alternative 1

Note X. Allocation of Joint Costs

In 19XX, the organization conducted activities that included requests for contributions, as well as program and management and general components. Those activities included direct mail campaigns, special events, and a telethon. The costs of conducting those activities included a total of $310,000 of joint costs, which are not specifically attributable to particular components of the activities (joint costs). [*Note to reader: The following sentence is encouraged but not required.*] Joint costs for each kind of activity were $50,000, $150,000, and $110,000 respectively. These joint costs were allocated as follows:

Fund raising	$180,000
Program A	80,000
Program B	40,000
Management and general	10,000
Total	$310,000

Alternative 2

Note X. Allocation of Joint Costs

In 19XX, the organization conducted activities that included appeals for contributions and incurred joint costs of $310,000. These activities included direct mail campaigns, special events, and a telethon. Joint costs were allocated as follows:

	Direct Mail	Special Events	Telethon	Total
Fund raising	$40,000	$50,000	$90,000	$180,000
Program A	10,000	65,000	5,000	80,000
Program B		25,000	15,000	40,000
Management and general		10,000		10,000
Total	$50,000	$150,000	$110,000	$310,000

[*Note to reader: Shading is used to highlight information that is neither required nor prohibited. However, entities may prefer to disclose it. Disclosing the total joint costs for each kind of activity ($50,000, $150,000, and $110,000) is encouraged but not required.*]

APPENDIX H - Contrast of Guidance in SOP 87-2 With the Guidance in This SOP[1]

This SOP	*SOP 87-2*
Applies to all entities, including state and local governments, required to report fund-raising expenses or expenditures.	Applied to entities that follow the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* or SOP 78-10.

1 In August 1996, the AICPA issued the Audit and Accounting Guide *Not-for-Profit Organizations*, which superseded SOP 87-2 because the guidance in SOP 87-2 is incorporated into paragraphs 13.31 to 13.40 of the Guide. Also, *Not-for-Profit Organizations* superseded the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* and SOP 78-10. *Not-for-Profit Organizations* applies to all not-for-profit organizations other than those required to follow the Audit and Accounting Guide *Health Care Organizations*. Therefore, incorporating the guidance in SOP 87-2 into *Not-for-Profit Organizations* broadened the scope of the guidance previously included in SOP 87-2 to all not-for-profit organizations other than those required to follow *Health Care Organizations*. The discussion in this SOP of SOP 87-2 refers to both SOP 87-2 and the guidance included in paragraphs 13.31 to 13.40 of *Not-for-Profit Organizations*, except that the guidance in *Not-for-Profit Organizations* applies to all not-for-profit organizations other than those required to follow *Health Care Organizations*.

Covers *all* costs of joint activities, with costs otherwise identifiable with program or management and general charged to fund raising unless the criteria in the SOP are met.	Covers only joint costs of joint activities.
Criteria of purpose, audience, and content should all be met in order to charge costs of the activity to program or management and general.	Unclear concerning whether all criteria should be met in order to charge costs of the activity to program or management and general.
Neither prescribes nor prohibits any allocation methods. Includes a discussion to help users determine whether an allocation is reasonable, and provides some illustrations.	Neither prescribes nor prohibits any allocations methods. No illustrations are provided.

Requires note disclosures about the types of activities for which joint costs have been incurred, amounts allocated during the period, and portions allocated to each functional expense or expenditure category.	Requires less extensive note disclosures: total amount allocated during the period and amounts allocated to each functional expense category.

Glossary

Activities. Activities are efforts to accomplish specific objectives. Some activities include producing and distributing materials. For example, if an entity undertakes a mass mailing that includes a letter and a pamphlet, producing and distributing the letter and pamphlet are part of the activity. Other activities may include no materials, such as an annual dinner or a radio commercial.

Compensation or fees. Reciprocal transfers of cash or other assets in exchange for services performed.

Contribution. Contributions are unconditional transfers of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Costs of joint activities. Costs of joint activities are costs incurred for a joint activity. Costs of joint activities may include joint costs and costs other than joint costs. Costs other than joint costs are costs that are identifiable with a particular function, such as fund raising, program, or management and general.

For example, some costs incurred for printing, paper, professional fees, and salaries to produce donor cards are not joint costs, though they may be incurred in connection with conducting joint activities.

Fund raising activities. Fund-raising activities are activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets, or time. They include publicizing and conducting fund-raising campaigns; maintaining donor mailing lists; conducting special fund-raising events; preparing and distributing fund-raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, governments, and others.

Help accomplish the entity's mission. Actions that help accomplish the entity's mission are actions that either benefit the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or benefit society by addressing societal problems.

Joint activity. A joint activity is an activity that is part of the fund-raising function and one or more other functions, such as program, management and general, membership development, or any other functional category used by the entity.

Joint costs. Joint costs are the costs of conducting joint activities and that are not identifiable with a particular component of the activity. For example, the cost of postage for a letter that includes both fund-raising and program components is a joint cost. Joint costs may include the costs of salaries, contract labor, consultants, professional fees, paper, printing, postage, telephones, airtime, and facility rentals.

Management and general activities. Management and general activities are those that are not identifiable with a single program, fund-raising activity, or membership-development activity but that are indispensable to the conduct of those activities and to an organization's existence. They include oversight, business management, general recordkeeping, budgeting, financing, soliciting revenue from exchange transactions, such as government contracts and related administrative activities, and all management and administration except for direct conduct of program services or fund-raising activities. Disseminating information to inform the public of the organization's "stewardship" of contributed funds, announcements concerning appointments, and the annual report, among other activities, are management and general activities, as are soliciting funds other than contributions, including exchange transactions (whether program-related or not).

Medium. A medium is a means of mass communication, such as direct mail, direct response advertising, or television.

Membership development activities. Membership development activities include soliciting for prospective members and membership dues, membership relations, and similar activities. If there are no significant benefits or duties connected with membership, however, the substance of membership-development activities may, in fact, be fund-raising.

Program activities. Program activities are the activities that result in goods or services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purpose for and the major output of the organization and often relate to several major programs. For example, a large university may have programs for student instruction, research, and patient care, among others. Similarly, a health and welfare organization may have programs for health and family services, research, disaster relief, and public education, among others.

Public Education. Educational activities that do not motivate the audience to action.

List of Respondents to the Proposed SOP on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal

Letter Number	Commentator	Affiliation
1	H. Gregory Mermel	P
2	George Johnson	U
3	St. Vincent de Paul Church: Rev. Dr. Richard T. Lawrence	I
4	Michael Sack, CPA	P
5	American Institute of Philanthropy	W
6	U. S. Agency for International Development	G
7	The National Children's Cancer Society, Inc.	I
8	Financial Executives Institute	IA
9	Institute of Management Accountants	IA
10	M. A. D. D. - Missouri	I
11	M. A. D. D.- Massachusetts	I
12	Price Waterhouse	PL
13	Teresa P. Gordon, CPA	P
14	The Astor Home for Children	I
15	Special Olympics International	I
16	Creative Direct Response, Inc.	FR
17	The Rheumatoid Disease Foundation	I
18	Center for Science in the Public Interest	I
19	American Federation of Police	I
20	A. B. Data Direct Marketing Services	FR
21	Help Hospitalized Veterans	I
22	M. A. D. D. - Connecticut	I

23	St. Joseph's Indian School	I
24	Maryland Association of CPA's	S
25	Public Service Research Council	I
26	Salesian Missions	I
27	National Association of Chiefs of Police	I
28	Zimmerman, Shuffield, Kiser & Sutcliffe, P. A.	L
29	Roger Yost, Priests of the Sacred Heart	I
30	Doris Day Animal League	I
31	Conrad Sump & Co.	P
32	Mays Mission for the Handicapped, Inc.	I
33	The Seniors Coalition	I
34	American Lung Association of Finger Lakes Region	I
35	Harvey C. Eckert - Governor's Office, Commonwealth of Pennsylvania	G
36	National Assoc. of State Charity Officials	GA
37	Great Lakes Communications, Inc.	I
38	Review and Herald Publishing Assoc.	I
39	Outreach International	I
40	Lakeside Health System	I
41	Sacred Heart League: Rev. Robert Hess	I
42	Victory Games - USDA	I
43	United States Catholic Conference (Letter A)	IA
44	Integrated Mail Industries	FR
45	Christian Appalachian Project	I
46	Father Flanagan's Boy's Home	I
47	Nonprofit Mailers Federation	IA
48	National Charities Information Bureau, Inc.	W

49	DMA Non-Profit Council	IA
50	Paralyzed Veterans of America	I
51	Mercy Corps International	I
52	National Multiple Sclerosis Society	I
53	May & Company, CPA's	P
54	Hoyleton: Paul Shippel	I
55	J. L. Little Inc.	O
56	Priests of the Sacred Heart \ Sacred Heart Monastery	I
57	State of Colorado Higher Education Accounting Standards Committee	IA
58	Special Olympics - Kansas	I
59	Lutheran Social Services	I
60	Saturn Corporation	O
61	Oregon State University College of Business	I
62	National Law Enforcement Officers MEMORIAL FUND, Inc.	I
63	Edward W. Fitzgerald, M.S., CPA	P
64	Bethany Children's Home, Inc.	I
65	Swart, Lalande & Associates	P
66	Office of the Attorney General State of Connecticut	G
67	Youngstown State University	I
68	Multiple Sclerosis Association of America	I
69	Jackson Thornton & Co.	P
70	M. A. D. D. - Ohio	I
71	National Committee to Preserve Social Security and Medicare	I
72	The Southern Poverty Law Center	I
73	Frank & Company, P. C.	P
74	Veterans of Foreign Wars of the United States	I
75	World Emergency Relief	I

76	The Conservative Caucus, Inc.	I
77	Federation on Child Abuse & Neglect	I
78	Sacred Heart League: Roger Courts	I
79	Robinson, Hughes & Christopher, P. S. C.	P
80	African Wildlife Foundation	I
81	Council of Better Business Bureaus, Inc.	W
82	Massachusetts Society of CPA's, Inc.	S
83	Barat Human Services	I
84	Habitat for Humanity International	I
85	Free Speech Coalition, Inc.	I
86	Citizens United	I
87	M. A. D. D. - Irving, TX National Office	I
88	National Easter Seal Society	I
89	National Caregiving Foundation	I
90	Idaho State University - College of Business	I
91	American Kidney Fund: Francis J. Soldovere	I
92	American Heart Association	I
93	Amnesty International USA	I
94	United Seniors Association, Inc.	I
95	M. A. D. D. - Florida	I
96	The Children's Home of Wyoming Conference	I
97	American Kidney Fund: Carol B. Sadoff	I
98	State of Minnesota - Office of the Attorney General	G
99	March of Dimes\Birth Defects Foundation	I
100	Craver, Mathews, Smith & Company, Inc.	FR
101	National Health Council	IA

102	Office of Auditor of State State of Iowa	G
103	State of Washington - Office of Financial Management	G
104	Michael K. Stevens	U
105	Special Olympics - Missouri	I
106	Missionary Oblates of Mary Immaculate	I
107	The Wildlife Legislative Fund of America	I
108	Stanley F. Dole, CPA	P
109	Jay Starkman, P. C.	P
110	Special Olympics - Virginia	I
111	American Institute for Cancer Research	I
112	Special Olympics - Idaho	I
113	Tulane University Medical Center	I
114	Reese Brothers, Inc.	FR
115	Vietnam Veterans Memorial Fund	I
116	Paralyzed Veterans of America	I
.17	Crohn's & Colitis Foundation of America	I
.18	American Diabetes Association	I
.19	March of Dimes\Birth Defects Foundation - Barry Ensminger	I
20	SARAFINO AND RHOADES	P
21	National Association of State Comptrollers	GA
22	M. A. D. D. - Michigan	I
23	National Mental Health Association	I
24	Muscular Dystrophy Association	I
25	World Wildlife Fund	I
26	Defenders of Wildlife	I
27	Smithsonian Institution	I
28	Children's Square, U. S. A.	I

129	National Society to Prevent Blindness	I
130	Guardian Angel Home of Joliet	
131	Dover Group Home, Inc.	
132	American Children's Home	
133	Florida Baptist Family Ministries \ Children's Homes \ Adult Services	
134	Indiana United Methodist Children's Home, Inc.	
135	The Children's Home of Burlington County	
136	St. Joseph's Indian School: Br. Steven A. Roy, SCJ	
136A	St. Joseph's Indian School: Mike Tyrell	
136B	St. Joseph's Indian School: Dr. Keith Preheim	
137	St. Rose Residence, Inc.	
138	Texas Baptist Children's Home	
139	Rosemont School, Inc.	
140	Barium Springs Home for Children	
141	Boys' Village	
142	Elmcrest Children's Center	
143	Vera Lloyd Presbyterian Home & Family Services, Inc.	
144	Maryhurst	
145	Whaley Children's Center	
146	Butterfield Youth Services, Inc.	
147	Norris Adolescent Center	
148	Outreach Community Ministries	
149	New England Kurn Hattin Homes	
150	Holly Hill Children's Home	
151	Cass County Children's Home: Patrick L. Shively	
151A	Cass County Children's Home: Karen Schlegemulch	I

152	The Youth Campus	I
153	The Dakota Center	
154	Ladies Union Benevolent Association	
155	The Center for Family and Youth	
156	Baker Hall	
157	Denver Children's Home	
158	SOS Children's Villages	
159	El Pueblo Boys Ranch	
160	The Children's Bureau of Indianapolis, Inc.	
161	Elon Homes for Children	
162	Falcon Children's Home, Inc.	
163	Kemmerer Village	
164	The Children's Home of Norther Kentucky	
165	Holy Family Institute	
166	Crossroad	
167	Teen Ranch, Inc.	
168	Edgar County Children's Home	
169	Cambridge House, Inc.	
170	Volunteers of America	
171	Boys' & Girls' Homes of Maryland, Inc.	
172	Good Will-Hinckley Home for Boys and Girls	
173	Methodist Home	
174	Patrick Henry Boys and Girls Plantation, Inc.	
175	Shelter Wood	
176	Eliada Homes, Inc.	
177	Children's Harbor	
178	Hoyleton: Deborah A. Kleiboeker	
179	Alaska Baptist Family Services	I

180	Connie Maxwell Children's Home	I
181	Lutheran Child and Family Services of Indiana / Kentucky	
182	Vanderheyden Hall	
183	Odyssey House, Inc.	
184	Brooklawn Youth Services	
185	Source Child Center	
186	St. Colman's Home	
187	Joy Ranch, Inc.	
188	The Presbyterian Child Welfare Agency	
189	United Methodist Children's Home	
190	Presbyterian Children's Home of the Highlands, Inc.	
191	Epworth Village	
192	La Salle School: Lawrence V. Martone	
193	Evangelical Children's Home	
194	Thompson Children's Home	
195	Bethel Group Home	
196	The Children's Home of Wheeling, Inc.	
197	Baptist Children's Homes of N. C.	
198	Florida Sheriffs Youth Ranches, Inc. \ Harry K. Weaver	
199	Grandfather Home for Children, Inc.	
200	Nome Receiving Home	
201	Aunt Martha's Youth Service Center, Inc.	
202	Julia Dyckman Andrus Memorial	
203	La Salle School: Thomas Giaquinto	
204	Presbyterian Home for Children	
205	Our Lady of Victory Infant Home	
206	Tara Hall Home for Boys	II

207	Covenant Children's Home and Family Services	I
208	Frances E. Willard Home, Inc.	
209	Thornwell Home & School for Children: Zane M. Moore	
210	Thornwell Home & School for Children: Carl B. Harper	
211	Name illegible \ on behalf of National Assoc. of Homes and Services for Children	
212	Name illegible \ on behalf of National Assoc. of Homes and Services for Children	
213	Suzanne Sipe \ on behalf of National Assoc. of Homes and Services for Children	
214	Name illegible \ on behalf of National Assoc. of Homes and Services for Children	
215	Boys Town \ Nebraska	
216	Name illegible \ on behalf of National Assoc. of Homes and Services for Children	
217	Name illegible \ on behalf of National Assoc. of Homes and Services for Children	I

** = The following comment letters were received after the 1-10-94 deadline

218	Sunny Ridge Family Center	I
219	Toutle River Boys Ranch	
220	Longview Niagara	
221	Anderson Youth Association	
222	Burlington United Methodist Family Services, Inc.	
223	Schenectady Community Action Program, Inc.	
224	Lee & Beulah Moor Children's Home	
225	Saint Joseph's Children's Home	
226	Bellewood Presbyterian Home	
227	Christian Church Children's Campus of Danville	
228	Idaho Youth Ranch	
229	Missouri Baptist Children's Home	
230	Name illegible\ on behalf of the National Association of Homes and Services for Children	
231	Russell Lands, Inc. \ Tom Lamberth	I
232	California Society of CPA's	S
233	Virginia Home for Boys	I
234	United Way of South Hampton Roads	I
235	M. A. D. D. - Georgia	
236	M. A. D. D. - Oregon	
237	Northwood Children's Home	
238	Purdue University	
239	The Amyotrophic Lateral Sclerosis Association	I
240	Howard B. Levy, CPA	P
241	Russell Lands, Inc. \ Gene Davenport	I
242	Florida Sheriffs Youth Ranches, Inc.	

	C. T. O'Donnell, II	I
243	Lourdesmont Good Shepherd Youth & Family Services	I
244	Boys' Home Association	
245	Name illegible \ on behalf of the National Association of Homes and Services for Children	
246	Tulsa Boys' Home	
247	Eagle Village	
248	Pleasant Run Children's Homes, Inc.	
249	Natchez Children's Home	
250	American Red Cross	
251	Blinded Veterans Association	
252	National Psoriasis Foundation	
253	The Amyotrophic Lateral Sclerosis Association \ Richard F. Drasen	
254	Cray Youth and Family Services Inc.	
255	Home on the Range	
256	Joseph's Home for Boys	
257	Children's Aid Society of Mercer County	
258	St. Vincent's Services	
259	Chaddock Center for Family Development	
260	Abbott House	I
261	New York State Society of CPA's	S
262	Michigan Special Olympics	I
263	National State Auditors Association	GA
264	Pennsylvania Institute of CPA's	S
265	Illinois CPA Society & Foundation	S
266	M. A. D. D. - Kentucky	I

267	Presbyterian Children's Services	I
268	Starr Commonwealth Schools	I
269	Youth Haven	I
270	Children's Square, U. S. A.	
271	Children's Home Society of West Virginia	
272	Orchards Children's Services	
273	Bethesda Home for Boys	
274	Youthville	
275	Allendale Association	I
276	Ernst & Young	PL
277	Wedgwood Christian Youth & Family Services	I
278	St. Joseph's Villa	
279	Children's Farm Home	
280	Leake & Watts	
281	Children's Home of York	
282	Alternative Homes for Youth	
283	Gibault Foundation, Inc.	
284	St. Anne Institute	
285	Griffith Center	
286	Huntington's Disease Society of America	I
287	Florida Institute of CPA's	S
288	South Carolina Special Olympics	I
289	American Cancer Society	I
290	Cystic Fibrosis Foundation	I
291	Veterans of Foreign Wars National Home	I
292	Ernst & Young	PL
293	Boysville	I
294	Lakeside	I

295	An informal group of Not-for-profit attorneys	L
296	National Society to Prevent Blindness	I
297	J. C. Boakes, CPA	P
298	Just Say No, International	I
299	State Auditor of Missouri	G
300	M. A. D. D. - Marshall County Alabama	I
301	Merlin Outralt	I
302	Multiple Sclerosis Association of America	I
303	American Liver Foundation	I
304	National Psoriasis Foundation	I
305	Louisiana Society of CPA's	S
306	Bethel Bible Village	I
307	**Not used**	
308	American Lung Association	I
309	California Society of CPA's Michael Moreland	S
310	National Head Injury Foundation, Inc.	I
311	United States Catholic Conference (Letter B)	IA
312	Coopers & Lybrand	PL

Legend:

FR - Fund raiser = 5
G - Government user = 7
GA - Association of Government Users = 3
I - Industry = 253
IA - Industry Association = 8
L - Lawyers = 2
O - Other = 2
P - Practioner = 14
PL - Practioner (Large) = 4
S - State Society = 8
U - Unknown = 2
W - Watchdog Group = 3

H.Gregory Mermel
CERTIFIED PUBLIC ACCOUNTANT
2835 N. Sheffield, Suite 203, Chicago, Illinois 60657
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5

1
10-6-93

October 4, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036

Dear Mr. Tanenbaum:

Exposure Draft of September 10, 1993 on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

I generally agree with the Not-for-Profit Organization Committee's conclusion that SOP 87-2 requires substantial revision, and believe that this exposure draft represents a major improvement. I believe, however, that the committee needs to consider some potential problems in application of the proposed SOP.

Throughout the draft, there is an implicit model used of organizations which provide services without fee to the recipients; this is especially conspicuous in paragraphs 28 and 30, footnote 5, and Appendix A. While that certainly represents many nonprofit organizations -- and probably the ones most likely to have had interpretation difficulties under SOP 87-2 -- the proposed SOP may present difficulties for organizations that do charge a fee for services.

Consider performing arts organizations, such as theatres, symphony orchestras and ballet companies. Most often, the fund-raising component of their solicitations is clearly incidental to the dominant sales effort, being limited to two sentences in small type along the lines of:

> The high cost of producing artistically excellent classical theater simply cannot be covered by ticket income alone. Please consider adding a tax-deductible contribution to your subscription order.

But if not clearly incidental, applying the audience and content criteria may produce what I believe are unintended results.

Paragraph 28 refers to an audience "... selected principally based on its need for the program or because it can assist the entity in meeting its program goals other than by financial support provided to the entity..." and gives three examples, none of which easily extend by analogy to prospective ticket buyers. The expression "other than by financial support" could easily be misconstrued to include all payments to the entity, whether donative or for value. Some acknowledgment of the distinction between these types of payments is, I believe, needed.

"Need for the program" can also cause problems. All too many people believe the arts are unnecessary, and the need for artistic and spiritual nourishment is truly a different sort from that for low-income housing or a cure for cancer. If we are trying to establish clear standards for accounting, we need to be sure they can't be obscured by differences in social philosophy between nonprofit organizations and their auditors. An additional example, or a modification and amplification of example b, would clarify matters without changing the substance.

Similarly, paragraph 30 requires that the content have a call to "... action by the recipient that will help accomplish the entity's mission and that is unrelated to providing financial or other support to the entity itself by... benefitting the recipient (such as by improving the recipient's physical, mental, emotional or spiritual health and well-being)...." Again, the distinction between donative payments and those for value is important and ought to be clarified. Equally important, it needs to be clear that the exhortation to buy tickets (and, implicitly, to attend the performances) is a call to an action which will satisfy the content criterion without inviting dispute about whether, in fact "music has charms to soothe a savage breast."

My practice includes a number of performing arts organizations, so I am familiar with their practices. I believe similar problems might exist for YMCA's (and like organizations) selling memberships and for some medical facilities and educational institutions.

All of this assumes that it was not the committee's intent to force entities which charge a fee to treat items as fundraising costs that other, more traditionally eleemosynary institutions, do not. If that was, in fact, the committee's intent, consider this letter a massive howl of protest about the manifest unfairness of such action.

Last, let me note that some of the activities described here (particularly in footnote 5) could be construed as lobbying and have adverse tax consequences for 501(c)(3) organizations, which are among the entities covered by the proposed SOP. Consider whether some cautionary note or cross-reference to appropriate accounting for taxes or contingencies would be appropriate and helpful in the SOP.

Please let me know if my comments are in any way unclear, or if I may otherwise be of assistance.

Yours very truly,

H. Gregory Mermel, C.P.A.

OCTOBER 4, 1993

(2)
10-9-93

JOEL TANENBAUM, TECH MNGR
ACCOUNTING STD'S DIV
FILE 3605.JA

RE: EXPOSURE DRAFT
PROPOSED STATEMENT OF POSITION
ACCOUNTING FOR COSTS OF MATERIALS AND
ACTIVITIES OF NPO'S ...
SEPT 10, 1993

DEAR JOEL

THE FACT THAT THIS SOP NEITHER PRESCRIBES NOR PROHIBITS ANY ALLOCATION METHOD IS GOOD.

THIS SOP WILL REQUIRE MORE TIME AND PAPERWORK HOWEVER I BELIEVE IT WAS NEC.

THE APPENDIX B ILLUSTRATION IS QUITE HELPFUL.

SINCERELY

George Johnson

BOX 500 – N51714
HILLSBORO, IL. 62049

(3)
10-11-93

St. Vincent de Paul Church

120 North Front Street
Baltimore, Maryland 21202

Rev. Dr. Richard T. Lawrence
Pastor

September 30,1993

Mr. Joel Tanenbaum, Tech Mgr
Accounting Stds Div
AICPA

Dear Mr. Tanenbaum:

Thank you for sending me a copy of the proposed revision of 87-2. The draft represents a much needed effort to tighten rules in an area subject to much abuse, and is greatly to be welcomed. I believe, however, that some significant loopholes remain, and that a little more tightening is needed if the desired effect is to be achieved. I will offer comments in paragraph order rather than importance order.

Para 2, Note 1, might be expanded to note that FAS 117 requires fundraising to be reported as a separate function unless fundraising expenses are not material. Para. 19, note 3, should be similarly revised.

Paragraphs 27 to 29, Audience, present a excellent criterion, but leave a loophole that needs to be closed, as Illustration 3 points out. In this illustration, the audience criterion is deemed to have been met even though those who have not donated within 3 years have been systematically excluded from the audience, on the grounds that the preparer's "research indicates that donors are twice as likely as nondonors to contact their elected officials."

All a preparer has to do is a little "market research" with a correctly constructed instrument, and presto, a donors list becomes something else!? An audience from which nondonors have been systematically eliminated should be prima facie evidence that the audience criterion has not been met.

To this end, paragraph 29 should be revised by including language such as "For example, if nondonors have been removed from an audience list without other evidence that they do not need or want the information to be conveyed or have not or would not be likely to participate in program activities to be encouraged, it is likely that the audience criterion would not be met."

Paragraph 36 should be revised to require rather than recommend the disclosure of the amount of joint costs for each activity if practical.

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Michael Sack, C.P.A.

5005 University Place • Madison, WI 53705 • 608-233-8333
FAX 608-238-4161

October 21, 1993

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.ja
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Subject: Accounting for Costs of Materials and activities of Not-for-Profit Organizations

Dear Mr. Tanenbaum,

I believe the above referenced proposed SOP represents significantly improved guidance for auditors in evaluating whether an organization has a non-fund raising purpose as part of its fund raising activities. The development of the purpose, audience and content criteria should go a long way in curbing what I consider to be a major source of distortion in the functional reporting of many non-profit organizations.

Many organizations employ canvasser's and professional fund raisers whose basis of compensation is directly related to the funds they raise through so called joint activities. Implementation of the proposed guidance would compel these organizations to report the full cost of such activities as what they really are- fund raising expenses. No longer will they be able to cynically allocate large portions of their fund raising costs to program services.

By forcing more honest allocations I believe the public may stop supporting many so-called non-profit organizations which have become little more than fund raising mills. I strongly commend the Not-for-Profit Organizations Committee for their efforts on this proposed SOP.

Sincerely,

Michael Sack

Michael Sack
Certified Public Accountant

5

FAX

American Institute of Philanthropy
4579 Laclede Avenue, Suite #136, St. Louis, MO 63108
Tel: (314) 454-3040 Fax (314)361-2611

To: AICPA	**Date:** 10/15/93
Attn.: Joel Tanenbaum	
From: Daniel Borochoff	**# of Pages:** 1

Dear Mr. Tanenbaum: 3605.JA

Thank you for sending me the exposure draft on accounting for costs of activities of nonprofits that include a fund-raising appeal.

First I will introduce myself and my organization. I am Daniel Borochoff, President of the American Institute of Philanthropy (AIP), a nonprofit corporation. AIP serves as an advocate for charitable givers and publishes information to help people make informed charitable giving decisions. I am a widely quoted and respected authority on the evaluation of nonprofit organizations. I have an a B.Sc. in accounting and an M.B.A., experience on Wall Street as an accountant and investment analyst, and over eight years of experience as a philanthropic analyst for corporate, foundation and individual donors. I have worked at the National Charities Information Bureau for over five years and served on task forces for the Financial Accounting Standards Board (FASB).

I am delighted to see that the AICPA is attempting to tackle the difficult problem of joint cost allocation. SOP 87-2 was woefully inadequate and allowed organizations too much discretion in how they allocated their fund-raising appeals. This has led to a lot of misleading financial reporting and is causing many people to distrust the audited financial reports of all nonprofit organizations.

My experience (I have reviewed thousands of audits since SOP 87-2 was implemented.) is that many groups that are currently allocating do not disclose the amounts of the allocations in their audit, though this was a requirement of 87-2. If many nonprofits choose to not reveal this now, how can we assume that they will under the new guidelines. I propose that joint cost allocations of fund-raising appeals not be permitted unless the total amount allocated during the period and amounts allocated to each functional expense category are disclosed in the audit's notes.

I also feel that unless a nonprofit clearly states in its fund-raising appeal that it is raising money for its direct mail or telemarketing "programs," it should not be permitted to allocate a portion of that appeal to program expenses. The problem is that too many nonprofits are deceiving contributors by making them think that they are funding activities other than direct mail and telemarketing. For example, if a group wants to send out ten million letters and allocate 75% of the costs to "program" than they should disclose in their appeal that they are raising money to pay for the cost of sending out ten million of these letters that contain "public education" or

5 cont'd

FAX

American Institute of Philanthropy
4579 Laclede Avenue, Suite #136, St. Louis, MO 63108
Tel: (314) 454-3040 Fax (314)361-2611

"program services." Because in many cases, recipients of the appeal do not realize that a substantial portion of the cost of the appeal is the "program" of the nonprofit. Public accountants should not allow nonprofit managers to label a mailing or phone call as "program" if donors are not being told by the nonprofit at the point of solicitation that these activities are the organization's program.

If possible, I would like to serve on the Not-for-Profit Organizations Committee. I know from my experience serving on FASB committees that there is very little participation in accounting standard setting organizations by the people who need the information most --individual donors, who contributed about 90% of the $124 million given to nonprofits in 1992. I believe that my background and position at AIP make me more than qualified to serve on this committee. I consider it alarming that the committee, as it presently stands, has no donors represented. If the AICPA is serious about taking into account the concerns of individual donors, then the AICPA should have a representative of individual donors on its Not-for-Profit Organizations Committee.

Please give me a call to discuss this further at 314-454-3040.

Sincerely,

Daniel Borochoff

Daniel Borochoff
President

6

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

November 15, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

We have read the exposure draft, "Proposed Statement of Position - Accounting For Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal" and offer no comments on it as presented.

Sincerely,

B. Howard

Reginald Howard
Director, Financial Audits
Office of the Inspector General

cc: J. Durnil, AIG/A

7

THE NATIONAL CHILDREN'S CANCER SOCIETY, INC

"Reach out and save a child's life"

THE NATIONAL CHILDREN'S CANCER SOCIETY, INC.

A Non-Profit Tax Exempt Organization

December 3, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

I have had the opportunity to review the Exposure Draft prepared by the Not-for-Profit Organizations Committee that was designed as a revision of SOP 87-2 involving the accounting for costs of materials and activities that include a fund-raising appeal.

First, let me say that I believe reform of the existing Statement of Position is warranted. However, this new proposal, if approved, fails to recognize the economic substance of materials and activities when accompanied with a fund-raising appeal, even though that appeal contains a strong program service message.

This proposal will cripple the ability of the smaller and weaker organizations to generate the necessary revenue to perform their program services. In addition, it will allow the larger and more established organizations to develop an unfair advantage over their counterparts.

I recognize that there are many perceived abuses alleged by the various state regulatory agencies and the two philanthropic "watch dog" organizations. However, the intent of the regulatory agencies is to indirectly enforce, through this Statement of Position, what it can not directly enforce within their respective states - the ability to mandate the issue of cost to raise a dollar!

Based upon Appendix B of the new proposal, only the wealthy Not-for-Profits would be able to meet the criteria of joint allocation. A great many non profits must combine their mission statements, public education and information along with their fund-raising appeals, due to a lack of resources. If all non profits enjoyed the same level of financial support, this proposal would be appropriate, but the reality is that many organizations do not have the name recognition nor the appeal of other organizations to generate high levels of revenue.

1015 Locust | Suite 1040 | St. Louis, MO 63101
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What was the original intent of SOP 87-2? In this Statement of Position it clearly recognizes the value of an appeal far beyond the fund-raising benefits. However, the new draft only recognizes the value of additional messages in a fund-raising appeal if there is sufficient funds available for comparable non fund-raising appeals.

Recent Supreme Court decisions have ruled that there are "several legitimate reasons" why an organization would elect to combine program services with fund-raising. In Riley v. National Federation of the Blind, 487 U.S. 781 (1988), stated:

> a solicitation may be designed to sacrifice short-term gains in order to achieve long-term, collateral, or non-cash benefits. To illustrate, a charity may choose to engage in the advocacy or dissemination of information during a solicitation....

In addition, Riley went on to say:

> Where the solicitation is combined with the advocacy and dissemination of information, the charity reaps a substantial benefit from the act of solicitation itself.

The new Exposure Draft places very little value over and above the solicitation, when, in fact, it has a very significant benefit.

I recognize that the American Institute of Certified Public Accountants has received a great deal of political pressure to amend the existing Statement of Position. However, it is my hope that the new revision will be designed in a manner that is fair to all non profit organizations.

I believe that a fair proposal would establish maximum allocation percentages (eg.35%-50%) in regards to any appeal that contains any form of solicitation. With a ceiling established, the acceptable allocation percentage could then be determined by the physical units method.

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(314) 241-1600 1-800-5-FAMILY Fax (314) 241-6949

7 cont'd

In that manner, all non profits would be subjected to the same rules and the American Institute of Certified Public Accountants will successfully achieve their goal to eliminate the abuses associated with non profits taking an inordinately high joint allocation percentage.

In addition, the Financial Accounting Standards Board has issued two statements in which a phase in period was established to prepare for a new ruling. I would submit that an extended effective date for smaller Not-for-Profit entities be granted for any new Statement of Position.

On behalf of the tens of thousands of non profit organizations nationwide that would be adversely affected by the current Exposure Draft, I hope that you will give my letter a great deal of consideration and merit.

Sincerely,

NATIONAL CHILDREN'S CANCER SOCIETY

Mark Stolze
Executive Director

1015 Locust | Suite 1040 | St. Louis, MO 63101
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8

FINANCIAL EXECUTIVES
INSTITUTE

Joseph A. Sciarrino
Vice President and Technical Director

December 6, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The Committee on Corporate Reporting (CCR) of the Financial Executives Institute (FEI) is pleased to comment on the AICPA's September 10, 1993 Exposure Draft entitled, "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal."

While this is not an area in which CCR members generally become involved, we recognize the importance of proper classification of expense to the users of financial statements of not-for-profit organizations. For this reason, we support the direction of the draft Statement of Position and believe it should lead to improved accounting for and reporting of joint costs connected with fund-raising activities. It appears that reasonable guidance is provided, including examples, but that sufficient latitude remains for the exercise of judgement.

This response was developed by the AICPA Subcommittee of CCR. The individual on the Subcommittee who prepared the response was Fred Hirt of The Upjohn Company. Should you have any questions or comments, Fred can be reached at (616) 323-6445.

Sincerely,

J.A. Sciarrino

Joseph A. Sciarrino

JAS/afc

INSTITUTE OF MANAGEMENT ACCOUNTANTS
10 PARAGON DRIVE
MONTVALE, NEW JERSEY 07645-1760
(201) 573-9000

9

December 8, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

The Management Accounting Practices (MAP) Committee of the Institute of Management Accountants appreciates the opportunity to comment on the exposure draft of the proposed statement of position (SOP) on fund raising costs.

The proposed SOP supersedes SOP 87-2 and amends two AICPA Audit Guides and SOP 78-10. The new SOP would cover all non-profit organizations as well as state and local governmental entities that report expenses or expenditures by function. The SOP provides more guidance in identifying joint fund-raising activities than the former one did, and the guidance seems clear, reasonable, and consistent.

We believe the proposed SOP improves upon existing guidance and should serve to provide more effective disclosure of fund-raising costs. We believe it could be improved by requiring disclosure of the total cost of joint activities and the portions allocated to each function.

9 cont'd

We suggest the following enhancements before the document is finalized:

1. A definition of "incidental" would be helpful, either as part of paragraph 21 or as part of paragraph 32.

2. Since the amounts may not be large relative to an entity's overall operations, the SOP should contain some discussion of "materiality" relative to when disclosure should be made.

MAP would be pleased to discuss any questions or comments you may have with regard to the points raised in this response.

Sincerely,

Frank C. Minter /lo

Frank C. Minter
Chairman
Management Accounting
Practices Committee

(10)

MADD

Mothers Against Drunk Driving

1021 Southwest Blvd., Suite A
Jefferson City, Missouri 65109

Missouri State Office

Telephone: 314-636-24(
FAX: 314-636-24{

December 17, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Ref: File 3605.JA

Dear Mr. Tanenbaum:

The MADD chapters of Missouri as well as our state office receive a large portion of our funding from telemarketing efforts. I understand that the AICPA is revising the standard of accounting for costs of materials and activites that include a fund raising appeal. This causes us great concern as it is vital that an organization such as MADD be as cost-effective as possible in all areas. An example of this is the proven practice of combining a public awareness program with a fundraising effort. Another is the number of volunteers we receive through this effort. It would be impossible for MADD to continue our work without the volunteers who support us with their time and efforts.

It would appear that most of the population understands the problem of drinking and driving. We assure you that this perception is untrue. The magnitude of this crime is usually underestimated unless a person has been directly affected or has been educated with the facts. We are constantly surprised by the questions we receive from interested individuals and even the media concerning the seriousness of drunk driving and its affect on victims. Public awareness is one of our most important programs. This is being done effectively with direct mail and

10 cont'd

telemarketing.

The arbitrary rules that you are proposing will seriously hinder the efforts of MADD. The AICPA will be deciding which programs may be delivered because of accounting rules when in fact, the organization should be the entity that makes this decision based upon its history of community service.

We would urge the AICPA to reconsider the arbitrary rules that are being proposed. The rules you are proposing will not allow MADD to accurately reflect the resources utilized to reach our goals through programs and other services.

Thank you for your consideration of this matter.

Sincerely,

Joyce Marshall

Joyce Marshall
Executive Director

Randy Weaver

Randy Weaver
State Chair

MADD
Mothers Against Drunk Driving

1661 Worcester Road, Suite 205 • Framingham, MA 01701 • (800) 633-6233 (508) 875-3736 FAX (508) 875-0757
MASSACHUSETTS STATE OFFICE

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December 20, 1993

Mr. Joel Tanenbaum
Technical Manger
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036

Ref: File 3605.JA

Dear Mr. Tananbaum:

It is our understanding that the AICPA is revising the standard for accounting for costs of materials and activities that include a fund raising appeal. Our organization, MADD Massachusetts, relies heavily on telemarketing as a cost-effective means to increase public awareness concerning drinking and driving, obtain participation in our efforts to eliminate drunk driving, and raise funds for our operations. We are very concerned about the effects this proposal would have on our organization's public awareness programs.

Since 1982, we have been actively involved with the local community to eliminate drinking and driving. As a direct result of telemarketing and direct mail campaigns, we have been able to show the public the consequences of drinking and driving. Because of these informational campaigns, we have dramatically changed the public's attitudes about drinking and driving.

Other benefits which we have received from these campaigns include volunteering by many individuals to assist victims of drunk drivers, to serve as court monitors, and to help operate our chapters. In addition, our operating funds have been provided by donors, large and small, as a result of these campaigns.

The arbitrary rules contained in the draft proposal threaten the very existence of our vital programs. We know we have

11 con'td

substantial programs in place to aid victims of drunk drivers. Many of these programs have been implemented through our telemarketing and direct mail campaigns. Drunk drivers have proved to be equal opportunity killers. Anyone, rich or poor, young or old, driver, passenger, or pedestrian, can be a victim. We do not believe that arbitrary rules about purposes, audiences, and contents of multi-purpose activities are justifiable when they could result in program costs being called fund raising costs.

Our organization deals with extremely limited resources. We cannot afford to comply with arbitrary rules. We do not believe that these rules will properly reflect how our resources are used to anyone who is truly interested in the vital services we provide to our local community. We also do not believe it is appropriate for the AICPA to establish rules that would require us to generated unfair and misleading financial reports for public distribution.

We urge the AICPA to reconsider the arbitrary rules in the proposal. Let the organizations that deliver services to community decide what programs they wish to pursue and limit the accounting rules to reporting the costs of these services fairly and accurately.

Sincerely,

Patricia A. Latino

Patricia A. Latino
State Executive Director

PAL:amg

1177 Avenue of the Americas
New York, NY 10036

Telephone 212 596 7000
Facsimile 212 596 8910

Price Waterhouse

12

December 15, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605JA
AICPA
1211 Sixth Avenue
New York, N.Y. 10036

Dear Mr. Tanenbaum:

File 3605JA

We are pleased to provide our comments on the exposure draft of a proposed statement of position on Accounting for Costs of Multipurpose Activities (revision of SOP 87-2).

On the whole we are pleased with the exposure draft; we believe it will be a desirable improvement to SOP 87-2, and urge its prompt issuance.

We have the following suggestions for improvement of the draft:

- Paragraphs 35 to 37 dealing with disclosure appear unclear. Par. 35 requires disclosure of the portion of the costs allocated to "each functional expense category". Par. 36 and 37 then say it is optional to disclose the portion allocated to "each activity." On first reading the distinction between expense category and activity was not obvious (only after several readings did this distinction become clear). The second required sentence and the recommended sentence (third sentence in sample footnote) contributed to this confusion by referring to "direct mail campaigns, two special events and a telethon," followed by three numbers. It was not clear whether the three numbers were intended to refer to each of the direct mail campaigns, each of the special events, and the telethon separately, or to the categories of direct mail, special events, and telethons.

  Then at the end of the footnote are four more numbers; the relation between the first three and the last four numbers is not clear. Without the totals being given, many persons without a lot of accounting experience will not readily see that the two groups do add to the same total. We suggest that the sample footnote be arrayed in a tabular format with totals, to help readers see the relationship.

'12 cont'd

- Paragraph 36 only recommends the disclosure for each activity. That is actually a reduction of required disclosure from that which appears to be required by Par. 22 of SOP 87-2. (Although the text of that paragraph only seems to require disclosure by functional expense category, the text of the sample footnote in that paragraph gives data for each program activity separately.) We see no reason not to require the disclosure by activity, since the information must be developed to prepare the income statement, and thus is readily available.

- In Appendix B a number of "Yes"s and "No"s are missing from the flowchart.

If we can be of further assistance in the preparation of this statement of position, please contact Roger Bruttomesso (212-596-7870) or Richard Larkin (301-897-4262).

Very truly yours,

Price Waterhouse

13

Teresa P. Gordon, CPA

4095 Sand Road, Moscow, Idaho 83843 (208) 882-4780 or 885-8960

December 15, 1993

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft: Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-raising Appeal

Dear sir:

The exposure draft addresses a very important issue. I believe that the proposed changes to current GAAP will be beneficial for potential donors and other users of financial statements. I am aware of a number of charities that attribute an unfair share of fundraising costs to program services because they hope that the manipulation will encourage more donations. As a donor, I prefer to give to entities that do not use a large proportion of my contribution to cover the costs of fundraising. Consequently, I am concerned that I am getting realistic information in the "functional expense" section of the financial statements based on a fair and reasonable allocation of joint costs. Since I often throw away the letters these organizations send with only a very cursory reading, any pretense that the letter itself is serving an educational purpose is very questionable, as you have pointed out in paragraph 11.

I found the proposed accounting rules a little difficult to follow. I believe the flow chart will be an essential tool in the proper interpretation of the SOP. Unfortunately, the flowchart omitted most of the "Yes" and "No" markings for the arrows leading from the decision boxes. This made it almost useless. However, I was eventually able to follow the decision process discussed in paragraph 21. I strongly urge you to carefully edited the flowchart as it will be very important to those of us who will be attempting to follow these guidelines. I also found the examples very helpful and hope that you include them in the final version.

I am not sure I, as a donor, care whether the joint costs are allocated between fundraising and management and general. I believe most donors are more concerned with the percentage going toward programs than with allocations between administration and fundraising. The combined total of management and general (M&G) and fundraising is what would concern me. However, the rules you have laid out will provide good information and I have no problem with allocating part of fundraising to M&G by use of the rules included in the exposure draft.

13 cont'd

It would be helpful to include a definition of what should be included in M&G in this document since the allocation of M&G to program activities would be just as problematic as unfair allocations of fundraising costs. I doubt that a long list of detailed rules would be needed, but it would be helpful to remind nonprofit organizations and their accountants that costs that are not clearly identified with a specific program activity or activities should be classified as indirect or M&G costs.

The note on page 15 that includes examples of "calls to action" is very important. I would prefer that it be incorporated in its own paragraph rather than relegated to a footnote.

The intent of paragraph 36 is unclear without reference to paragraph 37. Inserting the words "type of fundraising" before "activity" in the last sentence would help clarify the meaning. Since the organization would have to identify specific fundraising activities in order to do the allocation of joint costs, I do not understand why it might not be "practical" to disclose this information. As a donor, I would like to know a little about the relative importance (at least in terms of costs) of the different fundraising activities. It would also be helpful to have information on the relative effectiveness of each type of activity. However, this information may well be impractical to develop, is relevant to activities which are purely fundraising (not allocated), and is probably beyond the scope of this SOP.

All in all, I believe the proposed SOP has been carefully thought out and that it is badly needed. I strongly support its issuance with the minor clarifications I have pointed out in this letter.

Sincerely,

Teresa P. Gordon

Teresa P. Gordon, CPA
4095 Sand Road
Moscow, Idaho 83843

(14)

THE ASTOR HOME FOR CHILDREN
Administration
36 Mill Street, P.O. Box 5005, Rhinebeck, New York 12572-5005
(914) 876-4081 • FAX (914) 876-2020

Jeffry R. Haber, CPA
Chief Financial Officer

December 9, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605 JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund Raising Appeal

Dear Mr. Tanenbaum:

I have read the Exposure Draft, and while I find the motivation admirable, I believe the Exposure Draft is seriously flawed. Essentially, I believe there to be a bias to artificially inflate fund-raising expenses.

Consider the following illustration.

A not-for-profit develops an annual report and mails it to those on its mailing list without a fund-raising appeal. The full cost is charged to management and general.

Now add a solicitation that accompanies the annual report, where the solicitation is generated in-house. Assuming the solicitation is incidental, the joint costs (envelops, postage, etc.) are charged to management and general and the direct costs are either fund-raising or management and general, as appropriate.

Now make the solicitation more elaborate and prepared by an outside fund-raiser on a fixed fee. The joint costs potentially can be shared (subject to audience and content criteria) and the direct costs might go respectively to fund-raising and management and general.

Now assume that the solicitation is prepared by a fund-raiser who gets a percentage of funds raised. The full costs (joint and direct) are all charged to fund-raising. The only element that has changed is the method of payment, yet that is enough to significantly alter how the costs are reported.

14 cont'd

Mr. Joel Tanenbaum
December 9, 1993

Further change the example to include in the mailing the addition of the annual audit. Under the Exposure Draft the audit would become part of the joint activity, and therefore, the cost of the audit would be fully charged to fund-raising.

Does this make sense? Is this reasonable? In terms of cost, is it only the incremental cost of the additional reproduction of the audit that is charged to fund-raising, or an average cost (based on the total cost/total number of copies x number of copies mailed) or the full audit cost?

Now assume that the audit is first mailed out without a solicitation. The full cost is management and general. Now utilize the example above. Some of the cost has already been determined to be management and general, so the only possible charge now is the incremental copy cost. Is it equitable that different allocations arise depending on the sequence of mailing?

These questions are real and practical and should be addressed. I believe the Exposure Draft cannot handle the ramification of these issues without serious modification.

Sincerely,

Jeffry R. Haber
Chief Financial Officer

JRH:jf
copy: Paul Rogoff, Chairman
NYSSCPA Nonprofit Accounting Committee

SPECIAL OLYMPICS INTERNATIONAL

15

25TH ANNIVERSARY • 1968 • 1993 •

Special Olympics
TOGETHER WE WIN

December 20, 1993

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal"

Dear Mr. Tannenbaum:

This letter is a response to your request for comments on the above referenced proposed statement of position (SOP). Our organization currently uses both direct mail and telemarketing in order to educate the public about Special Olympics, as well as to raise funds to run our programs. While we agree that standard criteria must be set up in order to accurately report the operations of these programs, we believe that the criteria in the proposed SOP would not allow us or any other not-for-profit to provide accurate reporting.

The purpose criterion makes it very difficult to prove any public education value to our mailings or phone calls because there is no cost-effective way to measure any program call to action, such as a request to volunteer for the local Special Olympics program. We do not have the financial resources to reach as massive an audience without a fund-raising appeal in addition to one with a fund-raising appeal, as suggested by one of the tests of the criterion. Also, just because a fund-raiser's fee might be based on the amount of income raised, it does not mean that the fund-raiser has not put together an extensive package to educate the public about out mission, and therefore we should be able to allocate some of the costs to public education.

SPECIAL OLYMPICS INTERNATIONAL HEADQUARTERS
1350 New York Ave., NW, Suite 500, Washington, D.C. USA 20005-4709
(202) 628-3630 Fax: (202) 737-1937 Telex: 6502841739
Created by the Joseph P. Kennedy Jr. Foundation for the Benefit of Citizens with Mental Retardation

15 cont'd

The audience criterion is very difficult to meet because its definition is much too narrow. The criterion states that it must be determined that we select an audience either on their ability to contribute, or on the ability to help our program meet its goals. Most of our mail and phone calls are targeted to an audience that could potentially do both, because, as stated above, we cannot afford financially to have different appeals--one for public education and one for fund-raising. Since our appeals include both public education and fund-raising, we should be able to allocate costs between the two.

Overall, we believe that as long as our appeals contain substantial public education about our mission in addition to a request for contributions, it should not matter that all of our messages have a fund-raising appeal, or that our audience came from a list of an organization that may not be entirely similar to ours. Everyone we reach is a potential volunteer as well as a potential donor if we educate them properly. SOP 87-2 came about to replace the old "primary purpose rule", in order that organizations such as ours could properly account for public education. The narrow criteria in the proposed SOP seem to be going more in the direction of the "primary purpose rule", which would not allow us to report what we are actually doing--that is, educating the public about Special Olympics in addition to raising money.

Sincerely,

Paul J. Velaski
Director of Finance
and Administration

cc: Sargent Shriver
Edgar May
Phyllis Freedman

16

December 21, 1993

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

I will begin by saying that I am outraged over the changes you are proposing for 87-2. It is a cheap attempt by your organization to attack professional fundraisers. I have been in this profession for over 25 years, and I can assure you it is as ethical as your field of accounting.

In fact, it could be argued that because of some dishonest CPA's, many more banks failed than should have. My issue, however, is that you are using accounting to enforce ethics. Since when does the amount of fees, or how they are paid to a fundraiser,come into the purview of accounting rules?

Not only does your document address non-accounting issues, it sets you and other accountants up as judges of what constitutes programs, and how good they are. You have bent to the political pressure on NCIB and several state regulators to address the "alleged" abuses of 87-2. When accountants allow watch dog groups, state regulators and newspapers to dictate what is good accounting, how can you expect your members to buck the pressure they receive every day "to cook the books" of Fortune 500 companies?

I understand how difficult it is to be a leader in this era of non-leaders but I believe you need to start somewhere and here is the place -- find a better way to weed out the offenders and have some understanding of the financial pressure these changes will impose on small and medium charities.

Finally, when all of the reviews and changes have been made, will NCIB and state regulators accept the auditors' word on what allocation process has taken place, or will you still be second guessed by Ken Albrecht (or his successor) to create publicity and fundraising for his organization?

Creative Direct Response, Inc.

1682 Village Green ◆ Crofton, MD 21114-2030 ◆ (301)858-1500 ◆ FAX (301)858-010

16 cont'd

It strikes me as curious why your committee has not asked the question, "Does NCIB represent the world of charities when they have only approved 250 charities out of 1,000,000 registered by IRS and only 250 out of the 14,000 registered by the state of New York?"

Your consideration of my remarks would be appreciated.

Very truly yours,

Raymond Grace

Raymond J. Grace
President

cc: Association of Direct Response Fundraising Counsel
Nonprofit Mailers Federation

The Rheumatoid Disease Foundation

5106 Old Harding Road (Formerly Rt. 4, Box 137)
Franklin, TN 37064
(615) 646-1030 [Fax/phone the same:)
A non-profit, tax exempt, charitable organization

17

December 16, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

I'm sure you've received many letters recopied as per theattached.

Suffice it to say that this foundation wholeheartedly agrees with the contents of the attached.

Cordially,

Perry

Perry A. Chapdelaine, Sr.

17 cont'd

SAMPLE LETTER OF RESPONSE

(Must reach AICPA by January 10, 1994)

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to (state your mission and major programs). We use multi-purpose materials, including (state the media you use) as cost-effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

(more)

17 cont'd

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgement of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

The test also requires a detailed decription of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("Just Say No!")

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Your Name
Your Title

CSPI CENTER FOR SCIENCE IN THE PUBLIC INTEREST
Publisher of *Nutrition Action Healthletter*

(18)

December 20, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036

RE: File 3605.J.A.

Dear Mr. Tanenbaum:

I am writing in reference to the Draft of "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal."

I am very concerned that the proposed standard would mislead the public with respect to fund raising costs and would, in effect, control the content and the segments of the public with whom we communicate.

In addition, there is a serious legal question as to whether the proposed standard would violate the free-speech right of non-profit organizations as outlined in Riley vs. National Federation of the Blind of North Carolina and other U.S. Supreme Court cases.

The proposed standard retains the purpose and content of the current standard (SOP 87-2). However, the implementation criterion are flawed. For example, the draft proposes a test that would determine whether a program purpose was met that is based solely on the form of compensation to a fund raising consultant. This ignores the content of many mailings that are multi-purpose, including program and fundraising materials and activities. The guidance in SOP 87-2, which permits verifiable documentation as to whether materials containing a fund raising appeal also serve program purposes, should be retained in the proposed draft.

Thank you for considering our concerns.

Sincerely,

Michael Jacobson

Michael F. Jacobson, Ph.D.
Executive Director

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Executive Director: Michael Jacobson, Ph.D.

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AMERICAN FEDERATION OF POLICE

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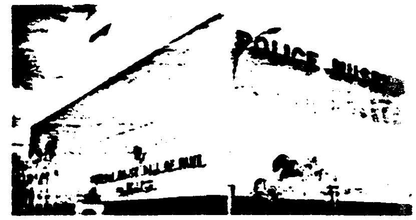

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21st December 1993

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards
AICPA
1211 Avenue of the Americas
New York NY 10036

RE: Proposed change to Accounting Procedures
in Fund Raising

SOP=72 the standard that exists now for sending both an educational message and a request for funds we understand may (by the Accounting Society) change the format. So much that it would be a fiscal disaster for most organizations that use that guide.

We currently hire fund raisers to prepare material that combines our mission with the need for donations to carry it out.

Any change in that rule would make it almost impossible for any non profit to continue its work and the effect would be a disaster.

If your organization were to accept the proposed list of changes certainly the title of Scrooge would be well earned this time of the year.

We are already over regulated. Consider this letter a protest. If it passes it will not be considered to be favorable to the police and we would encourage every one of the 600,000 police to remember who prevented us from carrying out programs of value.

Sincerely,

G. S. Arenberg

GERALD S. ARENBERG
Executive Director

(20)

A·B DATA
DIRECT MARKETING SERVICES
Milwaukee • Washington

December 21, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

I am a long standing member of AICPA.

This letter comments on the referenced Exposure Draft. The mission of this organization is to develop membership, and educate at the grass roots for non-profit organizations. We use multipurpose materials, including direct mail and telemarketing as cost-effective means to accomplish our client's programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way our client's report the costs involved.

The proposed new standard would require that in many situations our client's must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

A.B. Data, Ltd. • 8050 N. Port Washington Rd. • Milwaukee, Wisconsin 53217 • 414-352-4404 • Fax: 414-352-3994

20 cont'd

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgment of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity or non-profit organizations.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our client's organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This Provision has nothing to do with accounting guidance. In fact, it is direct

 20 cont'd

infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("Just Say No!")

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This exposure draft in its Present form, with its arbitrary and biased criteria, would require our client's auditors to second-guess their board of directors and their management.

The AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Alan R. Wichtoski

Alan R. Wichtoski, CPA
Controller
A.B. Data, Ltd.

ARW/df

cc: Bruce Arbit
Charles R. Pruitt
Jerry Benjamin
Jeff Mallach
Joyce Rubenstein
Joel Schindler
Kristie Rode
Meredith Pereira
Joe Manes

(21)

Help Hospitalized Veterans

2065 Kurtz Street, San Diego, California 92110-2092
(619) 291-5846 / FAX • 291-3842

Bob Hope presents an HHV Craft Kit to hospitalized Vietnam veteran Eugene Gardner.

December 17, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of
Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal"

Dear Mr. Tanenbaum:

We understand the American Institute of Certified Public Accountants (AICPA) has issued an exposure draft which will supersede the AICPA's Statement of Position (SOP) 87-2. We urge the AICPA to reconsider the focus of this exposure draft. We believe its present content is a reaction to criticisms by some states' attorneys general of the manner in which some organizations allocate joint costs. The AICPA has stated that these criticisms are based on the belief that some organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public. This criticism appears to be directed at the issue of how allocations of joint costs is done rather than whether allocation of joint costs is appropriate. Therefore, we believe your efforts should be directed toward developing guidance for allocations of joint costs in SOP 87-2 rather than recreating a new standard for employing allocations of joint costs.

Help Hospitalized Veterans, Inc. (HHV) was founded in 1971 following research and discussions with doctors, occupational therapists and patients of more than 260 Department of Veterans Affairs (VA) and military hospitals in the United States. Our mission is to promote the general welfare of the hospitalized veteran so that, despite profound disability and pain, they may maintain a sense of pride, self-confidence, and dignity during their rehabilitation process.

To assist the VA and military hospital system's Occupational Therapy Departments, HHV has developed a national arts and crafts kit distribution program. Since our inception in 1971, we have delivered more than seventy-six million dollars ($76,000,000) of kits to VA and military hospitals in all fifty states. Many kits have been specially designed to serve a special need for a particular therapeutic program for a patient. Occupational therapists have confirmed that not only do the kits help the hospitalized veterans get their minds off their ills and problems, but the kits are also extremely valuable for a number of rehabilitation processes.

A thank-you card is included in each craft kit. The patient is asked to send a short thank-you card to an individual supporter of HHV. Many of the veterans have developed strong lines of communication between themselves and the recipient of the thank-you card. Furthermore, to assist the VA and military hospital system's voluntary services outreach program, HHV seeks to educate its supporters about the opportunities of service directly in the hospital.

We utilize multi-purpose materials and activities, including direct mail, as cost-effective means both to accomplish these vital programs and to raise funds to support our operations. We have major concerns about the proposed standard to account for the costs of these materials and activities. Pursuant to the draft, unless we can demonstrate that a bona fide program of management and general function has been conducted in conjunction with the appeal for funds, the revised standard would require reporting all costs of materials and activities that include a fund-raising appeal as fund-raising costs. This reporting would include costs that are otherwise clearly identifiable with program or management and general functions. Our reporting all costs that are otherwise clearly identifiable with program or management and general functions will not lead to proper accounting for these costs but, rather, will result in misleading financial statements. Furthermore, this statement dictates what our program and fund-raising appeals should contain and with whom we should develop our program and fund-raising materials and activities.

The exposure draft retains the purpose, audience, and content criteria of SOP 87-2. While we believe these criteria are appropriate, the guidance for implementing these criteria should be refined. The tests for each of these criteria presented in the exposure draft should be eliminated or modified significantly.

For the purpose criterion, the compensation, evaluation and "with/without" appeal tests are seriously flawed. Our programs are the activities that result in goods and services being distributed to our program beneficiaries. None of these tests, however, can tell us whether any of our activities or materials served a program purpose. Rather, compensation based on amounts raised and evaluation based on funds raised are used to tell us that a program was not met.

The suggested test of conducting a similar activity without an appeal does not tell us whether we accomplished a program purpose. Furthermore, such a test contradicts economic efficiency. We believe our friends and supporters want us to conduct our activities in the most cost-effective manner possible. This belief often calls for multi-purpose materials and activities.

We believe the exposure draft should require verifiable documentation as the primary test to determine whether a material or activity that includes a fund-raising appeal serves program purposes. This is the guidance in SOP 87-2. It should be retained.

The exposure draft tests for the audience criterion are flawed. The tests require determination of a principal reason, rather than multiple reasons, for audience selection. The draft, however, fails to demonstrate how consideration of the source of the names indicates why the audience was selected for a multi-purpose material or activity. Instead, the draft specifically indicates how financial statements will be distorted by this standard. It states that even though program purpose and content criteria are met in a situation, utilization of a list maintenance procedure results in all costs, including those of the program materials, as fund-raising costs. We find this incomprehensible.

We believe that the exposure draft should require that the audience have a potential or demonstrated need for, or interest in, the program material or activity of the organization. For a program purpose, the audience must be one which can respond to a program-related call for action contained in the material or activity. These conditions would retain the action step for each purpose of the material or activity as found in SOP 87-2. The program purpose is substantiated by the call to action and the fund-raising purpose is substantiated by the request for funds.

The exposure draft test for the content criterion requires the material or activity to call for specific action by the recipient that will help accomplish the entity's mission. That action must be unrelated to providing financial or other support to the entity. This test appears to disqualify program-related calls to action that support the organization itself. Some examples are volunteering or donating materials. Such a test could be devastating to the programs of our organization.

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The test also requires sufficient detail describing the action to be taken. Merely providing a slogan is not sufficient. This is an infringement on how an organization seeks involvement of the audience. In fact, slogans generally contain the aims or goals of organizations.

We believe the exposure draft should require that the multi-purpose material or activity contain content that serves an organization's program purposes. Such materials or activities contain action steps or calls to action that audiences can take to help accomplish the program purposes of the organization to which the content relates.

The exposure draft dictates different accounting treatment based upon implementation strategies. For example, an organization that uses a public relations firm to develop a program package with a fund-raising appeal allocates joint costs to program and fund-raising categories. However, an organization that uses a fund-raising firm to develop the <u>same</u> package and pays that firm a fee based on the amounts raised must report all costs, including program costs, as fund-raising. This bias against particular types of firms and compensation methods results in distorted financial information. In addition, it precludes comparability between organizations.

We believe the draft in its current form would result in misleading financial statements. It requires all costs of materials and activities to be reported as fund-raising, including costs otherwise clearly identifiable with programs, if its criteria are not met. As discussed above, many of these criteria are unrelated to determining whether program purposes are actually served. Thus, we do not believe the proposal would improve our accounting reporting. Its arbitrary and biased criteria will require our auditors to second guess our management and our board. Further, organizations will inevitably take steps to counteract the bias created by these arbitrary criteria.

Sincerely,

Roger Chapin

Roger Chapin
Founder & President

Mothers Against Drunk Driving

677 State Street • New Haven, CT 06511 • (203) 776-4746 • Fax (203) 773-1194

Connecticut State Office

22

December 20, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 3605.JA

Dear Mr. Tanenbaum:

Mothers Against Drunk Driving (MADD) Connecticut State Organization is maintained by a strong volunteer-driven devotion to MADD's mission to stop drunk driving and support the victims of this violent crime. MADD Connecticut's five chapters are active in every community in this state. Whether involved in public awareness events, working with local police and Connecticut State Police on enforcement issues, victim issues including court accompaniment, Victim Impact Panels, support groups or legislative activity, our volunteers and staff give 100% to this commitment.

As a direct result of programs listed above and as a direct result of telemarketing and direct mail campaigns, MADD Connecticut continues to educate the public about the consequences of drunk driving. MADD Connecticut relies heavily on telemarketing as a cost effective means of raising funds for all of our programs while educating those we contact and recruiting valuable volunteers. Many times we receive information on a victim of an alcohol-related crash we might otherwise have never reached.

It has come to our attention that the AICPA is revising the standard for accounting for costs of materials and activities that include a fund raising appeal. MADD Connecticut is concerned about the effects this proposal would have on our public awareness programs.

'22' cont'd

We firmly believe that figures released by the United States Department of Transportation reflect our involvement with telemarketing. In Connecticut, alcohol-related traffic deaths dropped 28.6% - directly related, we believe, to continued public education and awareness via telemarketing and direct mail programs.

In 1992, 130 people died as a result of alcohol-related crashes, a drop from 182 deaths recorded in 1990. However, despite the progress, we must continue educational efforts to change social behavior by teaching people not to drink and drive. This can and will be accomplished through telemarketing informational campaigns.

MADD Connecticut urges the AICPA to reconsider the contemplated new rules in the proposal. MADD Connecticut cannot stop senseless and needless deaths and serious injuries without the vital funds raised and education provided through direct marketing programs.

Thank you for considering our plea.

Sincerely yours,

Janice A. Heggie

Janice A. Heggie
Executive Director

JAH/ss
cc: Dean Wilkerson, Executive Director, MADD National
Joseph LoSchiavo, Chairman, MADD Connecticut

23

December 20, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the America
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to:

<u>St. Joseph's Indian School Mission Statement</u>

As an apostolate of the Congregation of the Priests of the Sacred Heart, Inc., the mission of St. Joseph's Indian School, a residential facility for Native American children, is to respond to the needs of the whole child and to break the cycle of poverty and dysfunction through education, group home living, the development and appreciation of spirituality and culture, and the promotion of personal adjustment and self esteem.

<u>St. Joseph's Indian School Development Office Mission Statement</u>

As an organization established to further the SCJ Mission, the Development Office seeks to raise funds in the spirit of and within the thematic constraints of fund raising approved by formal provincial action, embodying an organizational practice marked by justice and a particular concern for the spiritual, personal, and material well-being of the Indian people of South Dakota.

ST. JOSEPH'S INDIAN SCHOOL
CHAMBERLAIN, SOUTH DAKOTA 57326
(605) 734-6021

We use multi-purpose materials, including direct mail media as a cost effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fund Raising, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fund Raising appeals, and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example #1:

For the Purpose criterion, the tests proposed for compensation, evaluation, and with/without appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fund raising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost effective manner possible; that often call for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fund raising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example #2:

The audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substantiate the judgment of an auditor for that of an experienced fund raiser in the selection of lists. Surely that result was not intended.

Example #3:

The content criterion requires that the materials or activity call for specific action by the recipient that is in the furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("Just Say No!")

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that the audience can take to help accomplish the purposes(s) to which the content relates.

Example #4:

The Exposure Draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between program and Fund Raising. But is the charity uses a fund raising firm, and bases all or part of its fee on the amounts raised, all costs must be

23 cont'd

reported as Fund Raising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

<u>This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management</u>.

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been to liberal in the methods used to allocate joint costs, escpecially those incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate you keeping us informed of the status of this exposure draft.

Sincerely,

W J Steiner II

Wilbert J. Steiner II, C.P.A.
Financial Manager

Maryland Association of Certified Public Accountants
1300 York Road, Suite 10
P.O. Box 4417
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Phone (410) 296-6250
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December 21, 1993

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The Auditing Standards Committee of the Maryland Association of Certified Public Accountants has reviewed the proposed statement of position exposure draft dated September 10, 1993 titled Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal. Our comments follow.

1) Footnote number 1 on page 7 of the exposure draft states that SFAS No. 117, Financial Statements of Not-for-Profit Organizations requires nonprofit organizations to report expenses by function. Pursuant to SFAS No. 117, paragraph 26, last sentence, "Other not-for-profit organizations are encouraged, but not required, to provide information about expenses by their natural classification." (emphasis added). Please clarify and/or correct the referenced footnote.

2) On page 16 of the exposure draft, beginning with paragraph 33, the committee suggests that additional allocation methods be described. Specifically, it has been the committee's experience that many small not-for-profit organizations allocate their costs based on the percentage of time incurred in the activities. Please describe possible other allocation techniques, including the percentage of time incurred method.

3) The committee noted that the exposure draft does not address how indirect costs should be allocated, if any, to fundraising appeals. Specifically, it can be argued that part of the cost of fund-raising includes such indirect costs as rent, utilities and other overhead associated with running the organization. In order to encourage consistency in the reporting of fund-raising costs, we suggest that the exposure draft address the allocation of indirect costs.

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4) The committee is also concerned about the effects of applying the proposed statement of position to small not-for-profit organizations. The concern is that it will be difficult for the small organizations to meet the three criteria of purpose, audience and content. For example, the audience for small organizations often are also the individuals most likely to make a contribution (an environmental group for example). Accordingly, the majority of these appeals would then be classified as fund-raising and could jeopardize the organization's ratios, e.g. for the combined federal campaign, etc. The Committee is likewise concerned that the audit costs will increase as a result of the new SOP, which the small non-for-profit clients may not be able to afford.

Based on this concern, we encourage that paragraph 32 regarding Incidental Costs be maintained in the final SOP, as it is the opinion of the committee members that this paragraph can be used to help the small not-for-profits.

* * * *

The committee also wanted to thank the authors of the exposure draft in writing such a thorough statement of position, which has been needed in this area. We hope and anticipate that the consistency in applying the new SOP will greatly improve the financial results of affected organizations.

Respectfully submitted,

James Higbee

JAMES HIGBEE, CPA
Chairman
Auditing Standards Committee

PUBLIC SERVICE RESEARCH COUNCIL
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December 22, 1993

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Ref: File 3605 J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal.

Dear Mr. Tanenbaum:

This letter is about the above referenced Exposure Draft but it is also about the general attitude of the accounting industry to so-called "fund raising."

There is no question that for some people "fund raising" is almost a dirty word. They seem to think that there is something wrong with feeling so strongly about something that you ask someone else for a contribution to help promote the interest.

Unfortunately, there is a mistaken public perception that there is a relationship between "fund raising" costs and the effectiveness of an organization. I think that the accounting profession has something to do with this public perception.

This is a threat to the very nature of free speech in a democratic society and your profession should be doing everything it can to change it rather than expanding it and making it worse.

Your exposure draft contains several items that illustrate this problem. For example, it says that if the audience for the materials or activities is selected principally on its ability or likelihood to contribute, the audience criterion is not met and all the costs of the activity should be charged to fund raising.

Our organization has a newsletter, a very good newsletter I might add. Our tests have shown that supporters who receive the newsletter are more likely to respond to fund raising appeals than those who do not. I would like to be able to send it to everyone on our mailing list. To do so would bankrupt the organization in short order. So, I can only afford to send it to our present contributors.

Every newsletter, by necessity, provides our supporters an opportunity to send additional financial support. It is not usually a heavy handed appeal but it is always there somewhere. Were it not for the modest support we receive as a result of the contributions we receive from our newsletter mailings we would sacrifice other program expenses. According to your standards, because of the way I select the mailing list for the newsletter, the entire cost of it is a fund raising expense.

It is simply not true that the newsletter expense is entirely a fund raising expense. It contains important information about legislative developments which are of great concern to our members and supporters. We would send it, even without the opportunity to contribute, but to a much smaller audience. Requiring that all the cost of the newsletter be accounted as a fund raising expense distorts the true picture and is counterproductive.

The same is true to one degree or another of many of our legislative bulletins. In each case we make a determination of the seriousness of the legislative threat. It is the degree of the seriousness of the situation that determines how deeply in our list we mail. We have four different levels, each of which is in one way or another based on "the ability or likelihood" to contribute. Only the deepest level, every name on the list - what we call the "lobby select" - makes no allowance for that criteria and we use it only in desperate situations.

Your audience criteria would say that all the cost of a legislative alert mailing is a fund raising expense unless it is to the "lobby select." Yet, the expense of the very same mailing with the very same purpose, but to any of the other selects are entirely fund raising. This, again, is simply not the case and to account for the expense this way would present a distorted picture of our operation.

Your Exposure Draft also asks accountants to make very subjective guesses about management's intentions in making decisions. I personally have designed programs that I thought would accomplish both an educational and fund raising purpose. Some of them have worked and some have not. Are the accountants to look at the results of these programs after the fact and say that those which failed on the fund raising expectations or failed altogether are really program expenses but that those that succeeded on both fronts are really only fund raising expenses?

Now, let's talk about the real world and freedom of speech. Some very big organizations have top professionals who handle every aspect of fund raising mailings in addition to other program duties. They are not necessarily very efficient. Their performance may or may not be based on how well they do but their compensation is in paychecks not fees.

Your proposed criteria has a bias against contracting out to an agency which receives fees for its services if the compensation is based on how well the agency performs. Making compensation based on success has got to be more efficient, yet you would say that this is entirely "fund raising" expenses while at the same time the paychecks of the inefficient "in-house" department would be proportioned into program and fund raising expenses.

Does this make sense to you? Do you really want to reward inefficiency just so that some bureaucrat in a big organization can look better than one in a small organization who is struggling with budget constraints and trying to be efficient?

On the subject of big organizations, you must be aware that the ratio of fund raising costs to income is a function of the organization's entire expense and income and not just that of a particular program. There are some organizations which have very generous "angels" who give very substantial amounts of money and no fund raising costs are associated with this income. Other organizations do not have this sort of support.

A big organization with "angels" could have an incredibly inefficient direct mail program and still look good on paper because of this other income, while a smaller organization without "angels" can run a pretty tight ship on direct mail fund raising and under your proposed criteria look bad.

This, again, would present a distorted picture and reward inefficiency. Is this really what you want?

A final thing I want you to consider is the impact that your criteria would have on the question of free speech for controversial, sometimes very unpopular, causes. It may be that a very controversial cause with no resources would only be able to conduct fund raising at a very high ratio of expenses to income and that they would only be able to do so by following the practice which your standards would define as entirely fund raising.

Such an organization might put a very high premium on getting information about its cause into the hands of as many people as possible. Yet your proposed standards would say to the world, this is only a "fund raising" organization and doesn't accomplish anything. This would not be true and might severely inhibit the ability of that organization to engage in controversial speech through direct mail. Is this really what you want to do?

Why don't you guys stop trying to be "do gooders" and "watch dogs" for the public good and get back to what the accounting profession is all about? The real reason for a balance sheet is so that a potential creditor can tell whether the organization is financially sound and a good risk with which to do business. What is a fund raising cost is as irrelevant to that decision as is the question of what an advertising cost or a manufacturing cost is to a potential creditor in the real world.

25 cont'd

If the government wants the sort of distorted, subjective financial reporting you are suggesting, let them demand it. The accounting profession, particularly the accounting profession that works with the nonprofit sector, should be standing shoulder to shoulder with its clients resisting this sort of government intrusion rather than trying to legitimize and facilitate it.

At the very least you should recognize that the accounting standards for fund raising costs for nonprofit organizations whose principal purpose is to engage in controversial speech must be different than for those who are engaged in providing charitable services.

Sincerely,

David Y. Denholm
President

cc: Karen Ioffredo, Ross, Langan & McKendree
Bill Olson, Free Speech Coalition
Mr. Lee Cassidy, Nonprofit Mailers Federation
Edith Hakola
Geoff Peters
NonProfit Times

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SALESIAN MISSIONS
2 Lefevre Lane, PO Box 30
New Rochelle, NY 10802-0030
Tel: (914) 633-8344

December 21, 1993

Joel Tanenbaum
Technical Manager
Accounting Standards' Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

We have reviewed your SOP Exposure Draft and feel that it will not give an objective picture of an organization's fund raising activity.

It is biased.- It allows an organization that uses a public relations firm to conduct a program activity with a fundraising appeal to report activity costs as program and fundraising expenses. However, an organization using the same package that uses a fundraising firm for the same activity and pays that firm a fee based on the amounts raised must report all costs as fundraising.

It produces misleading financial statements.- It requires all costs of materials and activities to be reported as fundraising, including costs otherwise clearly identifiable with programs, if its criteria (which are unrelated to program purposes) are not met.

It precludes comparability.- It establishes arbitrary criteria that will cause similar organizations to report similar transactions differently, resulting in financial statements that cannot be meaningfully compared.

It does not improve accounting practice.- It imposes criteria which require the auditor to second guess management and the board of directors. It also contains numerous terms such as "substantially", "incidental", and "reasonable" which compound the difficulties encountered in current guidance relevant financial information.

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Non profit organizations like ours are not just fund raisers, we are working actively in the field to alleviate human suffering.

It seems to me that the AICPA rules should be such as to give an objective picture of the work being done and should not be a source of problems complicating an already difficult task.

Sincerely,

Rev. E J Cappelletti

Rev. E. J. Cappelletti, S.D.B.
Director

EJC:sk

REPLY: Records Center:
3801 BISCAYNE BLVD.
MIAMI, FLA. 33137
305/573-0070

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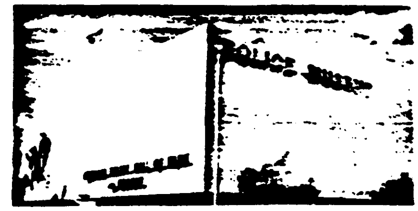

National Association of Chiefs of Police

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21st December 1993

Joel Tannenbaum
Technical Manager, Accounting Standards
AICPA
1211 Avenue of the Americas
New York NY 10036

Ref: File 3605 J.A.

Dear Mr. Tannenbaum:

This letter comments on the referenced exposure draft. The mission of this organization is to assemble, disseminate and educate American Command Law Enforcement Officers. We use multi-purpose materials, including film, direct mail and telephone as cost effective means to accomplish our programs, and to reaise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new costs would require that in many situations we must report all costs as fundraising costs, even when some are clearly identifiable as program or management, or general costs. That will lead to improper accounting for these costs, and to misleading financial statements.

Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the first amendment, which was affirmed by the U.S. Supreme Court in <u>Riley v. National Fderation of the Blind of North Carolina,</u> as well as other Supreme Court Rulings.

We would appreciate you keeping us informed of the status of this exposure draft.

Sincerely,

Jim Gordon

JIM GORDON
Publications Editor

J:bm
cc: Debra K. Chitwood, Finacial Officer
G.S. Arenberg, Exec. Director

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December 21, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund Raising Appeal

Dear Mr. Tanenbaum:

As attorneys in active practice in the not-for-profit field, we are responding to the Exposure Draft "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund Raising Appeal" issued for public comment by the American Institute of Certified Public Accountants (AICPA) on September 10, 1993.

The cost allocation procedures proposed in the Exposure Draft (the "Draft") would chill a not-for-profit organization's ability to exercise its constitutionally protected speech right to fund raise. As the Draft's title makes clear, activities and materials "that include a fund raising appeal" alone are singled out for the detailed allocation criteria provided therein.

These criteria attempt to reinforce a flawed concept of fund raising costs which figured in three major cases of constitutional law decided by the United States Supreme Court over the past 13 years, and reject the analysis of the Court in these widely-publicized cases. The approach of the Court is indicated in its statement in Riley v. Federation of the Blind of North Carolina:

> ... where the solicitation is combined with advocacy and dissemination of information, the charity reaps a substantial benefit from the act of solicitation itself. Thus a significant portion of the fundraiser's "fee" may well go toward achieving the charity's objectives even though it is not remitted to the charity in cash.

In addition, the net "fee" itself benefits the charity in the same way that an attorney's fee benefits the charity or the purchase of any other professional service benefits the charity. (in footnote to opinion)

In Riley and other cases, the steadfast approach of the Court has been to consider the educational value of the fund raising function. The method of the Draft is to prescribe detailed criteria in order to substantiate a "bona fide" program or management and general function. Cost allocation is permitted only when a "bona fide" function, as defined by these criteria, is found to exist.

Thus, the Draft makes "bona fide" program the operative surrogate of the "educational value" of the Court's analysis. In effect, the Draft provides that where the specific criteria outlined do not establish a "bona fide" program, then the activities being considered have no educational value for the purposes of accounting cost allocation. Since the intended effect of applying these criteria is to give the financial report reader a purportedly professional opinion as to the genuineness and extent of benefit of the efforts of a not-for-profit organization, the substance of the Draft criteria are of particular interest:

1. Cost allocations for identical materials and activities would be permitted or not, depending on the method of compensation used or the nature of supervision (Pages 9 and 10 of the Draft)

2. Perhaps the most egregious intrusion of the Draft into protected speech is its assertion (footnote 5 on page 15) that "a general call to prayer is too vague to satisfy the criterion of action" called for in the Draft and requiring that "what is to be prayed for such as the occurrence of a specific event" be "specifically stated."

3. The criterion providing that an organization's speech be directed to a "publication that is able to perform actions to help achieve the program objectives," other than by contributing funds) is an example of the restraint imposed on not-for-profit organizations' speech if they are to avail themselves of cost allocations. Under this criterion, an appeal for Sickle Cell Anemia, a disease that affects principally people of color, would, if mailed to whites, be ineligible for allocation (as not a "bona fide" program -- or having no educational value for accounting purposes)

4. The criterion which would make accounting educational value for materials or activities involving past donors contingent on whether they had personally participated in

programs of the not-for-profit in the past, runs counter to a major premise of education, i.e. that it is a continuing function, rather than a one-time event.

These are only a few of the provisions of the Draft which by its stated intention to make cost allocation depend on the content of fund raising speech, the audience to which it is directed, and the purpose of the speech, applies major restraints to not-for-profit organizations' constitutionally protected activities.

While these restraints are by their nature repugnant to the freedoms guaranteed by the U.S. Constitution, they are also operative on a significant practical level. The not-for-profit organization does not, in practice, have a choice as to whether it will or will not apply the criteria in the Draft, if adopted. Registration for permission to raise funds in various States is frequently conditioned on the filing of audited statements compiled "in accordance with Generally Accepted Accounting Principles (GAAP);" adoption of the Draft and its final clearance would establish it in the hierarchy of authoritative literature that constitutes GAAP.

Consequently, fund raising organizations would have no choice but to make available to government regulators, to donors and to the public generally statements of its costs and finances compiled according to principles diametrically opposed to the principles that underlie the analysis of the highest court in our country.

On page 7 of the Draft, the AICPA notes that "external users of financial statements, including contributors, creditors, accreditation agencies and regulators want assurance that the amounts entities spend to solicit contributions as well as the amounts for program and management and general functions, are fairly stated." Under the provisions of the Draft, such amounts would not be fairly stated.

The Draft should be withdrawn and substantially revised to prevent dissemination of misleading material.

Sincerely,

ZIMMERMAN, SHUFFIELD, KISER
& SUTCLIFFE, P.A.

Ultima D. Morgan

Ultima D. Morgan

UDM:ldr

Your Kingdom Come!

PRIESTS OF THE SACRED HEART

P.O. Box 289
Hales Corners, Wisconsin 53130-0289
Phone: 414-425-6910 FAX: 414-425-2938

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U.S. PROVINCE
PROVINCIALATE OFFICES

December 22, 1993

Joel Tanenbaum, Tech Mgr
Accounting Standards Division
1211 Ave of the Americas
New York, NY 10036-8775

RE. Revision of SOP 87-2

Dear Mr. Tanenbaum,

I have been in the not for profit arena for over twenty-six years as a practicing C.P.A. and accountant for the Priests of the Sacred Heart, an inter-national religious catholic congregation of men.

SOP 87-2 solved many reporting and disclosure problems; however this exposure draft revising the present position is a total abomination. I have read many position papers and cannot find fault with their arguments against this revision.

Rather than repeating the numerous faults of this endeavor, I implore you and the committee to listen to all of the objections and satisfy their requests for explanations of WHY.

It seems ironic that a professional organization (AICPA) that distains the involvement of government intervention and limiting free exercise, acts like their tormentor in a rather dictatorial and unsympathetic fashion.

Possibly a retreat into the midwest for a month or so to see how things are done is required.

Sincerely
Roger Yost

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DORIS DAY ANIMAL LEAGUE

December 23, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed changes to SOP 87-2

Dear Mr. Tanenbaum:

I am writing as the chief executive officer of a non-profit organized to promote legislative reform that will protect animals. We work on legislative initiatives at the federal, state and local level. Our mail appeals to our members are a significant and integral portion of our legislative program. Without the contacts developed by our members with members of Congress and representatives at the state and local level, the ability of my staff to meet with representatives, explain our position and develop strategy toward meeting our legislative goals, would be greatly diminished. Therefore, we strongly oppose any modification of SOP 87-2 that will limit our ability to reflect the educational component of our mailings in our financial statements.

Because we are a 501(c)(4) organization, our ability to raise the funds necessary to meet our operating costs, including the costs of our mailings to members, is extremely limited. As I am sure you are aware, we have no access to grant funding, corporate donations or bequests of any significant amount. Because we are a relatively new organization, we do not have a substantial financial base. Therefore, our operating costs must be met by the small donations of literally tens of thousands of our members. We have found the most efficient method of obtaining funding, as well as pursuing our program goals, is to integrate our educational, legislative and advocacy program through mailings to members with a request that they assist our efforts by both contacting their elected officials on a particular issue and by sending us a contribution.

Suite 100 • 227 Massachusetts Avenue, N.E., Washington, D.C. 20002 • 202/546-1761 Fax: 202/546-2193

The requirement under paragraphs 21 and 26 of the Exposure Draft, to conduct a similar mail program without the fund-raising appeal using the same medium...and on a scale that is similar to or greater than the scale on which it is conducted with the appeal, in order to meet the purpose criterion, would impose significant additional costs upon our organization and would reduce our ability to maintain contact with our members and to fulfill our organization's mission. Similarly, the requirement under paragraph 26 of the Exposure Draft, that the organization should have a process to identify and evaluate program results and accomplishments, would impose an unfair financial burden to our organization.

It is my strong belief that the revision of SOP 87-2 to exclude the allocation to program or management and general functions, of costs for educational or advocacy purposes which are clearly identifiable with a program or management and general function, unless it can demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, is biased and unfair and not reflective of the importance of membership contacts, particularly for a legislative advocacy organization.

While it may be true that the educational or advocacy information provided in an appeal from an organization not directly involved in legislative reform may be peripheral to the organization's goal of fundraising, I do not believe that this is generally true for 501(c)(4) organizations and is certainly not the case for ours. As a recent example of our ability to inform legislators through the direct contact between our members and their offices, I enclose for reference a letter received by one of our members from a congressional office in response to a recent NAFTA member mailing and contribution appeal. In response to our mailings on this issue, we received telephone calls or letters from well over 30 members of Congress seeking further information on our views. This recent example highlights the integral nature of our constituent contact and our lobbying activity in Washington. Our mail programs are a reasonable and rationale component of our program activity that bear substantially on our ability to carry out our programs. I strongly oppose any modification of SOP 87-2 that will impinge on our ability to accurately reflect the educational and advocacy value of our mailings to our members.

30 cont'd

If you have any further questions on our activities as they relate to SOP 87-2, please feel free to contact me.

Sincerely,

Holly Hazard

Holly E. Hazard
Executive Director

HH:cnm

Enclosure

JOSEPH M. McDADE
10th District, Pennsylvania

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RANKING REPUBLICAN MEMBER

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FAX (202) 225-9594

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Washington, DC 20515

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FAX (717) 346-8677

Herman Schneebeli Federal Building
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Suite 230
Williamsport, PA 17701
(717) 327-8161
FAX (717) 327-8359

October 28, 1993

30 cont'd

Ms. Johnna L. Seeton
R.D. #2, Box 197
Troy, Pennsylvania 16947

Dear Ms. Seeton:

Thank you for your postcard in strong opposition to the North American Free Trade Agreement (NAFTA). I appreciate your input on this matter as a member of the Doris Day Animal League and have carefully noted your concerns that passage of this treaty could compromise our nation's existing animal protection laws.

I am one of a growing number of Members of Congress who are reluctant to vote for NAFTA unless supplemental agreements to improve protections for workers and the environment are guaranteed to be effective and enforceable. A great deal of concern has already been expressed that the pact could lead to U.S. businesses moving their plants to Mexico where labor would be cheaper.

You can be certain that I will consider the impact on jobs, the environment, animal welfare and the standard of living in northeastern Pennsylvania when the treaty comes before the U.S. House of Representatives.

Once again, thank you for sharing your perspective on this very important issue.

Sincerely,

Joseph M. McDade
Member of Congress

JMM:tt

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Conrad R. Sump & co

CERTIFIED PUBLIC ACCOUNTANTS

503 Route 111
Hauppauge, New York 11788-4350
(516) 360-1400
FAX (516) 360-7314

December 30, 1993

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

Before I address some of the concerns our firm has regarding the above referenced Exposure Draft, I feel it is important to give some background on our firm and the clients we serve.

Our firm was founded in 1964 by Conrad R. Sump. For the vast majority of the past thirty years, our firm has been serving the Not-for-Profit Community. In particular, our firm provides audit, accounting and management consulting services to a vast array of Roman Catholic Organizations. We work with many orders of men and women, the voluntary health and welfare organizations they serve and the fund raising organizations that support their ministries.

Our firm is not a large national accounting firm, but we do serve clients on a national level. We are well respected within the community. We consider ourselves experts in our field and I don't know of anyone who would disagree with this status.

We understand that contributors, creditors, accreditation agencies and regulators want assurance that amounts spent and program and supporting services are fairly stated.

However, it is very hard for professionals who believe they are providing a quality service and doing a "good job" overall to be legislated by the sensationalism tactics used by watch dog groups and the media.

We are facing an information crisis in the reporting of activity in not-for-profit community presently. People who are uninformed about the "normal" or "acceptable" returns on investment for various fund raising methods are passing judgements as to which organizations are run efficiently and which are not. These watch dog groups use the "bottom line" fund raising percentage as a basis for comparison.

The use of the bottom line fund raising percent as a basis for comparison among all types of fund raising organizations regulators encourages joint cost allocations. Why? Certain types of fund raising organizations, in particular direct mail fund raisers, find it hard to meet the criteria established by the National Charities Information Bureau, Philanthropic Advisory Service Council of Better Business Bureaus, Inc. and certain other State or Local Regulators for fund raising efficiency. Therefore, they find it necessary and proper to allocate the joint costs of certain direct mail campaigns that attain program goals and supporting services.

By using cooperative mailings to meet program goals and objectives, not-for-profit organizations are able to cost effectively appeal for support. Certain common costs in such mailings can be appropriately allocated among program and supporting services. The bottom line fund raising percent forces the direct mail fund raiser to take a more efficient approach in mailings, yet when an appropriate allocation is made, a watchdog group criticizes the organization for an aggressive approach to a generally accepted accounting principle. An accounting principle which makes sense.

The American Institute of Certified Public Accountants and the Financial Accounting Standards Board are continually trying to get not-for-profit organizations to report in similar fashions, yet they (NPO's) are not all the same. We understand the need for consistency in application of principles and reporting of such, but there needs to be a greater understanding that although the reports are similar, all NPO's are not the same.

We are side stepping the real issue by debating over joint cost allocations. As a profession, we need to educate the public at large that the bottom line fund raising percent is not a valid measure by which to compare the efficiency of all fund raising organizations. Please refer to the Philanthropy Monthly article I have enclosed *A New Internal Management Tool for Non-Profits ROI Analysis by Category of Fund Raising Activity and Average Gift Site Name.*

Using the bottom line fund raising percent is like saying GM, AT&T, IBM, GE, Citicorp and Merck should all have about the same gross profit margin because they are all for-profit organizations. We all know this is totally unrealistic because each company has different product lines and competes in different sectors of the economy. It is the same for NPO's. It is not fair to compare Catholic Charities USA, Mercy Boys Home, St. Labre Indian School, Our Lady of Victory Homes of Charity, Mothers Against Drunk Driving, Memorial Sloan Kettering Hospital, Notre Dame University and the United Way because they are all not-for-profit organizations under the tax code. Each organization is unique and distinct. They each have different type donors and sources of support. These are just two of many factors which have an impact on the "bottom line" fund raising percent for a fair comparison to be made.

We would like to thank you Mr. Tanenbaum, the Not-for-Profit Organizations Committee and the Accounting Standards Executive Committee for allowing us to voice some of the concerns we have related to what we believe is the underlying problem causing stress between the public and the profession.

Now to address some of my concerns regarding the proposed exposure draft.

The new exposure draft was written with the intent to emulate and clarify SOP 87-2. We don't believe these objectives were met.

Since we work closely with religious organizations, our concerns regarding the proposed exposure draft are exemplified in the application of the draft to a fictitious Roman Catholic organization.

The new exposure draft outlines certain criteria which must be met in order to determine if a bona fide program or management and general function has been conducted. These criteria relate to purpose, audience and content.

In determining purpose, the auditor/accountant is to determine if all compensation is based on amounts raised, if yes, all costs go to fund raising. I guess the idea here is that if the fund raiser got paid for raising money, then the only thing the appeal could be is a fund raising piece. How does a compensation agreement determine that a program service didn't take place, I firmly believe the two are irrelevant.

For example, The Society for Promotion to Devotion to the blessed Virgin Mary (a fictitious organization) mission statement states its mission is to promote devotion to the Blessed Mother, that is it. They raise money through the mail asking Catholics to support their efforts to promote devotion to the Blessed Mother through mailings and the media. In each appeal is a booklet on how to pray the Rosary, the Hail Holy Queen and Hail Mary prayers, and ask that Catholics pray these daily and support the Society. The Howtoo, Raiseit, Wright consulting firm is employed to help get the program started by developing a mailing targeted for Catholics. They are compensated based upon a percent of net dollars raised. Does this mean a program service didn't take place? No! The Society targeted Catholics, a group likely to give and participate in the programs of the Society.

The cost of the prayer book at a minimum should be charged to program services. This is a primary cost and a program cost, and one could argue a percentage of certain other joint costs postage, inserting should be charged to program services. However, the proposed SOP does not allow for this because of the compensation arrangement of the organization.

A second purpose criteria asks if the program or management and general component is conducted on a similar scale without a fund raising appeal. If not, it goes on to ask is the purpose criterion met based upon an evaluation of indicators? If the answers to both of these are no, all the costs of the package go to fund raising.

In the real world, fund raisers realize in many instances it is more efficient to use cooperative mailings to carry out program, management and/or supporting services. In our previous example, assume it is more efficient to mail the prayer book with an appeal then to mail it alone. Why would the organization mail out the prayer book alone? (This would be going against what the public is demanding and what common sense dictates). Secondly, how does one quantitatively determine if people are participating in the program of the Society (promoting devotion to Mary and praying). I could see a very real argument that the only way to measure participation is in response rate to the appeal for support.

I believe the aforementioned examples show the flaws of the criteria suggested for determining a bona fide purpose.

The audience criteria asks, is the audience selected principally on its ability or likelihood to contribute? If yes, all expenses to fund raising.

31 cont'd

Let's apply this to our example. The bible tells us we should tithe and give freely to those in need, Pope Pius IX told us things like "Make Her Known" when talking of Mary. Catholics are taught from childhood to pray The Rosary and ask for intercessions. Is it likely that those people who would support our programs of promoting devotion to the Blessed Virgin Mary would also want to support our efforts by contributing to help "Make Her Known"? Yes! What comes first, the chicken or the egg? The giving and promoting are so closely intertwined you can't tell what is the intent. In fact, you could argue the benefactors that support organizations like Perpetual Help Center, Our Lady of Victory, St. Ann's Shrine, The National Shrine of the Immaculate Conception would likely be interested in the Society's programs. You could also argue that by giving, the donors are carrying out the program services because they are making the funds available to carry out the program services even if they don't themselves promote devotion or pray.

Additionally, there are other problems with the SOP. Primarily, I believe it places a burden on the auditors to determine intent at the time of mailing, something that he/she may not be privy to or be able to accurately determine given the criteria outlined. The SOP takes away the auditors professional judgement in relation to joint activities. While the Exposure Draft allows for greater consistency, it again assumes all charitable fund raising organizations are similar and comparable, when they are not. The circumstances involving each organization are unique and require professional judgement regarding the appropriateness of joint allocations.

We strongly agree with the increased disclosure requirements and suggested allocation methods and believe that these alone might be enough when added to SOP 87-2 to satisfy the critics. We would also encourage a mandatory disclosure of the total joint costs allocated and how much was allocated to each fund.

With the ever increasing competition among charities seeking public support and the heightened awareness of fund raising efficiency through the efforts of the media, watch dog groups and state regulators, more emphasis than ever is being placed on keeping fund raising and overhead costs to a minimum. Cooperative mailings enhance the efficiency of not-for-profit organizations. Yet when management makes a prudent decision to combine a program and supporting service function to improve efficiency, and properly report such, they are criticized for "aggressive" application of generally accepted accounting principles.

The proposed SOP is a step in the right direction, but unfortunately it has flaws and shortcomings which need to be rectified before it should be considered for general acceptance. As previously stated our firm believes the AIPCA and the not-for-profit community is side stepping the real issue, that being that the bottom line fund raising percent is not an accurate measure of an organizations fund raising efficiency.

Direct mail fund raising organizations cannot raise funds as efficiently as charitable organizations who use volunteers, organizations whose support comes from foundations, other major gifts, the government or other sources such as the combined annual appeal. These funds generally raise funds with minimal direct or allocated costs, as such, this SOP would have little bearing on them.

We once again thank you for your time and the invitation to comment. I hope our thoughts are of use to the committee. If you wish to discuss any of the issues raised, please feel free to contact our office.

Sincerely,

CONRAD R. SUMP & CO.

Robert R. Craig

Robert R. Craig
Managing Partner

RRC:tms
Enc.

31 cont'd

A PM Reprint

THE PHILANTHROPY MONTHLY

A New Internal Management Tool for Nonprofits

ROI ANALYSIS*

By Category of Fund Raising Activity
And Average Gift Size Range

* ROI = Return On Investment = funds raised as a percentage of fund raising expenses.

ROI Analysis is offered by Baruch College's Nonprofit Management Group as a methodology, *under development,* for evaluating fund raising return on investment. *ROI Analysis* has been developed by Bill Levis, Lilya Wagner and Anne New; by Nonprofit Management Group Advisors Jim Greenfield, Bruce Hopkins, Elaine Stueber, Russy Sumariwalla, and Conrad Sump; and with the assistance of a number of other interested professionals. The development of *ROI Analysis* is made possible in part by a grant from Lilly Endowment Inc. Comments and suggestions regarding *ROI Analysis* are welcome.

Part I: The *ROI Analysis* Spreadsheet (See Table 1)

A basic fund raising question has concerned nonprofit managers and fund raising professionals for quite some time. They often ask, "How can we know that the returns on our investments in various fund raising activities are reasonable?" Their boards also want to know if their fund raising ROI is reasonable, but a researched, standard methodology for answering this question has not been available.

The answers must be relevant to making day-to-day decisions about investing money to raise money. And, answers must *enable* rather than *inhibit* investments in fund raising budgets that will:

(a) maximize net contributions in the current year and
(b) build fund raising capacity this year to increase net contributions for future years.

Many fund raising professionals have attempted to quantify and explain the cost factors, with some degree of success. While such approaches vary, there are two consistent themes: bottom-line cost percentages alone are not a useful measure for internal management purposes and the performance of one kind of fund raising program cannot necessarily be evaluated against another.

ROI ANALYSIS

What is the answer to the question: "How can we know if the returns on our investments in various fund raising activities are reasonable?" The answer begins with "it depends." It depends on what type of fund raising activity is being considered, and it depends on the average gift size for that activity.

The *ROI Analysis* (Table 1) illustrates how an organization can develop a PC computer spreadsheet to compute its return on investments (ROIs) by up to ten categories of fund raising activity and compare its ROIs against minimum ROI criteria that are appropriate for each category and gift size. Definitions for each of the ten categories are provided in Table 6.

The *ROI Analysis* requires maintaining data on the three factors most nonprofits already track. These three factors are presented in Steps 1, 2, and 3.

Step 1: The total *investment* in fund raising (as might appear as "Fund raising expense" in a year-end financial report, or for some other more appropriate period) is broken down by as many as ten categories of fund raising activity. This is illustrated in column A of the *ROI Analysis: Fund Raising Investment.*

Step 2: The *number of gifts* (column B) for each category of fund raising activity is recorded in the *ROI Analysis.*

Step 3: The *amount of gifts* (column C) for each category of fund raising activity is recorded in the *ROI Analysis.*

The number and amount of gifts recorded in columns B and C will be the results of the fund raising activities related to specific fund raising investments entered in column A. Because fund raising revenues corresponding to specific investments often do not occur in the same fiscal year with the investments, the totals for columns A and C may not match figures for contributions and fund raising expenses found in year-end audited financial statements.

The *ROI Analysis* spreadsheet software automatically computes the two columns for *average gift size* and *ROI.*

The *ROI Analysis* requires that nonprofits establish minimum ROI criteria -- appropriate for their fund raising programs -- by categories of fund raising activity and average gift size range. Part II of this article, "Establishing Minimum ROI Criteria," provides an explanation of the two dimensions of criteria used, suggested minimum ROIs (Table 4), and a worksheet for developing minimum ROIs (Table 5). Minimum ROIs are needed for Step 4.

Step 4: The suggested minimum ROIs from Table 4, or the minimum ROIs established in the Worksheet Table 5 by the organization, are recorded in the *ROI Analysis* under column E: *Minimum ROI.* The minimum ROI selected for each category of fund raising activity is based on the gift size range corresponding to the average gift size computed by the *ROI Analysis.*

The *ROI Analysis* spreadsheet software automatically computes the *ROI Variance Above/(Below)* column by subtracting the *minimum ROI* (column E) from the nonprofit's actual *ROI* (column D).

Steps 5 & 6 = Evaluation of Fund Raising ROI.

Step 5: A comprehensive written *ROI Analysis Report* accompanies the ROI Analysis spreadsheet. The efficiency of each category of fund raising activity is discussed in some detail.

Step 6: When the ROI Variance for one or more specific categories of fund raising activity are below the minimum ROI, an explanation is also included outlining plans for improving performance in the future or possibly discontinuing the activity.

Table 1

ROI ANALYSIS:
Annual / Periodic Fund Raising Return on Investment By Category of Fund Raising Activity

ILLUSTRATION

Category of Fund-Raising Activity	Fund Raising Invest-ment	Number Of Gifts	Amount Of Gifts	Average Gift Size	ROI Analysis: ROI	ROI Analysis: Minimum ROI	ROI Analysis: ROI Variance Above/(Below)
	A	B	C	C/B	D=C/A	E	D-E
I. CAPACITY BUILDING (Not intended to produce NET income)							
1. Non-income producing capacity building	120,000	N/A	N/A	N/A	N/A	N/A	N/A
2. Donor acquisition (List or constituency building)	380,000	13,400	275,000	20.52	72.4%	70.0%	2.4%
3. Special events - public relations (Marketing/PR programs)	43,000	450	24,000	53.33	55.8%	130.0%	-74.2% (1)
Total Capacity Building	543,000	13,850	299,000	21.59	55.1%	N/A	N/A
Fund Raising Cost % →	181.6%						
II. NET INCOME PRODUCING							
4. Donor renewal (soliciting prior donors, under $1,000)	162,000	28,000	940,000	33.57	580.2%	300.0%	280.2%
5. Special events - fund-raising	123,000	600	320,000	533	260.2%	200.0%	60.2%
6. Major individual gifts (soliciting prior donors, $100 & up)	320,000	2,230	1,870,000	839	584.4%	400.0%	184.4%
7. Planned giving/estate planning (After 4 to 7 years of losses!)	165,000	13	650,000	50,000	393.9%	500.0%	-106.1% (2)
8. Capital and endowment campaigns	195,000	125	1,780,000	14,240	912.8%	650.0%	262.8%
9. Corporate and foundation grant seeking	85,000	16	480,000	30,000	564.7%	650.0%	-85.3% (3)
10. Government grant seeking	15,000	2	100,000	50,000	666.7%	650.0%	16.7%
Total NET Income Producing	1,065,000	30,986	6,140,000	198	576.5%	N/A	N/A
Fund Raising Cost %	17.3%						
Grand total	1,608,000	44,836	6,439,000	144	400.4%	N/A	N/A
Fund Raising Cost % →	25.0%						

(1) Below minimum ROI, try to improve ROI, study cost benefit.
(2) Below minimum ROI, only in 3rd year, expected to improve.
(3) Below minimum ROI, try to improve ROI, study cost benefit.

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It would be useful to also maintain data on a fourth factor for each category: *Number of Solicitations*. The *ROI Analysis* could then be expanded to include this column and three more columns computed automatically by the spreadsheet software. The three computed columns would be:

1. *Cost per Solicitation* (Fund Raising Investment divided by Number of Solicitations).
2. *Rate of Response* (Number of Gifts divided by Number of Solicitations).
3. *Cost per Gift* (Fund Raising Investment divided by Number of Gifts).

All four of these additional columns would provide nonprofits with important and useful information related to returns on their investments in fund raising activities. Many nonprofits already track the number of solicitations. If an organization adds this factor and the three related computations to its *ROI Analysis,* the additional data would be discussed in detail in the *ROI Analysis Report* prepared in Step 5.

DOES ROI EVALUATION HAVE TO BE SO COMPLEX?

Unfortunately, complex questions require complex answers. On the surface, the basic question appears simple: "How can we know if the returns on our investments in various fund raising activities are reasonable?" However, there are many answers and they all depend on several variables.

The *ROI Analysis* has ten different categories of fund raising activity. Each one is different from all the others, depending on its purpose and/or source of funds, and for each one there is a different answer to the basic question of reasonableness.

Within each of the ten categories, reasonable fund raising efficiency also varies according to average gift size. The minimum ROI criteria (Tables 4 & 5) provide for six groups of average gift size ranges for each of the ten categories -- for a total of 60 separate efficiency factors.

Experienced fund raising managers know how to plan and implement very sophisticated or complex fund raising operations and programs. The sophistication (complexity) is increasing constantly. However, the way most nonprofits currently budget, account for, and evaluate fund raising costs and related income is not only uncomplicated but also unsophisticated and not very useful for decision-making.

The time has come for the nonprofit sector to take a more sophisticated and business-like approach to these aspects of fund raising management. While the need for community services is growing rapidly, government is cutting back and the burden of fund raising to meet community needs is falling more heavily on nonprofits.

Nonprofits that find it too burdensome to analyze the ROI of their fund raising programs could compare themselves to for-profit businesses. It would certainly be easier and less complex for businesses to only measure and evaluate their overall, year-end profitability. But for-profit organizations are usually far more successful when they measure the profitability of their various products and/or services separately and do so more often than once a year.

Decision-useful evaluations of fund raising activities require complex but accessible evaluation procedures broken down by categories of fund raising activity and gift size ranges. The methodology presented in this paper is the most useful procedure for management's evaluations of fund raising return on investment. True, they are complex, but they are not inaccessible to the conscientious fund raising professional.

Part II: Establishing Minimum ROI Criteria

The *ROI Analysis* (Table 1) requires that nonprofits establish minimum ROI criteria appropriate for their fund raising programs, by categories of fund raising activity and average gift size range. Part II provides an explanation of the two dimensions of criteria used, *suggested* minimum ROIs (Table 4), *worksheet* for developing minimum ROIs (Table 5), and definitions for the ten categories of fund raising activity (Table 6).

EVALUATE BY CATEGORIES OF FUND RAISING ACTIVITY

Certain fund raising activities should be evaluated separately from others because some are more cost efficient than others. Mixing the measures does not provide useful internal management information. Doing so can be misleading and result in wrong decisions on future fund raising budgets.

For example:

(a) *Above all else,* donor acquisition efforts are *always* less efficient than renewal efforts. They should be measured and evaluated separately from donor renewal activities.

(b) Evaluations of other capacity-building activities, such as public relations events that may be partially self-supporting, should not be combined with evaluations of special fund raising events that are expected to produce significant net results.

(c) Renewal of under $100 gifts by mail and phone should not be evaluated with one-on-one solicitation of annual gifts over $1,000.

(d) Annual giving, planned giving, and capital campaigns should each be evaluated separately.

(e) Evaluations of individual giving, corporate and foundation grants, and government grants should not be combined.

Therefore, relevant and useful management criteria for reasonable ROI should cover categories of fund raising activity that vary according to purpose and source of funds.

The ten categories of activity presented in Table 2 should be planned, invested in (budgeted), accounted for, and evaluated separately. These categories should be managed separately because of their distinctly different purposes, varied sources of funds, and/or performance characteristics. The ten categories have been identified based on discussions with Baruch College Nonprofit Management Group Advisors, comprehensive reviews of literature and studies covering reasonable costs by categories of fund raising activity (AICPA/1978, Greenfield/1988, 1991 & 1993, Hopkins/1991, Levis/1977, NSFRE/1977, NCDC/1982, Wagner/1992, and others -- see Notes at end of article).

Overall reasonable performance levels for six of the ten categories were researched and first published by Jim Greenfield in the NSFRE Journal, Autumn, 1988. Greenfield notes that at least three years are required to achieve these levels of performance. Greenfield's six categories have been expanded to ten categories in Table 2. The 1988 criteria are included in Table 2 along with suggested overall performance levels for each of the ten categories. The suggested levels are presented as fund raising cost percentages and as the reciprocal return on investment (ROI).

EVALUATE BY AVERAGE GIFT SIZE RANGE

Studies of actual gift size data indicate that fund raising cost percentage and return on investment also vary according to average gift size. For example, Forbes magazine gift size data for its 1992 top 100 national charities show that cost percentages do in fact vary according to average gift size (see "Median" column in Table 3).

The Forbes 100 charities spent $514 million on fund raising to obtain 70 million gifts and raise $3.36 Billion. Thus, the overall average gift size for the Forbes 100 charities was $47.44, and the overall average fund raising cost percentage was 15.3%. The widely used 35% fund raising cost standard may be reasonable for raising $1 million by spending *up to* $350,000 to renew 20,000 gifts with an average gift size of $50 (a likely national average based on the Forbes data). However, spending as *much* as $350,000 (35%) for renewing a single $1 million gift would not be reasonable. And, spending as *little* as $350,000 (35%) for raising 1 million one-dollar gifts may

Table 2

TEN CATEGORIES OF FUND RAISING ACTIVITY
With Varying Overall Levels of Performance

ROI = funds raised as a percentage of fund raising expenses.

Category of Fund Raising Activity	1988 Criteria: Cost Per Dollar Raised (Not to Exceed) (1)	Suggested Overall Performance Levels: Costs As % of Funds raised (Not to Exceed)	— OR — Minimum Return on Investment (ROI)
I. CAPACITY BUILDING (Not intended to produce NET income)			
1. Non-income producing capacity building		N/A	N/A
2. Donor acquisition campaigns (List or constituency building)	$1.50 (2)	150%	70%
3. Special events - public relations (Marketing/PR programs)		100% of Gross $	100% (Gross)
II. NET INCOME PRODUCING			
4. Donor renewal programs (soliciting prior donors, under $1,000)	$0.20	25%	400%
5. Special events - fund-raising	$0.50	50% of Gross $	200% (Gross)
6. Major individual gifts (soliciting prior donors, $100 & up)		18%	550%
7. Planned giving/estate planning (After 4 to 7 years of losses!)	$0.25	20%	500%
8. Capital and endowment campaigns	$0.10	18%	550%
9. Corporate and foundation grant seeking	$0.20	20%	500%
10. Government grant seeking		20%	500%

Note: It is assumed that costs include all joint costs of multi-purpose activities.

(1) "Fund Raising Costs and Credibility: What the Public Needs to Know," James Greenfield. It is noted that 3 years are required to achieve these levels of performance.

(2) Several professional fund raising consultants have indicated that they consider costs per dollar raised of $2.00 and in one case $3.00 acceptable.

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not be feasible.

Therefore, the suggested overall performance levels in Table 3 provide a sliding scale that varies according to average gift size and range from 500% ROI for average gift sizesover $10,000 to 200% ROI for average gift sizes under $25.

Table 3: Suggested Overall Performance Levels by Average Gift Size Range

Gift Size Range	Fund Raising Cost Percentage: Actual (1) (Median)	Fund Raising Cost Percentage: Guideline (not to exceed)	Minimum Return on Investment (ROI)
$10,000 & up	*	15%	660%
1,000 to 10,000	9%	20%	500%
100 to 1,000	12%	30%	330%
25 to 100	25%	35%	300%
10 to 25	32%	50%	200%
1 to 10	*	50%	200%

* Sufficient data not available
(1) Average Gift Size Study, INDEPENDENT SECTOR, 1983; and Forbes 100 U.S. Charities, 1992

To calculate overall average gift size, an organization simply determines the total number of gifts it receives and divides this figure into total fund raising results. Each pledge is counted as a single gift, and subsequent pledge payments are not counted as separate gifts. Unlike financial data, number of gifts can be based on estimates. Accuracy within plus or minus 5% is more than adequate for applying the criteria for internal management purposes.

COMBINED: EVALUATE BY TEN CATEGORIES & SIX RANGES

A comprehensive evaluation methodology has been developed that combines the two primary dimensions nonprofits need to consider as they determine whether their ROIs are reasonable. The first dimension is the ten categories of fund raising activity from Table 2. The second dimension is the six average gift size ranges from Table 3.

Table 4 is two-dimensional and provides suggested minimums for return on investment by category of fund raising activity *and* average gift size range. The criteria presented in Table 4 remain unchanged from a November, 1992 draft that was circulated extensively for comment. Most of the respondents were comfortable with the criteria. However, there was not a full consensus of agreement with the specific ratios. Some respondents felt that the ratios would be too high for their organizations or clients. Others felt the ratios were too low for certain situations.

THE MINIMUM ROI WORKSHEET

Lacking unanimous support for the suggested ratios, a *worksheet* has been developed so nonprofits can establish minimum ROIs for use in their internal evaluations of fund raising performance (see Table 5). A nonprofit can use the suggested minimums in Table 4 or use the Table 4 criteria as a point of departure for developing its own criteria on the Table 5 *worksheet.* Once an organization has several years of data on its actual performance by categories and gift size ranges, it can consider making additional adjustments. It would also be useful if groups of like organizations could share fund raising performance data according to these categories and ranges.

Table 4
MINIMUM FUND RAISING RETURN ON INVESTMENT (ROI)
By Category of Fund Raising Activity And Average Gift Size Range

SUGGESTED

ROI = funds raised as a percentage of fund raising expenses.

Category of Fund Raising Activity	ROI MINIMUMS BY AVERAGE GIFT SIZE RANGE (Average gift size = amount raised by a specific activity divided by the number of gifts received)						SUGGESTED OVERALL ROI MINIMUMS by Category of Fund Raising Activity
	$1-$10	$10-$24	$25-$100	$100 to $1,000	$1,000 to $10,000	$10,000 & up	
I. CAPACITY BUILDING (Not intended to produce NET income)							
1. Non-income producing capacity building	Not Applicable (N/A)						N/A
2. Donor acquisition programs (List or constituency building)	50%	70%	80%	100%	N/A	N/A	70%
3. Special events - public relations (Marketing/PR programs)	70% (Gross)	100% (Gross)	130% (Gross)	N/A	N/A	N/A	100% (Gross)
II. NET INCOME PRODUCING							
4. Donor renewal programs (soliciting prior donors, under $1,000)	200%	200%	300%	400%	N/A	N/A	400%
5. Special events - fund-raising	130% (Gross)	130% (Gross)	200% (Gross)	200% (Gross)	400% (Gross)	N/A	200% (Gross)
6. Major individual gifts (soliciting prior donors, $100 & up)	N/A	N/A	N/A	400%	550%	650%	550%
7. Planned giving/estate planning (After 4 to 7 years of losses!)	N/A	N/A	N/A	N/A	500%	650%	500%
8. Capital and endowment campaigns	N/A	N/A	N/A	400%	550%	650%	550%
9. Corporate and foundation grant seeking	N/A	N/A	N/A	400%	500%	650%	500%
10. Government grant seeking	N/A	N/A	N/A	N/A	500%	650%	500%

Note: It is assumed that fund raising expenses include all joint costs of multi-purpose activities.

A. ROIs that exceed these minimums may indicate unreasonable levels of performance requiring an explanation to document why this experience occurred and what decisions can be drawn from it. The basic question is whether to continue the fund raising activity in its present design or to redesign it for better performance before it is used again.

B. For internal management purposes, it is not feasible to establish "bottom-line" ROI minimums when "bottom-line" measurements are a mix of various ROI percentages for several fund raising activities with minimum ROIs ranging from 50% to 650%, and that can also include investments in important capacity-building activities for the future that produce no current period income. It is recommended that the ROI of each fund raising activity be evaluated separately against ROI minimums that are relevant to that category of activity and its average gift size performance.

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Table 5

Worksheet for Establishing Management Guidelines

MINIMUM FUND RAISING RETURN ON INVESTMENT (ROI)

By Category of Fund Raising Activity
And Average Gift Size Range

WORKSHEET

ROI = funds raised as a percentage of fund raising expenses.

Category of Fund Raising Activity	ROI MINIMUMS BY AVERAGE GIFT SIZE RANGE (Average gift size = amount raised by a specific activity divided by the number of gifts received) $1-$10	$10-$24	$25-$100	$100 to $1,000	$1,000 to $10,000	$10,000 & up	SUGGESTED OVERALL ROI MINIMUMS by Category of Fund Raising Activity
I. CAPACITY BUILDING (Not intended to produce NET income)							
1. Non-income producing capacity building	Not Applicable (N/A)						N/A
2. Donor acquisition programs (List or constituency building)	____%	____%	____%	____%	N/A	N/A	____%
3. Special events - public relations (Marketing/PR programs)	____% (Gross)	____% (Gross)	____% (Gross)	N/A	N/A	N/A	____% (Gross)
II. NET INCOME PRODUCING							
4. Donor renewal programs (soliciting prior donors, under $1,000)	____%	____%	____%	____%	N/A	N/A	____%
5. Special events - fund-raising	____% (Gross)	____% (Gross)	____% (Gross)	____% (Gross)	____% (Gross)	N/A	____% (Gross)
6. Major individual gifts (soliciting prior donors, $100 & up)	N/A	N/A	N/A	____%	____%	____%	____%
7. Planned giving/estate planning (After 4 to 7 years of losses!)	N/A	N/A	N/A	N/A	____%	____%	____%
8. Capital and endowment campaigns	N/A	N/A	N/A	400%	____%	____%	____%
9. Corporate and foundation grant seeking	N/A	N/A	N/A	400%	____%	____%	____%
10. Government grant seeking	N/A	N/A	N/A	N/A	____%	____%	____%

A. ROIs that exceed these minimums may indicate unreasonable levels of performance requiring an explanation to document why this experience occurred and what decisions can be drawn from it. The basic question is whether to continue the fund raising activity in its present design or to redesign it for better performance before it is used again.

B. For internal management purposes, it is not feasible to establish "bottom-line" ROI minimums when "bottom-line" measurements are a mix of various ROI percentages for several fund raising activities with minimum ROIs ranging from under ____% to over ____%, and that can also include investments in important capacity-building activities for the future that produce no current period income. It is recommended that the ROI of each fund raising activity be evaluated separately against ROI minimums that are relevant to that category of activity and its average gift size performance.

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The availability of ROI minimums make it possible for organizations to compare projected ROIs of fund raising budgets against ROI minimums during the budget approval process. They also enable comparison of actual ROI against ROI minimums at the end of each fund raising activity.

OTHER FACTORS AFFECTING FUND RAISING ROI

Organizations can take a number of factors into consideration when they establish minimum ROI criteria for their fund raising programs. Besides categories of fund raising activity and average gift size, other factors influence fund raising ROI, both *temporarily* and *indefinitely*.

Temporary influences include the following factors.

1. The *age* of an organization or length of time a fund raising activity has been in existence is an important factor. New organizations and organizations initiating new fund raising programs will invest a higher portion of their fund raising budget in capacity building. The *overall* minimum fund raising ROI percentages in Table 4 are most applicable for organizations with established fund raising programs that are three to five years old.

Therefore, while the specific minimum ROIs for various categories of fund raising activity and gift size ranges can be appropriate for new organizations and fund raising programs, *overall* "bottom-line" minimums may not be.

2. The *size* of the fund raising goal and the *size* of the expense budget for a particular activity are relevant. For example, the cost of planning and preparing for a $1 million campaign is almost the same as that for a $10 million campaign. This also applies to planning and preparing for a mailing of 10,000 appeals versus 100,000 appeals and to other categories of fund raising activity. Specific fund raising activities with low goals and budgets may have ROIs less than those suggested in minimum ROI Table 3 because the organiza-tion was unable to purchase small quantities of the necessary components at low prices. This will often be the case with start-up costs and costs of testing new fund raising ideas, which are essential investments in building fund raising capacity. However, a nonprofit's objective over time should be to increase the size of the goal and budget until its minimum ROIs can be achieved.

The ROIs found in Table 4 are on the low side in order to take the *size* factor into account. That is, the suggested minimums are most relevant to modest-size fund raising activities.

3. When goals are not achieved, return on investment can fall short of the ROI minimums.

The ROI of a fund raising activity can be within minimum ROIs based on the expense budget and projected results. However, no one can guarantee that the projected results will be achieved. As discussed in Note A, Table 4, when the actual results fail to meet ROI minimums, steps should be taken to improve performance in the future.

It is important to note that nonprofits must take risks in order to increase their gift income.

The factor that affects ROI percentages *indefinitely* is the nature of the cause, which can have an enormous effect on a nonprofit's ability to raise money.

Is the cause or social concern well known or unknown? Is the organization itself well known? Over time, public education and public relations efforts can change this because a lack of public awareness can be a temporary factor.

Is the cause popular with most people or unimportant to many? For example, overseas relief programs are usually more popular than civil rights programs. Is there a stigma associated with the cause? For instance, there is a stigma attached to some diseases and not to others. These are examples of permanent conditions that most likely can not be improved over time.

While overall, "bottom-line" ROI minimums may be too high for unknown and unpopular nonprofits and their causes, the suggested ROI percentages by fund raising category and gift size found in Table 3 are still relevant.

Fund raising methods can affect ROI percentages. Different fund raising methods have different levels of reasonable fund raising performance. For example, direct mail is the least expensive method for soliciting prior or prospective donors on a unit-cost basis. While the cost-per-solicitation is lowest with direct mail, the average gift size is usually also lowest. The result is that direct mail ROIs are generally lower than those for one-on-one fund raising methods. But, direct mail is still the most efficient (i.e., the lowest unit cost per person solicited and per gift received) method for acquiring and renewing small-to-modest size gifts.

However, different purposes, sources of funds, and sizes of gifts require different methods of solicitation. Therefore, varying minimum ROI percentages by fund raising category and average gift size listed in Table 3 enable the professional to take fund raising methods into consideration.

ACCOUNTING CONSIDERATIONS

The suggested minimum ROI criteria in Table 3 assume that fund raising income and expense are calculated using the GAAP accounting guidelines that are followed by voluntary health and welfare organizations and are consistent with IRS Form 990 instructions. While accounting and financial reporting are based on a twelve-month fiscal year, the time periods for measurement of most fund raising activities will not coincide with a fiscal year. Some fund raising efforts are completed in a few months and can be repeated two or three times each year. Other activities will begin in one fiscal year and end in the next, and others are multi-year campaigns. Internal accounting systems must take these realities into consideration in order to be able to apply *ROI Analysis.*

ETHICAL CONSIDERATIONS

Who should establish minimum ROI criteria and use the *ROI Analysis* to determine if their fund raising ROIs are reasonable? The methodology is intended for use by all voluntary nonprofit organizations controlled and directed by unpaid, volunteer boards who want to avoid unethical fund raising costs and practices in pursuit of their missions.

Ethics enter into a determination of fund raising efficiency and effectiveness and of reasonable return on investments. For example, it is not unethical to acquire a donor's first gift through direct mail, at 100% or more fund raising cost. This has been the experience of many prestigious nonprofit organizations for decades and is necessary if nonprofits are to broaden their base of individual supporters.

However, it is unethical to do so if there is no follow-up through an adequate direct marketing donor renewal program soliciting second, third, and further gifts from that donor. Eventually, 70% to 90% of a direct marketing program's income should be renewal income at ROIs of at least 200% to 400% depending on average gift size (see Activity 4, Table 4). Established direct marketing fund raising programs that produce less than two thirds of their income through donor renewal are suspect. While direct mail fund raising programs do produce net income, their greater value to a non-profit organization is to provide a prior donor base from which major donors who produce major net income can be identified and solicited through appropriate methods.

Nonprofits that rely primarily on direct mail fund raising programs usually experience average gift sizes of under $100 and overall bottom-line fund raising ROI percentages of 200% to 400%. Conversely, nonprofits that are able to develop successful major donor solicitation programs usually enjoy higher average gift sizes (over $100) and overall "bottom-line" ROI percentages of 500% or better.

Therefore it's unwise, though probably not unethical, to fail to upgrade as many donors as possible from direct marketing programs to major donor solicitation programs such as major gifts and planned giving. With the most effective fund

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SPECIAL MESSAGES

To CEOs:

1. Learn how to read and interpret a *ROI Analysis*.

This would be an important part of learning about fund raising if you have not had professional fund raising experience.

2. Ask your fund raising manager to include a *ROI Analysis* and a written *ROI Analysis* Report with his or her annual budget requests and end-of-year fund raising reports.

Preparation of an end-of-year *ROI Analysis* should not be burdensome for your fund raising manager. The fund raising department should already be tracking numbers of gifts and amounts of gifts by categories. The only additional record keeping would be to accounting for fund raising expenses by categories. With the help of your accounting department, this should not be too difficult. The simplest cost accounting techniques could be employed. Accuracy within plus or minus 10% would be adequate.

To nonprofit boards:

1. ASK

a. Does our fund raising department prepare, for its own internal use, a *ROI Analysis* and a written *ROI Analysis Report* when it prepares its annual budget requests and end-of-year fund raising reports?

b. Does our CEO review them?

c. Have they helped the fund raising department improve the efficiency and effectiveness of our fund raising activities?

d. Would it be useful, or too burdensome or too threatening, for a *ROI Analysis* and a written *ROI Analysis Report* to be included with annual fund raising budget requests and end-of-year reports to the board?

2. Optional: Learn how to read, interpret, and ask questions about an *ROI Analysis*.This is optional because it is far more important to know that a *ROI Analysis* and a written *ROI Analysis Report* has been prepared by the fund raising manager and reviewed by the CEO.

raising operations, 80% of net income is derived from the 10% to 20% of prior donors who are solicited through major donor solicitation programs for gifts of $100 or more.

Of course, it is also imprudent, if not unethical, to incur unreasonable costs or pay more than fair market value for fund raising staff or outside counsel, printed materials, prospect lists, computer or other outside services, etc., and other such program needs, regardless of the fund raising ROI percentage achieved.

Fund raising capacity-building investments--especially investments in donor acquisition--are intended solely for the purpose of enhancing other fund raising activities that produce significant net income. It is unethical to invest in capacity building without also making commensurate, corresponding investments in net income-producing activities.

EFFICIENCY SHOULD NOT BE CONFUSED WITH EFFECTIVENESS

Use of the *ROI Analysis*, which addresses fund raising *efficiency*, should not distract nonprofits from emphasizing *effectiveness* -- maximizing net contributions.

The difference between fund-raising effectiveness and efficiency is well presented in the introduction to CASE/NACUBO guidelines, "*Expenditures in Fund Raising, Alumni Relations, and other Constituent (Public) Relations,*" as follows:

> "Fund-raising efficiency should not be confused with fund-raising effectiveness. The objective of an institution's [fund-raising] program should not be to spend as little as possible each year to raise money, but to maximize the net. A program that annually produces $2 million at a cost of $160,000, or 8 percent, may look good and is indeed efficient, but one that produces $3 million at a cost of $300,000, or 10 percent, is presumably of more help to the institution [i.e., more *effective*] -- it is bringing in $860,000 more."

While the objective should be to "maximize the net," the CASE/NACUBO report says that "there are limits beyond which it is impolitic if not unethical to spend money to raise money."

Use of the *ROI Analysis* enables nonprofits to take such limits into consideration. At the same time, the *ROI Analysis* provides a methodology for performance analysis that also *enables* -- rather than inhibits -- investments in fund-raising budgets for maximizing net contributions during the current year, and investments necessary for building fund-raising capacity for maximizing net contributions in future years.

SUMMARY

Use of *ROI Analysis* makes it possible for organizations to compare projected ROIs of fund raising budgets against ROI minimums during the budget approval process. It also enables comparison of actual ROI against ROI minimums at the end of each fund raising activity.

The key is for each nonprofit to structure its fund raising budget, accounting, and reporting systems by the ten categories; to compute its ROIs by these categories; and to establish internal minimum ROI criteria by gift size range for internal comparisons, analysis, and evaluation.

Notes:

1. Bill Levis and Steve Smallwood with Bruce Hopkins, *Realities of Fund Raising Costs and Accountability*, Philanthropy Monthly, 1977;

   Jim Greenfield, *Fund Raising Costs and Credibility: What the Public Needs to Know*, NSFRE Journal, Autumn, 1988;

   Jim Greenfield, **Fund Raising: Evaluating and Managing the Fund Development Process**, New York, John Wiley & Sons, 1991, p.46;

   Jim Greenfield and John Dreves, "Fund Raising Assessment," Chapter 25 in *The Nonprofit Management Handbook: Operating Policies and*

SPECIAL MESSAGES

To fund raising managers and consultants:

1. As part of the justification for your annual budget requests and end-of-year fund raising reports, include a *ROI Analysis* and a written *ROI Analysis Report.*
2. Teach your CEOs and at least some of your board members how to read, interpret, and ask questions about a *ROI Analysis.*

To CFOs, controllers, and accountants:

1. Learn how to read and interpret a *ROI Analysis.*

   This would be an important part of learning about fund raising.
2. Provide technical assistance to your fund raising manager.

   Many, if not most (if not all!!), fund raising managers lack the cost accounting skills needed to prepare the cost aspects of a *ROI Analysis.*

   Follow the KISS principle. It would be more than adequate to employ the simplest cost accounting techniques with extensive use of allocation by formulas based on staff time distribution. Further, staff time distributions can be estimates with monthly verification by the staff involved and/or quarterly one-week daily time sheet verification.

To grantmakers that fund fund raising:

1. Learn how to read, interpret, and ask questions about an *ROI Analysis* submitted with a grant request for fund raising.
2. Ask that a *ROI Analysis* and a written *ROI Analysis Report* be included with fund raising grant requests.
3. Ask that a *ROI Analysis* and a written *ROI Analysis Report* be included with end-of-grant reports.

   Reviewing these is optional because it is far more important to know that a *ROI Analysis* and a written *ROI Analysis Report* has been prepared by the fund raising manager and reviewed by the CEO and maybe by some board members.

Table 6

Definitions of
CATEGORIES OF FUND RAISING ACTIVITY

Separate management guidelines are applied for each of the following ten categories of fund raising activity because of their distinctly different purposes, varied sources of funds, and performance characteristics.

PURPOSE

I. Capacity-building Activities:
(i.e., activities that are not intended to produce NET income)

1. General capacity building (non-income producing)	Getting ready to raise money, fund-raising assessments, board recruitment and development, mission development and goal setting, long-range strategic planning, fund-raising market research, establishing a planned giving program, feasibility studies, prospect research, special events that do not produce income, donor recognition and continued communications, setting up donor records and fund raising office systems, depreciation of office furniture and equipment used for fund-raising, start-up costs for fund raising activities 4 through 10 below, and similar support activities.
2. Donor acquisition (substantially self-supporting)	List or constituency building involves soliciting suspects and prospects for first-time gifts by mail, phone or door-to-door canvassing. These activities can be multi-purpose — e.g., combined with volunteer recruitment and public education.
3. Special events/public relations (substantially self-supporting)	Activities and events that raise money but are intended primarily for marketing, community relations, publicity and promotion, public education, cultivation, donor/volunteer recognition, and/or volunteer involvement purposes. This category does not include special events that produce no income. It does not include special events designed to produce significant NET income (see #5). Guidelines are based on *gross* receipts, and not on receipts net of any costs.

II. NET Income Producing Activities:
(i.e., activities that are expected to produce NET contributions)

4. Donor renewal of gifts under $1,000 (modest NET income producing)	Soliciting prior individual and business donors, usually for annual gifts at the small-to-modest-gift level, by mail, phone or personal visit. (Soliciting prior donors that have lapsed for 4 or more years may need to be included in donor acquisition efforts.)
5. Special events—fund raising (modest NET income producing)	Events intended primarily for fund raising and secondarily marketing, publicity and promotion, public education, donor and volunteer recognition, volunteer involvement, and other non-income producing goals (see #3). Guidelines are based on *gross* receipts, and not on receipts net of any costs.
6. Major individual gifts of $100 or more (major NET income producing)	Soliciting the top 20% of current donors, larger-gift individual and business donors that may give 80% or more of the NET dollars raised through annual and special fund-raising efforts.
7. Planned giving & estate planning (after 4 to 7 years of losses, major NET income producing)	Soliciting charitable trusts, bequests, and similar gifts from individuals, usually $1,000 or more. Establishing a planned giving program is capacity building and may produce no income the first few years.
8. Capital and endowment campaigns (major NET restricted income producing)	Soliciting major individual and institutional supporters for occasional multi-year gifts and pledges for special capital projects or endowment.
9. Corporate and foundation grant seeking (modest NET income producing, usually purpose restricted)	Soliciting grants from institutional sources such as corporations, corporate foundations and private foundations—usually $1,000 or more.
10. Government grant seeking (modest NET income producing, usually purpose restricted)	Soliciting *grants* from governmental agencies. Government grants are equivalent to contributions and do not include contracts and fees for providing program services (e.g., reimbursement) from governmental agencies.

31 cont'd.

Procedures, Tracy Daniel Connors, Ed. New York, John Wiley & Sons, 1993, p.676; and

Lilya Wagner, **The Fund Raising School Manual, 1992.**

2. Bill Levis and Anne New, *Average Gift Size Study*, INDEPENDENT SECTOR, 1983; and Forbes 100 U.S. Charities, 1992.

3. Bruce Hopkins, **The Law of Fund Raising**, John Wiley & Sons, 1991.

4. AICPA, Statement of Position 78-10, Paragraph 94, 1978.

5. National Catholic Development Conference, *A Guide for Preparing a Statement of Accountability,* Appendix 4, Page 10, 1982.

6. *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations,* developed and sponsored by the National Health Council, National Assembly of Voluntary Social Welfare Organizations, and United Way of America. *IRS Form 990 instructions* for reporting fund raising income and expense are compatible with the "black book" standards. The methodology developed by the Counsel for the Support and Advancement of Education (CASE) and National Association of College and University Business Officials (NACUBO) for colleges and universities is similar to those of Form 990 and the "black book." The CASE/NACUBO methodology is included in their publication titled **Expenditures in Fund Raising, Alumni Relations, and other Constituent (Public) Relations.**

7. The national average fund raising cost percentage is estimated to be 15%: National Center for Charitable Statistics (13.8%), 1982; Average Gift Size Study, INDEPENDENT SECTOR (15.0%), 1983; CASE/NACUBO study (16%), 1990; and Forbes 100 U.S. Charities (15.3%), 1992. On this basis, the estimated average return on investment would be 666%.

The Cross Of The Handicapped Is Heavy

32

MAYS MISSION
FOR THE HANDICAPPED, INC.

604 Colonial Drive — Heritage Heights
Heber Springs, Arkansas 72543
(501) 362-7526

December 28, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to offer hope to handicapped persons by providing employment and teaching the word of God in accordance with Christian ethics and principles. We use multi-purpose materials, including direct mail as cost effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in <u>Riley v. National Federation of the Blind of North Carolina</u>, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

<u>Example</u>: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was <u>not</u> met, whether in fact one or more was met, <u>based solely on the form of compensation to the fundraising consultant</u>.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgment of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("Hire The Handicapped").

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The Exposure Draft is biased. As the Draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This Exposure Draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.

AICPA has stated that the content of the Exposure Draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this Exposure Draft.

Sincerely,

Sherry Maya Niehaus

Sherry Niehaus
Executive Director

SN/dat

The Seniors Coalition
Protecting the Future You Have Earned

33

29 December, 1993

Mr. Joel Tannenbaum, Tech. Mgr.
Accounting Standards Division
American Institute of Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tannenbaum:

We are greatly concerned over and distressed by the proposed new standard dealing with the accounting for costs of materials and activities of not-for-profit organizations such as ours. We are a grass roots, lobbying organization looking out for the rights of senior citizens. Our mail to them educates and informs them of legislative activities and other actions being contemplated by the government, that could adversely affect them. Examples would be increasing taxes on Social Security, cutting Medicare, cutting the Medicare budget, or proposing a health-care plan that could lead to rationing of services to senior citizens.
Included in our materials are "fulfillment" devices including petitions, surveys, and post cards that senior citizens are encouraged to execute and mail to let their voice be known in Washington. In almost all these mailings, we also make an appeal for funds so that we can continue these activities and those of our lobbyist, who calls on the various senators and representatives.

The proposed new standard, that you are currently entertaining, would require that in many situations, we would have to report all of our costs as fund-raising costs - even though some of them would clearly be identifiable as educational, informational, or general and administrative costs. The proposed standard would not only lead to improper accounting for these costs, but would also lead to misleading financial statements.

Your proposed standard, if adopted, could lead to the demise of our organization and many thousands of other non-profit organizations. The economic ramifications of that taking place would impact not only a whole chain of vendors, who supply mailing services to us and to similar organizations, but also adversely impact on accountants and others who come in contact with organizations such as ours.

Washington DC Metro Office: 11166 Main Street, Suite 302 • Fairfax, Virginia 22030 • Phone (703) 591-0663

33 cont'd

We think it's logical that our mailings to members and prospective members be multi-purpose mailings. Not only is this approach economically efficient, but also helps eliminate what would otherwise be a major clogging of the mail system.

It seems to me that SOP87-2 adequately covers this whole subject. I question the logic an organization such as yours, in moving entirely away from the pure accounting process into an area that substitutes the judgement of an accountant against that of an experienced manager of a non-profit operation. Aren't there enough tax, inventory, or pension matters that need clarification to keep committees such as yours busy, without veering off the course as much as you have on this issue? I do not mean for this comment to show any disrespect for your profession, but hopefully it gets your attention, to such a degree, that you will see the staggering ramifications of adopting the subject standard, which I understand is called: file3605.J.A.

It would be helpful to me, as I discuss this issue with my Board of Directors, to have a clear understanding of why you are entertaining this new proposal in the first place. Would it be possible for someone on your staff to enlighten me on how all of this got started, and why?

Many thanks in advance, for allowing me to make these comments, and for your taking the time to read them. If I can be of any assistance to you, I would welcome the opportunity.

Sincerely,

Paul E. Bramell

Paul E. Bramell, CEO
The Seniors Coalition

PEB/jd

Robert Vance
President

Walter A. Gudz
Executive Director

1595 Elmwood Avenue
Rochester, N.Y. 14620-3681
(716) 442-4260

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144 Cedar Street
Corning, N.Y. 14830
(607) 962-2439

AMERICAN LUNG ASSOCIATION®
of Finger Lakes Region

December 22, 1993

34

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: File 3605 J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal"

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to prevent lung disease and alert the public to the harmful effects of smoking. We use multi-purpose materials as cost-effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in

When You Can't Breathe, Nothing Else Matters®

Founded in 1904, the American Lung Association includes affiliated associations throughout the U.S., and a medical section, the American Thoracic Society.

the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/Without" appeal are seriously flawed. Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any or our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 97-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgement of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

34 cont'd

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization: oftentimes they completely describe the charity's aims or goals (Just say No!)

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purposes, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining the SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Ronald Pearsall/bg

Ronald Pearsall, Manager
Programs and Community
Relations

RP:bg

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

HARVEY C. ECKERT
DEPUTY SECRETARY FOR COMPTROLLER OPERATIONS
OFFICE OF THE BUDGET

December 23, 1993

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

The Office of the Budget, Commonwealth of Pennsylvania has reviewed the AICPA's Exposure Draft (ED) on the proposed Statement of Position (SOP) entitled "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal" and we offer the following comments on the document.

1. We believe there is a need for this standard. In our opinion, the ED establishes standards that clarify SOP 87-2 by providing more definitive guidance and more precise examples of the intent of SOP 87-2. SOP 87-2 is too brief; allows too much discretion to the individual NPO's; and does not require a disclosure for the kinds of cost being allocated or allocation method.

   The proposed SOP provides guidance on how to handle all joint costs; i.e. allocation and disclosure. It should result in greater consistency in NPO accounting and reporting. Application of the proposed SOP should provide users with greater assurance that costs associated with fund-raising activities are fairly and completely disclosed. It should allay some of the public's concerns about how their contributions to NPO's are spent. The proposed SOP clarifies that all three criteria must be met to classify costs as program or management. This was not clear in SOP 87-2. The proposed SOP also clarifies the attributes needed to meet the criteria. This stricter guidance and more definitive language of this proposed SOP should improve reporting and provide more useful information to potential users of the reports.

35 cont'd

2. The decision-making process appears reasonable. The definitions, narrative and flowchart provide sufficient detail and illustration of what is required by the proposed SOP. We cannot answer how difficult the proposed SOP will be to apply because situations and circumstances associated with the need for cost allocations range from very simple to very complex. However, to facilitate using the flowchart for the decision-making process, the wording "yes" or "no" should be added to all the arrows leaving decision symbols on the flowchart.

3. The three criteria of purpose, audience and content seem to be appropriate and are adequately defined and explained. It is clear that all three must be met to classify costs as program or management and general. We have no recommendations for any other criteria that should be included in the decision-making process.

4. We believe the required footnote disclosures to the financial statements are reasonable. Although the disclosure requirements may not necessarily be easy or inexpensive to implement, the requirements nonetheless seem appropriate. If entities properly follow the proposed SOP, the information required to be disclosed in the financial statements should be present. Paragraph 35 does not require any more measurement or effort than the rest of the standard. Paragraph 35 only requires that this data be disclosed. It may be unnecessary to disclose the allocation method, although this is a relevant part of the other items required to be disclosed. However, we also believe the recommended disclosure of paragraph 36 should be eliminated as this disclosure creates overkill.

We appreciate the opportunity to comment and have provided similar comments to the National Association of State Comptrollers. If you have any questions, please contact me at (717) 787-6496.

Sincerely,

Harvey C. Eckert

Harvey C. Eckert

cc: Hon. Michael H. Hershock
J. Terry Kostoff

36

National Association of State Charity Officials

NASCO

Founded 1979

American Institute of Certified Public Accountants
Not-for-Profit Organizations Committee
1211 Avenue of the Americas
New York, NY 10036-8775
Attn: Joel Tanenbaum

January 3, 1994

Re: Comments on Exposure Draft/File 3605.JA

Dear Committee Members:

I submit the following comments on behalf of the National Association of State Charity Officials (NASCO). Our membership consists of charity regulators throughout the United States, most of whom are on the staffs of various Office of Attorneys General and Secretaries of State. Members of our association, on a daily basis, review financial statements and Internal Revenue Service Forms 990 submitted by nonprofits as a routine part of our registration and oversight responsibilities.

While reviewing our comments, I would ask that your committee consider that we do not represent any commercial or self-serving interests. Our responsibility is to protect and to educate the contributing public and, to that end, we must do everything possible to insure that financial information being disseminated to the public accurately reflects a nonprofit's activities. Therefore, our goal is the same as yours - to establish accounting standards which will result in the preparation of financial statements which are useful and easily understood by the primary users of those statements, the contributing public.

The proposed Statement of Position (SOP), *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal*, has been examined by at least fourteen (14) members of our association in preparation for these comments. While reviewing the proposed SOP, we considered the following:

- would the proposed SOP result in financial statements which more accurately reflect a nonprofit's activities ?
- would the proposed SOP prevent or deter abuses ?

We know that there exists some diverse opinions over the extent of the abuses by nonprofits when applying SOP 87-2, and whether your committee's responsibilities include addressing fraud and abuse.

Although we readily admit that the number of nonprofits abusing SOP 87-2 represents a very small percentage of the total, the actual harm those few represent is very great. The reason the harm is so great is because those nonprofits currently abusing SOP 87-2 are contacting

Direct NASCO inquiries to: David Ormstedt, Secretary, c/o Office of Attorney General, 55 Elm Street, Hartford, CT 06106. Fax #(203) 566-7722.

hundreds of millions of potential contributors every year, providing them with inaccurate information regarding their fundraising costs and program services, and collecting hundreds of millions of dollars in contributions which are being consumed by commercial and personal interests. In fact, most commercial telephone and direct mail fundraisers use SOP 87-2 as a marketing tool to convince nonprofit clients that high fundraising costs can be effectively concealed.

CONCLUSIONS

After careful review of the proposed SOP and its probable impact on existing practices we have reached the following conclusions:

- The proposed SOP is extremely lax in that it does not require that specific criteria be met, but only that certain factors be considered;
- The proposed SOP will have no impact whatsoever on existing practices and is not likely to curtail the abuses currently in practice;
- The proposed SOP may actually increase the number of abuses by providing an easy-to-follow blueprint of lax criteria for justifying allocation of costs for activities which include a fundraising appeal; and,
- The proposed SOP, if adopted, is not likely to increase confidence in the profession or the credibility of financial statements for nonprofits.

RECOMMENDATIONS

We believe that by amending the proposed SOP in one area, purpose, your committee can alleviate much of the abuse, give some specific and meaningful guidance to the profession, and help to make financial statements of nonprofits more useful and credible. It has been our experience that the purpose criteria is greatly abused and that the remaining criteria, audience and content, are too difficult to monitor and too easily met even if further restricted by the SOP. However, although we have focused on the purpose criteria, we would ask your committee to eliminate all costs associated with acquisition mailings from consideration for any allocation to programs.

A typical example of how the purpose criteria is abused is when a nonprofit, engaged in direct mail fundraising, adds a publication or educational message to its mailings and then allocates the majority of the production and mailing costs to program services. These nonprofits do not monitor the effectiveness of the "educational programs," have not explored methods of disseminating information likely to be more effective, and do not expend any efforts or funds on educational programs which do not contain a fundraising appeal. In fact, based on industry standards, the return rate for direct mail is only 5-20% of the pieces mailed. Therefor, a nonprofit cannot even demonstrate that 80% - 95% of the pieces mailed were opened much less read or used. It could be argued that direct - mail may possibly be the least effective method of educating a large segment of the public.

Although the proposed SOP addresses these issues and makes a very strong statement in paragraph # 25, that paragraph is totally diluted by paragraph # 26 which requires only that certain factors "should be considered."

36 cont't

Accordingly, we recommend the following changes to paragraph # 26:

- Amend the last sentence of the first paragraph of 26. to read... **Accordingly, the following indicators ~~should~~ must be considered in determining whether the purpose criterion is met.**
- Amend 26 b. as follows:

b. ***The method of evaluating the performance of the activity.*** **The following ~~should~~ must be ~~considered~~ demonstrated:**

- **~~Whether~~ That there is a process to identify and evaluate program results and accomplishments. Identification and~~, where practical,~~ measurement of program results and accomplishments ~~may~~ indicate that a bona fide program has been conducted.**

- **~~Whether~~ That evaluation of the effectiveness of the activity is not skewed to the activity's effectiveness in raising funds ~~or~~ but rather is skewed to the accomplishment of program goals. ~~The former may indicate that the purpose criterion is not met. The latter may indicate that it is met.~~**

- Amend 26 c. as follows:

c. ***Different media for the program or management and general component and fundraising.*** **~~Consider whether~~ The program or management and general component ~~is~~ ~~also~~ must be conducted in a different medium without ~~a significant~~ any fundraising component.**

We recognize that, if our recommendations are adopted, that additional changes may be necessary to paragraph 26 and elsewhere to make the language and examples consistent with the more stringent requirements. For example, in 26 d. replace "...should be considered" with "...**must** be considered"

The foregoing recommendations are made with the understanding that the committee has expressed an unwillingness to return to the primary purpose rule, or to limit allocations to programs and management to a percentage of the total costs.

If the committee is not willing to make the foregoing changes, it is the recommendation of NASCO that the AICPA **not** adopt the proposed SOP. We believe it is preferable to retain use of SOP 87-2 than to replace it with a new SOP that is so lacking in any meaningful required criteria, that it is likely to increase the problems it was intended to address.

Respectfully submitted,
Steven C. Arter
Steven C. Arter
President, NASCO

GREAT LAKES
COMMUNICATIONS, INC.

4057 N. WILSON DR. • MILWAUKEE, WI 53211 • 414-963-2800 • FAX NO. 414-963-2803

37

December 17, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

I am a long standing member of AICPA.

This letter comments on the referenced Exposure Draft. The mission of this organization is to develop membership, and educate at the grass roots for non-profit organizations. We use multipurpose materials, including direct mail and telemarketing as cost-effective means to accomplish our client's programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way our client's report the costs involved.

The proposed new standard would require that in many situations our client's must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgment of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity or non-profit organizations.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our client's organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This Provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("Just Say No!")

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This exposure draft in its Present form, with its arbitrary and biased criteria, would require our client's auditors to second-guess their board of directors and their management.

The AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

John Burzynski

John Burzynski, CPA
Controller

JB/df

GREAT LAKES COMMUNICATIONS, INC.
4057 N. WILSON DR. • MILWAUKEE, WI 53211 • 414-963-2800

REVIEW AND HERALD PUBLISHING ASSOCIATION

Vice President for Operations

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December 28, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fundraising Appeal."

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to publish religious books and magazines that provide for the spiritual, mental, physical, and social enhancement of our markets. We use multi-purpose materials, including magazine advertisements, various brochures, and audio and video tapes as cost-effective means to accomplish our programs and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

55 West Oak Ridge Drive, Hagerstown, Maryland 21740 (301) 791-7000

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgment of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization: oftentimes they completely describe the charity's aims or goals ("Just Say No!").

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs

38 cont'd

may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2 rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Gilbert E. Anderson

Gilbert E. Anderson
Vice President
Operations Department

GEA:cb

xc: Robert J. Kinney

Outreach International

P.O. BOX 210 • PHONE 816/833-0883
INDEPENDENCE, MO 64051-0210 • ~~FAX~~ 816/833-0103

39

December 29, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Div.
American Institute of CPAs
1211 Avenue of the Americas
NY, NY 10036

Dear Mr. Tanenbaum,

This letter comments on file 3605.J.A. *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-raising Appeal.* Outreach International's mission is to "...participate in the creation...of comprehensive programs for human development among the poor. ...Outreach sustains...development efforts through educational programs which encourage...cross-cultural understandings...[as well as to] heighten awareness of persons about world hunger and other global development issues. ...Outreach involves local people as partners in the...human-development programs designed to improve health, education, livelihood..." The process involving local people we call *participatory human development* where people learn to help themselves, and self-sufficiency is created.

We use multi-purpose materials, such as audio-visual resources, personal presentations, and direct mail materials as cost-effective means to raise the necessary funds to educate people about those less fortunate and to support participatory human development programs.

Speaking for Outreach, I am greatly concerned about the effect the proposed new standard would have on the way we report the costs involved. I fear it may have been hastily composed with little input from the staffs of actual non-profit organizations.

The proposed standard would require that in many situations, we must report all costs as Fund-raising costs, even when some are clearly Program or Management/General costs. That will lead to improper accounting for those costs, and to misleading financial statements.

I also view with alarm that the proposal effectively dictates the content of Program and Fund-raising appeals, and the audiences with which we must communicate. Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U. S. Supreme Court in *Riley vs. National Federation of the Blind of North Carolina,* and other Supreme Court rulings. Thus, the "primary purpose" rule was essentially thrown out by the courts. Yet this exposure draft appears to reinstate it.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. To improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance says that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was *not* met when in fact one or more was/were met, *based solely on the form of compensation to the fund-raising consultant!* What does that have to do with determining whether a Program purpose was met?

I believe that Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fund-raising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a **single** reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, *even though the mailing would be conducted for multiple purposes.* That makes **no** sense at all! Moreover, such a test would substitute the judgment of an auditor for that of an experienced fund-raiser in the selection of lists. I'm sure that result wasn't intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan wouldn't suffice. This provision has nothing to do with accounting guidance! In fact, it's a direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims of the organization; oftentimes, they completely describe the charity's aims, eg, "Just Say No!"

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The Exposure Draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a Program package, joint costs may be allocated between Program and Fund-raising. But if the charity uses a fund-raising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as fund-raising. Public relations and fund-raising are closely related. How can this provision be applied when many firms engage in both activities in the same communication package for the same client? This bias against certain firms and compensation programs will result in unreliable financial information, and preclude comparison among organizations. In addition, over time, comparisons of an organization's financials before and after enforcement of this proposed standard (should it be adopted as is) would be meaningless.

This Exposure Draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our Board of Directors and Management.

The AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in

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educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2 rather than creating arbitrary and biased standards. The vast number of non-profits shouldn't be subjected to this questionable guidance because of the apparently unreasonable cost allocations of a few non-profits.

We would appreciate your keeping us informed of the status of this exposure draft. Thank you very much, and best wishes for the New Year.

Sincerely,

Ray Domino

Ray Domino
Accountant

rd

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LAKESIDE
Health System
156 West Avenue
Brockport, NY 14420-1286
Tel:716/637-3131 Fax:716/637-3936

December 28, 1993

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Lakeside Memorial Hospital
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Lakeside Beikirch
Nursing Home
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Lakeside Foundation, Inc.
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Tel: 716/ 637-0100
Fax: 716 /637-3936

Lakeside Child Care Center
156 West Avenue
Brockport, NY 14420-1286
Tel: 716 /637-2930
Fax: 716/637-3936

Daisy Marquis Jones
Family Wellness Center
156 West Avenue
Brockport, NY 14420-1286
Tel: 716 /637-0450
Fax: 716 /637-3936

Toll-free from
Eastern Orleans County:
389-5937

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA, AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

I am writing in response to the exposure draft of the revision of SOP 87-2, "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal."

Each time this issue is discussed, there is a battle over what gets counted where and by which budget. While I believe it is a step in the right direction to resolve this issue, I urge everyone involved to view this from the donor's perspective.

Donors give because they care about the causes to which they contribute. We ought to be suggesting instead a method through which we can certify and/or otherwise verify that the mission and intent of these donations are being met. It is only then that we will have done a service to our philanthropic supporters.

In sum, it is not likely that counting the costs of mailing toward education or toward fund raising will greatly effect donors' interest in giving. Only verifiable success in meeting a need will impress future donors.

Sincerely,

Theodore Richard Hart, CFRE, CAHP
Vice President and
Chief Development Officer

xc: Patricia F. Lewis, CFRE
Maurice R. Levite, CFRE
Charles DiGange, CFRE

SACRED HEART LEAGUE
Walls, Mississippi 38686

November ~~29~~, 1993

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Mr. Joel Tanenbaum
Accounting Standards Division, File 3605
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

I am a Catholic Priest and the president of Sacred Heart League, a Catholic Ministry and a not for Profit Religious organization.

I wish to comment on the exposure draft that would supersede SOP 87-2. This draft contains an obvious and inherent defect.

Simply stated it is this. The document never states a definition for the word *program* yet it assumes one that excludes legitimate dimensions and attributes of religious Ministries. The description of program which is used i.e. describing functions of purpose, content and audience can not begin to encompass the reality of the Spiritual.

In reference to the Sacred Heart League, by charter the mission of the League is to spread devotion to the Sacred Heart and to support the Catholic Social Service works and ministries of North Mississippi. This SOP demonstrates throughout that it does not comprehend the nature of a **devotional** program. Theologically, Devotion is not defined in terms of action or activity. It has no product. You can't measure, buy or sell it.

The League's ministry of Spreading Devotion to the Sacred Heart is accomplished when people acknowledge a divine invitation and live in intimate union with God. Another way of saying it is that the goal of a Spiritual ministry is the celebration of the unitive relationship of the human and the Divine. Sometimes, but not exclusively that unitive relation leads people to serve the needs of their fellow humans in ways that can be measured.

If introducing a Theological definition seems irrelevant here let me assure you I do not do so because I am naive. Historically spiritual realities and the purpose of Religious ministry have not been adequately understood by civil or political entities.

I am reminded of some very wise words by Supreme Court Justice Felix Frankfurter. Are you familiar with Justice Frankfurter? I believe he was an appointee to the Court by President Roosevelt.

Justice Frankfurter said, "There are many issues about which reasonable men of good will choose to disagree. This court will not attempt to discuss or rule upon such issues."

I think what the Justice says is exactly the wisdom we need to use here. I believe it is the same wisdom behind the Constitutional separation of Church and State in our Country. And I believe it is the same wisdom that was contained in the original SOP-2 which allowed the Boards of Directors, not accountants, to determine what are the organization's legitimate programs and what are not.

Particularly, I would not expect the framers of this draft to adequately understand spiritual programs. Rather, I would take Justice Frankfurter's position and not wish civil or government agencies to debate or rule upon them.

A specific point in this SOP, I would not expect the authors to know that theologically, prayer is not, as they arbitrarily choose to define it, "asking for things". Prayer is not action oriented. Rather, prayer is the celebration of the Union of Human and Divine. Theological definitions need not be debated if we listen to Justice Frankfurter.

The Mission of the Sacred Heart League, which the SOP would limit by its narrow description of program, is a Spiritual Mission. Only legitimate Religious authority, not accountants are competent to evaluate and pass judgment on what is or is not a spiritual ministry.

Consequently, I understand the issue here to be one of determining what is a legitimate Religion, and not what is a bona fide religious ministry. I would contend it is constitutionally within the right of legitimate religions to define what are authentic spiritual ministries and to determine when and how they are effectively or adequately carried out.

At Sacred Heart League we are conscientious in reporting all aspects of our programs and fund raising activities to the legitimate Religious authority to which we are accountable. These include the Nation Catholic Development Conference, the Catholic Diocese of Jackson, Mississippi, of which we are a part, and the Priests of the Sacred Heart, a Catholic Religious order which is our parent organization.

The document is in tone and in effect antagonistic. It assumes with no proof what so ever that most leaders of not-for-profit Charities are not "reasonable men of good

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will." This document will deny the right of boards of directors to determine what are legitimate programs and leave that decision to independent auditors.

For example, the document would seem to deny that donor reply devices have a program function, and do not qualify for joint cost allocations. At the Sacred Heart League, in order to cut the cost of maintaining accurate records for statistical and reporting efficiency, all our mailings have reply devices. However they do not have an exclusive fund raising purpose. All Spiritual Society programs, Novenas, and prayer enrollment programs contain reply devices that allow donor members to write prayer intentions, Mass intention requests, and Novena enrollments for specific relatives and loved ones.

Clearly the largest amount of space on many such cards has this program function. And I would point out that many people use these reply devices to participate in programs without sending a donation. In our materials we continually offer participation in our spiritual programs and services to anyone whether they are able to include a monetary gift or not. "Reasonable men of good will", would certainly not want such an expense falsely allocated entirely to fund raising costs.

A statement was made recently by an ill informed person that any printed prayer material sent in mailings is but a "fund raising gimmick". Nothing could be farther from the truth. Our organization in it's Apostolate of the Word, has mailed millions of New Testaments. Nothing could have more Religious Program authenticity. Yet these mailings have to be targeted to people who wish to receive them, which in turn logically means selecting those who by past donations demonstrate they appreciate, use and wish to receive such Religious Program materials. Yet such a mailing would not meet audience requirements of this draft. It creates a situation that is clearly absurd.

I strongly urge the rejection of this document as inherently flawed and the continued endorsement of SOP 87-2.

Sincerely,

Rev. Robert Hess

Rev. Robert Hess
President
Sacred Heart League

42

VICTORY GAMES™
USODA™
UNITED STATES ORGANIZATION FOR DISABLED ATHLETES

143 California Avenue, Uniondale, New York 11553 • (516) 485-3701 • FAX (516) 485-3707

December 28, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of Americas
New York, NY 10036-8775

Reference : File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to initiate, stimulate and promote the growth and development of sports activities for disabled children and adults. We execute this objective through coaches' clinics, athleti events and grassroots outreach programs. We use multi-purpose materials, including telemarketing and direct mail as cost effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in <u>Riley v. National Federation of the Blind of North Carolina</u>, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgement of an auditor for that of an experienced fundraiser in the selection of lists. Surely, that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the

42 cont'd

aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("Just Say No!").

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The Exposure Draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This Exposure Draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.

AICPA has stated that the content of the Exposure Draft is a reaction to criticisms raised by a few state attorney generals, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this Exposure Draft.

Sincerely,

John E. Hurley
President

JEH/cb

43

UNITED STATES CATHOLIC CONFERENCE

Finance Office
3211 4th Street N.E. Washington, DC 20017-1194 (202)541-3028 FAX (202)541-3322 TELEX 7400424

December 27, 1993

Mr. Joel Tanenbaum, CPA
Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

RE: ED Proposed SOP: *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal*

Dear Mr. Tanenbaum:

The above SOP has a comment deadline date of January 10, 1994. The United States Catholic Conference Accounting Practices Committee is meeting February 5, 1994 and the joint activities exposure draft is on the agenda for discussion. I suspect the Committee will wish to convey to you a letter of comment.

I apologize for the delay. It is due to coordinating a meeting of twenty-one people with deadline dates of both AICPA and FASB documents.

Sincerely,

(Sister) Frances Mlocek, IHM, CPA

xc: USCC-APC Members and Advisors

INTEGRATED
MAIL
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LTD.

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December 23, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

I am a long standing member of AICPA.

This letter comments on the referenced Exposure Draft. The mission of this organization is to develop membership, and educate at the grass roots for non-profit organizations. We use multipurpose materials, including direct mail and telemarketing as cost-effective means to accomplish our client's programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way our client's report the costs involved.

The proposed new standard would require that in many situations our client's must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

3450 W. HOPKINS ST.
MILWAUKEE, WI 53216
414-449-2900
FAX 414-449-2906

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgment of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity or non-profit organizations.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our client's organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. <u>This Provision has nothing to do with accounting guidance.</u> In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; <u>oftentimes they completely describe the charity's aims or goals</u> ("Just Say No!")

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

<u>Example:</u> The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

<u>This exposure draft in its Present form, with its arbitrary and biased criteria, would require our client's auditors to second-guess their board of directors and their management.</u>

The AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Kevin Webb, CPA
Controller

KW/df

CHRISTIAN APPALACHIAN PROJECT
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December 31, 1993

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.JA. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal".

Dear Mr. Tanenbaum,

This letter comments on the referenced Exposure Draft. The proposed new standard would require that in many situations we must report all costs as Fund-Raising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements. We are greatly concerned about the effect the proposed new standard would have on the way we report these costs.

Furthermore, the AICPA has stated that the content of the Exposure Draft is a reaction to criticisms raised by some states' attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards. Before commenting on the specific areas of the exposure draft, let me explain the mission of the Christian Appalachian Project (CAP).

The mission of CAP is to work with people at different levels of poverty, and seek to involve all the people of Appalachia in this cause. We serve all people without discrimination. Our work is in many fields (social, economic, spiritual) and seeks to affect the root causes of problems as well as day to day needs. In all cases we seek to avoid giveaways and dependency out of respect for the

Appalachian people. Thus, we will involve the people themselves in the solutions to their own problems.

One of our purposes is to raise funds nationally to carry out our programs in Appalachia. In our fund-raising we will seek to educate and inform the American public of the needs and challenges of the area. Our information will not exploit or degrade those we serve. Good stewardship requires that we be open, accountable and responsible with our funds.

We seek to promote a spirit of tolerance (respect) and cooperation among religious and humanitarian groups in Appalachia and will support other such groups where possible. Our goal of a better Appalachia moves us to continually seek new and better ways to serve.

CAP uses multi-purpose materials, including direct mail, telemarketing, magazine ads, and television, as cost-effective means to accomplish our programs, and to raise funds to support them. Good stewardship of our resources dictate that we conduct multi-purpose efforts. The Exposure Draft, however, would require reporting the cost of these efforts that are otherwise clearly identifiable with Program or Management and General, as Fund-Raising costs.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should either be eliminated or significantly modified.

Purpose

For the purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed. Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

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We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fund-raising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

In addition, the Exposure draft is biased against certain firms and certain compensation programs for these firms. This bias will result in unreliable financial information and preclude comparison between organizations. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fund-Raising. But if the charity used a fund-raising firm, and bases all or part of its fees on the amounts raised, all costs must be reported as Fund-Raising. Therefore, the same package will be accounted for differently and thus preclude comparability among organizations.

The Exposure Draft is unclear in addressing the topic of charities using an outside firm where the outside firm is compensated a flat fee rather than on a percentage of funds raised basis. This delineation is necessary because different charities use different types of firms to develop materials and activities. A charity may contract with a professional fund-raiser, a consultant, or a public relations firm to develop these materials or activities.

Audience

The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that the principal reason for the materials or activities be determined. However, as stated previously, these materials and activities serve multiple purposes. The audience should be one that can respond to the call(s) for action in the material or activity.

Moreover, such a test would substitute the judgment of an auditor for that of management experience in the selection of lists. Surely that result was not intended.

Content

The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering, or donating goods or services. Such a test would be devastating to our organization.

Volunteerism has always been a major part of CAP providing services to the needy people in Appalachia. In the nearly 30 years of our work, there have been many thousands of volunteers that have repaired or constructed homes, visited the elderly and shut-ins, operated summer camps for underprivileged children and bible schools, tutored high school drop-outs to pass the test for their high school equivalency diploma, helped to provide emergency housing to family abuse victims, and helped to teach preschool age children to improve their chances to succeed in the public school system. Volunteers have also helped people plant gardens and they have distributed food, clothing, and gifts at Christmas time. They also work with parents of handicapped infants and toddlers helping them to understand their child's potential to live a near normal life.

Many of the volunteers that have served with CAP have become aware of the problems that exist here in Appalachia through our direct mail effort or our television programs, or personal speaking visits at churches or colleges nationwide.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. <u>This provision has nothing to do with accounting guidance</u>. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; <u>oftentimes they completely describe the charity's aims or goals</u> ("Just Say No!").

A more appropriate Content criterion would require that the multi-purpose materials or activities serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

<u>This Exposure Draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management</u>. It requires all costs of materials and activities to be reported as Fund-Raising, including costs otherwise clearly identifiable with Programs, if its criteria are not met. We do not believe the Exposure Draft will improve our

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reporting. Rather, it will lead to financial statements that are misleading and are not comparable.

We would appreciate your keeping us informed of the status of the Exposure Draft.

Sincerely,

William A Begley

William A. Begley
Vice President of Development

BOYS TOWN

"He ain't heavy, Father ... he's m' brother"

January 3, 1994

VIA AIRBORNE COURIER

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal."

Dear Mr. Tanenbaum:

We are writing to comment on and object to the exposure draft. In its present form, the AICPA proposal will have an adverse impact on the quality of financial statements by requiring clearly identifiable direct program costs to be improperly reclassified and reported as fund-raising costs. The draft has been corrupted by the view that because some charities have abused SOP 87-2, all must be punished by the approach that virtually eliminates joint cost allocation altogether.

Accordingly, the exposure draft should be withdrawn, reworked to eliminate biased and bad accounting proposals and reproposed for additional comments.

Specific comments follow:

A. FASB Statement 117 (Paragraphs 26 and 27) requires reporting of expenses by functional classification. Yet the last portion of Paragraph 32 of the exposure draft would preclude proper accounting for "incidental" costs of program or management and general activities. This would ignore the direct costs of such activities and transform them into fund-raising costs in opposition to FASB 117. We are unable to reconcile this apparent inconsistency.

B. Paragraph 25 of the exposure draft calls for program or management and general activities to be conducted on the same scale and in the same media in order to meet the purpose criteria. This would duplicate costs and result in poor stewardship, thus detracting from the mission. Charity today cannot afford duplicate costs.

Father Val J. Peter, JCD, STD, Executive Director (402) 498-1111

FATHER FLANAGAN'S BOYS' HOME BOYS TOWN, NEBRASKA 68010

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C. Paragraph 26b uses the word "skewed" in-artfully. Does a slight deviation from a straight line course cause failure of the purpose test?

D. Paragraph 26d would require two departments within an organization: one to do fund-raising mailings, the other to do program mailings. Again, this duplicates costs and compels poor stewardship.

E. Paragraphs 27-29 are based on the naive approach that only a "pure" case should meet the audience criterion. A better view would be to provide that a mailing to a statistically valid sample of the 96,000,000 households in the U.S.A. would meet the audience criterion because it is deemed to be broadly based.

F. Paragraph 30 would denigrate the use of slogans to meet the content criterion. Yet common sense tells us that slogans such as "Just say no to drugs", "Don't drink and drive", "Reading is <u>fun</u>damental" provide valuable aid to important causes. They should not be summarily dismissed.

* * * * * * * *

We welcome this opportunity for input into the process. As Voltaire said "No problem can stand the assault of sustained thinking." Accordingly, we urge you to improve the exposure draft and reissue it for further comment before proceeding.

Yours very truly,

FATHER FLANAGAN'S BOYS' HOME

Father Val J. Peter, JCD, STD
Executive Director

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NONPROFIT MAILERS FEDERATION

January 7, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605 J.A.
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The enclosed document represents the comments of the Nonprofit Mailers Federation to the exposure draft in File 3605 J.A.

Please ask the Not-for Profit Organizations Committee to consider our comments in their entirety, inasmuch as they reflect our concern with virtually every facet of the exposure draft.

Note that our comments include specific recommendations to improve SOP 87-2. We ask that the Committee consider these recommendations as a starting point, and recognize that others may have additional suggestions. For that reason, we suggest that the Committee hold open meetings for the purpose of receiving additional recommendations from nonprofits, and from their auditors. We would be pleased to work with you in developing lists of potential speakers at such meetings.

The Nonprofit Mailers Federation has a continuing interest in all accounting issues that affect nonprofits. For that reason, would you please ensure that I receive copies of all relevant documents affecting the nonprofit sector.

Copies of these comments are being sent to a number of individuals we believe will be interested.

Sincerely,

Lee M. Cassidy

Lee M. Cassidy
Executive Director

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pg 1 of 5

AICPA Exposure Draft:

An Analysis and Recommendations for Improvements

"Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal"

Provided to:
Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA, AICPA
1211 Avenue of the Americans
New York, NY 10036-8775
January 10, 1994

Nonprofit Mailers Federation
Washington, D.C.

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Executive Summary

Purpose of these comments

This document provides analysis and commentary concerning the AICPA exposure draft of the proposed Statement of Position (SOP) "*Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund Raising Appeal.*" This proposal would supersede current accounting guidance (i.e. AICPA Statement of Position (SOP) 87-2) for joint costs of informational materials and activities that include fund raising appeals. It would establish an accounting standard for all costs of all materials and activities that include fund raising appeals and would cover state and local governmental entities as well as not-for-profit organizations.

This analysis was undertaken by the Nonprofit Mailers Federation for two major reasons. First, the Federation is committed to improved financial reporting by not-for-profit organizations. Secondly, any revisions to SOP 87-2 will have significant impacts on the financial statements of member organizations and it is important that these changes result in fair financial reporting. Because of our membership, the analysis is limited to the impact of the exposure draft on not-for-profit organizations.

The proposed revisions will not accomplish our objectives. The proposal will require not-for-profit organizations to account for multi-purpose materials and activities that include a fund raising appeal with arbitrary criteria that are unrelated to program and management and general purposes. In addition, the proposal would be difficult and costly to implement.

Each provision of the exposure draft was analyzed in terms of its logic, its consistency with current financial accounting theory and practice, and implementation considerations for not-for-profit organizations. This analysis found numerous flaws and inconsistencies with financial accounting theory. In addition, the proposal conflicts with more authoritative accounting standards. If implemented in its present form it will not improve financial reporting of not-for-profit organizations. Instead, it may well lead to misleading financial statements.

This document provides a number of recommendations to improve the accounting for costs of multi-purpose materials and activities that include fund raising appeals by not-for profit organizations. Major findings and recommendations are summarized below. Each is documented in detail in the appendix.

Major Findings

The proposal would require reporting all costs of materials and activities that include a fund raising appeal as fund raising costs, including costs that are otherwise clearly identifiable with program or management and general functions, unless it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds. This analysis concludes that the draft needs major revisions because the proposed statement of position would:

- Create bias in accounting for costs of materials and activities that include a fund raising appeal. The criteria and examples in the draft are biased against programs and supporting services and against certain types of firms and compensation methods.
- Result in misleading financial statements that report such costs. The proposal requires all costs of materials and activities to be reported as fund raising, including costs otherwise clearly identifiable with programs, if its criteria are not met. However, many of these criteria are unrelated to determining whether program or management and general purposes are actually served.
- Inhibit comparability between organizations. Its arbitrary criteria will cause similar organizations to report similar transactions differently. This lack of consistency will result in financial statements that cannot be meaningfully compared over time either within an organization or between organizations.
- Conflict with more authoritative accounting standards. *SFAS No. 117 Financial Statements of Not-for-Profit Organizations* requires functional expense reporting of programs, fund raising, and management and general activities. The exposure draft would reclassify costs otherwise clearly identifiable as program or management and general as fund raising expenses based on arbitrary criteria that are inconsistent with this more authoritative standard.
- Not improve accounting practice. Its arbitrary and biased criteria will inevitably lead organizations to undertake steps to minimize the effects of such bias. These criteria will also require the auditor to second guess management and the boards of not-for-profit organizations. The draft also contains numerous terms such as "substantially," "skewed," "incidental," and "reasonable" which would compound the difficulties of current guidance to account for costs of materials and activities that include fund raising appeals.

Recommendations for Improvement

The exposure draft provides the following criteria to determine when allocation of joint costs is required:

- Purpose • Audience • Content

This analysis found the major criteria framework in the exposure draft appropriate. However, these criteria need definition and the tests and conditions to implement them need improvement. The exposure draft also discusses allowable allocation methods but does not preclude unacceptable methods.

Recommended Purpose Criterion

The exposure draft requires a "compensation" test, a "substantial evaluation" test, and a "with/without appeal test. The compensation and evaluation tests preclude assignment and allocation of costs to programs if either is not met. None of these tests definitively establishes whether or not a program purpose is served by materials and activities that include a fund raising appeal.

This analysis proposes that the purpose criterion should be based on verifiable evidence that the:

- Mission of the organization is served.
- Organizational capability exists to meet the intended purposes.
- Control of the materials and activities rests with management of the organization.
- Evaluation of organization purposes is accomplished.

Recommended Audience Criterion

The exposure draft bases the audience criterion on whether the audience is selected principally on its ability or likelihood to contribute, or principally on its need for the program or because it can assist the entity to further program goals other than by contributing. The draft also requires consideration of the source of audience names and audience characteristics to find the principal reason for selection. This criterion fails to consider the multi-purpose nature of materials and activities that include a fund raising appeal. In addition, the tests of this criterion are inconsistent with common operational practices of not-for-profit organizations and will prove difficult, if not impossible, to implement.

This analysis proposes that the audience criterion be based on verifiable evidence that:

- The audience has a potential or demonstrated need for, or interest in, the material or activity.
- The audience can respond to a program related call for action contained in the material or activity.

Recommended Content Criterion

The exposure draft bases the content criterion on a call for specific action by the recipient that will help accomplish the entity's mission. It further indicates that merely providing a slogan is not sufficient and that information must be provided explaining the need for and benefits of the action. However, the draft provides conflicting guidance concerning calls to action and whether this information is in support of program or fund raising purposes.

This analysis proposes that the content criterion be based on each purpose of the materials and activities that include a fund raising appeal as follows:

- Program - Information about the needs or concerns to be met and the action(s) the audience can or should take concerning these needs to assist the organization in meeting its program purpose(s).
- Management and general - Information identifying how funds have been used in the past, and past program results and accomplishments.
- Fund raising content - Information about how donated funds will be used, the actions the audience can take to contribute funds, and any information that is not related to program or management and general functions.

Recommended Allocation Methods

The exposure draft provides that the allocation of joint costs should be based on rational and systematic methods and illustrates some commonly used allocation methods. No particular method is prescribed or precluded. However, a commonly used allocation method is the use of subjective estimates of relative program and fund raising content. This subjective estimate method is not systematic and rational, is not verifiable, and cannot be consistently applied. The use of this method should be specifically precluded from practice.

Other Recommendations

The exposure draft contains numerous definitional problems and technical flaws. This analysis provides a summary of recommended technical corrections as well as a detailed set of recommendations in the appendix.

The exposure draft is a reaction to criticisms by some state attorneys general and an oversight organization of the manner in which some organizations allocate joint costs. The AICPA has stated that these criticisms are based on the belief that some organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public. This criticism appears to be directed at the is-

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sue of how allocation of joint costs is done rather than whether allocation of joint costs is appropriate per se.

However, the exposure draft goes well beyond current accounting practice and beyond the original intent of the "primary purpose" rule. It would result in misleading financial statements since costs clearly attributable to program or management and general purposes are reclassified as fund raising costs.

This analysis is based on the view that no new guidance is needed to account for costs clearly identifiable with programs, management and general, and fund raising functions. Therefore, the analysis in this report aims to aid the refinement of existing guidance to improve the financial reporting of joint costs of multipurpose materials and activities that include a fund raising appeal.

INTRODUCTION

Background

In 1987 the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 87-2 (SOP 87-2) "Accounting for Joint Costs of Informational Materials and Activities of Not-For-Profit Organizations That Include a Fund raising Appeal." SOP 87-2 was intended to eliminate much of the controversy that had raged for decades over the appropriate treatment of joint costs. At issue is whether costs incurred for materials and activities that serve program or management and general as well as fund raising purposes should be allocated and reported as functional expenses of each purpose served.

In 1964 the philanthropic community established the "primary purpose" rule. This rule required all costs of materials and activities that included a fund raising appeal to be recorded as fund raising costs except the direct costs of educational materials. That is, the direct costs of fund raising and the joint costs of the materials and activities were fund raising costs. Educational materials were reported as program costs.

In 1978 the AICPA issued Statement of Position (SOP) 78-10. This statement recommended that, if an organization combines the fund raising function with a program function, the costs should be allocated to the program and fund raising categories on the basis of the use made of the materials or activity as determined from its content, the reasons for its distribution, and the audience to whom it is addressed.

Statement of Position 87-2, the current standard, requires allocation of joint costs of informational materials and activities that include a fund raising appeal when content (including action step), audience, and reasons criteria are met. This results in costs clearly identifiable with each function to be reported in the appropriate categories of program, management and general, and fund raising. The joint costs of the materials and activities are allocated to program, management and general and fund raising categories.

The AICPA decided to revise SOP 87-2 because the National Charities Information Bureau (NCIB) and some state attorneys general have criticized the manner in which some not-for-profit organizations have applied SOP 87-2. They believe that some organizations have been too liberal in their allocation of costs to program expense, especially those costs incurred to educate the public. The Accounting Issues Committee of the National Association of State Charity Officials adopted a resolution in September 1992 that stated SOP 87-2 is among the most widely abused accounting practices. Media coverage has also been critical of SOP 87-2, the accounting profession, and not-for-profit organizations.

In reaction to this criticism, the AICPA Not-for-Profit Organizations Committee initiated steps to revise SOP 87-2. These steps included briefings by NCIB and state charity officials regarding perceived abuses of SOP 87-2. The Accounting Standards Executive Committee (AcSEC) of the AICPA approved a prospectus and timetable of a project to revise SOP 87-2. The Financial Accounting Standards Board (FASB) did not object to the project. As a result, the exposure draft of the proposed revision to SOP 87-2 was issued in September 1993 and is the subject of this analysis.

Despite frequent allegations of fraud and abuse by state regulators, the NCIB, and the media, there is no known public record of documented abuse or fraud involving the application of SOP 87-2. AICPA deliberations concerning SOP 87-2 to date have reacted to only oversight groups and regulators of not-for-profit organizations. Contributors, creditors, and not-for-profit organizations themselves are also affected by the provisions of SOP 87-2. However, the views of not-for-profit organizations are only now being heard through comments on the exposure draft. The purpose of this analysis is to provide constructive comments and recommendations for improved financial reporting of joint cost allocations based on sound financial accounting theory and authoritative guidance.

Current Guidance

AICPA SOP 87-2 provides current guidance to account for costs of multi-purpose materials and activities. This statement provides that all joint costs of informational materials or activities that include a fund raising appeal should be reported as fund raising expense if it cannot be demonstrated that a program or management and general function has been conducted in conjunction with an appeal for funds. However, if it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, joint costs should be allocated between fund raising and the appropriate program or management and general function. (SOP 87-2, par. #15)

SOP 87-2 indicates that demonstrating that a bona fide program or management and general function has been conducted in conjunction with an appeal for funds requires verifiable indications of the reasons for conducting the activity. Such indications include the content of the non-fund raising portion of the activity; the audience targeted; the action, if any, requested of the recipients; and other corroborating evidence, such as written instructions to parties outside the organization who produce the activity, or documentation in minutes of the organization's board of the organization's reasons for the activity. (par.16)

SOP 87-2 guidance is specifically limited to joint costs of multi-purpose materials and activities. It provides for determinations of the reasons for the activity through content, audience, action requested, and corroborative evidence. These factors have become the purpose, audience, and content criteria of the exposure draft.

Methodology

This analysis is based on extensive review of the accounting literature concerning cost allocation and external financial reporting by not-for-profit organizations. FASB Statements of Financial Accounting Concepts Nos. 2, 4, and 6, FASB Statement on Financial Accounting Standards (SFAS) No. 117 *Financial Statements of Not-for-Profit Organizations*, and contemporary cost accounting practices were reviewed to determine the accounting concepts and related standards for costs of materials and activities of not-for-profit organizations that include fund raising appeals. The origins of the primary purpose rule, the AICPA Industry Audit Guide "Audits of Voluntary Health and Welfare Organizations," AICPA Statement of Position 78-10, "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations," the AICPA 1981 Issues Paper concerning joint costs of materials and activities that include a fund raising appeal, the FASB 1984 Draft Technical Standard, and the exposure draft and comment letters concerning AICPA SOP 87-2 were also reviewed. Articles in the financial and philanthropic press concerning SOP 87-2, the exposure draft, and joint cost allocation were studied.

A survey of not-for-profit organizations concerning joint cost allocation was also conducted. This survey revealed that organizations believe that better definitions of programs and joint costs are needed to apply SOP 87-2. It also revealed the organizations firmly believe that both a program and a fund raising purpose can be served by materials and activities. Finally, it revealed that many organizations do not use a systematic and rational method to allocate joint costs.

PRINCIPAL FINDINGS AND RECOMMENDATIONS

Conceptual Flaws

This analysis found several basic flaws in the conceptual foundations of the exposure draft. Consequently, major inconsistencies with fundamental accounting concepts and more authoritative guidance exist throughout the draft. Three major conceptual shortcomings are of principal concern.

First, authoritative definitions for determining programs and supporting services of not-for-profit organizations were established by the issuance of SFAS No. 117 in June 1993. However, the exposure draft did not incorporate these definitions and other guidance contained in SFAS No. 117. Consequently, the proposed guidance for allocation of costs of materials and activities that include a fund raising appeal is inconsistent with SFAS No. 117.

Second, not-for-profit organizations present no special cost accounting problems. In particular, allocation problems of not-for-profit organizations are essentially no different that those faced by business organizations. SFAS No. 117 notes that techniques for allocating costs to programs and supporting services are reasonably well-developed. It further provides latitude for not-for-profit organizations to present programs in ways they believe are meaningful and in ways that are consistent with existing cost allocation systems. However, the exposure draft runs counter to these basic precepts by proposing very restrictive guidance concerning program purposes that is unrelated to SFAS No. 117.

Third, the proposal, if implemented, will impose significant costs on all not-for-profit organizations and state and local government entities without identification of corresponding benefits. Statement on Financial Accounting Concepts No. 2 indicates that before a decision is made to develop a standard, the FASB needs to satisfy itself that a standard that is promulgated will not impose costs on the many for the benefit of the few (par. 143). It seems incumbent upon the AICPA to do the same.

As reported in the December 1993 issue of the *Journal of Accountancy*, according to Mr. Kenneth D. Williams, the chair of the AICPA Not-for-Profit Organizations Committee which drafted the proposal, organizations will find they have to perform "an awful lot more analysis to understand the allocation process."

Beyond the beliefs of some that SOP 87-2 is flawed and the belief of the AcSEC that it is necessary to prevent potential abuses in financial reporting (par. 41), no benefits are cited as a basis for issuing this proposal.

Needed Refinements to Current Guidance

This analysis, based upon review of the FASB concept statements, SFAS No. 117, and related accounting literature, indicates the following aspects of SOP 87-2 need refinement:

- Guidance on when to allocate joint costs and the existing criteria of audience, content, and verifiable indications of a program or management and general function;
- Guidance on how to allocate joint costs as SOP 87-2 is limited to reference to existing cost accounting techniques; and
- The presumption that all joint costs are fund raising unless verifiable indications of a bona fide program or management and general purpose exist.

However, this analysis is based on the premise that these refinements can be accomplished with guidance that is consistent with SFAS No. 117 and existing cost accounting practice.

Principal Exposure Draft Problems

The principal problems of the exposure draft which stem from the conceptual flaws discussed above are:

- Arbitrary and Biased Criteria - As the draft illustrates, an organization that uses a public relations firm to develop a program package with a fund raising appeal allocates joint costs to program and fund raising categories. However, an organization that uses a fund raising firm to develop the same package but pays that firm a fee based on the amounts raised must report all costs, including program costs, as fund raising. This bias against particular types of firms and compensation methods results in unreliable financial information.
- Misleading Expense Reporting - The draft requires all costs of materials and activities to be reported as fund raising, including costs otherwise clearly identifiable with programs, if its criteria are not met. However, many of these criteria are unrelated to determining whether program or management and general purposes are actually served. Thus, an organization could develop two multi-purpose packages that serve its program and fund raising objectives. Under these arbitrary criteria, the joint costs of one package could be allocated but all costs of the second package would have to be reported as fund raising.
- Inhibited Comparability - The arbitrary criteria in the draft will cause similar organizations to report similar transactions differently. This lack of consistency will result in financial statements that cannot be meaningfully compared over time either within an organization or between organizations.
- Inconsistency with Other Accounting Guidance - SFAS No. 117 *Financial Statements of Not-for-Profit Organizations* requires functional expense reporting of programs, fund raising, and management and general activities. The exposure draft would reclassify costs otherwise clearly identifiable as program or management and general as fund raising expenses based on arbitrary criteria that are unrelated to the SFAS No. 117 definition of program purposes.
- Lack of Improvements in Accounting Practice - The arbitrary and biased criteria of the draft will inevitably lead organizations to undertake steps to minimize the effects of such bias. These criteria will also require the auditor to second-guess management and the boards of not-for-profit organizations. The draft also contains numerous terms such as "substantially," "skewed," "incidental," and "reasonable" which compound the difficulties encountered in current guidance to produce relevant and reliable financial information concerning costs of materials and activities that include fund raising appeals.

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Operational Issues

Discussed below are some specific operational issues of the exposure draft. A detailed analysis of each of these issues is contained in the appendix.

Purpose Criterion

Paragraph 22 of the exposure draft states that in determining whether a bona fide program or management and general function has been conducted, the purposes for conducting the activity must be considered. However, the decision tree provided in the draft and its major tests to determine whether a program purpose has been met are not consistent with more authoritative guidance found in SFAS 117.

SFAS 117 No. 117, *Financial Statements of Not-for-Profit Organizations*, states that: "Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs." (par. 27). Rather than establishing tests which relate to this program definition, the exposure draft injects a "compensation" test, a "substantial evaluation" test, and a "with/without appeal test. The compensation and evaluation tests preclude assignment and allocation of any costs to programs if either is not met. None of these tests specifically establishes that a program purpose was served by an activity.

Compensation Test: The exposure draft states the purpose criterion is not met and allocation is prohibited if substantially all compensation or fees for performing the activity are based on amounts raised (par. 23). This provision does not relate to a program purpose. It is biased against a particular mode of compensation. This violates the basic accounting concept which holds that financial information must be neutral to be reliable. Biased information is unreliable information.

This provision would also result in misleading financial statements. For example, suppose an organization uses one firm to develop a program package that includes a fund raising appeal and compensates the firm based on packages mailed. It also uses another firm to develop the same type of package and compensates the firm based on the amounts raised. Even if both firms develop the same packages that meet all other criteria, the joint costs of the first package must be allocated and the joint costs of the second package cannot be allocated. Further, the direct costs of the second package must be reported as fund raising costs under the exposure draft guidance.

Another example of how this provision would result in misleading financial statements concerns multiple parties involved with conducting a multi-purpose activity. Suppose an organization creates and develops a multi-purpose direct mail package that meets all other criteria in the exposure draft. It retains one firm to disseminate the package and compensates the firm based on packages mailed. It also uses another firm to disseminate the same package and compensates the second firm based on the amounts raised. Even if both firms disseminate the same type of package in the same media and even though neither firm was involved in the creative aspect of the multi-purpose activity, the joint costs of the first package must be allocated and the joint costs of the second package cannot be allocated. Further, the direct cost of the second package must be reported as fund raising costs under the exposure draft guidance.

This example indicates that compensation for the activity may be completely unrelated to the program portion of the activity. However, the exposure draft provision for purpose would deny that a program purpose was served.

Evaluation Test: The exposure draft states if the performance of the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met and all costs of the activity should be charged to fund raising. This provision does not relate to a program purpose and also precludes allocation whether or not a program purpose was met by the activity.

This test would also result in biased financial information and lead to misleading financial statements. Further, the term "substantially" in both tests will prove very difficult to implement in practice. Because of the broad community many not-for-profit organizations serve, measurement of program accomplishments may be costly to develop. Indeed, the FASB has recognized the difficulty of measuring program results in Concepts Statement No. 4. Thus, organizations may have to incur significant costs to implement these provisions.

With/without appeal test: The exposure draft indicates that the purpose criterion is met if the activity is also conducted without a fund raising appeal on a similar or greater scale using the same medium, that is, a "with/without appeal" test. (par. 25). This test does not establish that the "without appeal" activity meets a program purpose. It also fails to establish that the "with appeal" test does not meet a program purpose. That is, an activity could just as easily fail to meet a program purpose without a fund raising appeal as with an appeal. Similarly, an activity could clearly meet a program purpose along with a fund raising appeal.

This test also conflicts with SFAS No. 117. That statement notes that it provides latitude for organizations to define their programs (par. 59). Meeting this test could require organizations to conduct an activity without the appeal. Such a requirement infringes on the latitude provided by SFAS No. 117 for not-for-profit organizations to design their programs and take advantage of emerging opportunities. This requirement also imposes an economic burden on many organizations. Including a fund raising appeal in a program activity is often the most cost-effective way to fulfill both a program and fund raising purpose.

Audience Criterion

The exposure draft states that the audience criterion is not met if the audience is selected principally on its ability or likelihood to contribute (par. 27). The audience criterion is met if the audience is selected principally on its need for the program or because it can assist the entity to further program goals other than by contributing (par. 28). The draft neither considers the situation where the principal reasons for the audience selection are both program and fund raising nor provides any criteria to deal with this common practice.

The exposure draft also requires consideration of the source of audience names and audience characteristics to find the principal reason for selection. It cites as an example that lists acquired from others with similar or related programs are more likely to meet the audience criterion than are lists based on consumer profiles. (par. 29). However, a consumer profile list is not less likely to be a valid indicator of a need for program information. For example, persons with outdoor leisure interests may well have a need for, or an interest in, information concerning the environment.

Exposure draft Illustration 2 suggests that the audience criterion is inconsistent with normal operations of not-for-profit organizations. This illustration describes an entity that maintains a list of its prior contributors and sends out donor renewal mailings and program material. Prior donors are deleted from the mailing list if they have not contributed to the entity during the last three years. The exposure draft states the audience criterion is not met in this situation because the entity selects individuals to be added to or deleted from the mailing list based on their likelihood to contribute (2.A.10).

This illustration does not show how the audience was selected. Rather it concludes the audience was selected principally for fund raising because of the procedure the entity uses to maintain its donor mailing list. The illustration does not consider whether donor interest in the program material existed at all at the time of the mailing. Instead, it indicates that even though program purpose and content criteria are met (2A.9), all costs, including those of the program piece, are fund raising (2A.11). Therefore, biased and misleading financial information results.

Content Criterion

The exposure draft indicates that to meet the content criterion, the material or activity must call for specific action by the recipient that will help accomplish the entity's mission. That action must be unrelated to providing financial or other support to the entity itself by (1) benefiting the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or (2) benefiting society by addressing societal problems. Information must be provided explaining the need for and benefits of the action. Sufficient detail should be provided describing the action to be taken; merely providing a slogan is not sufficient (par. 30).

This criterion appears to disqualify program related calls to action that support the organization itself such as volunteering time to the organization (e.g., office assistance) or donating materials (e.g. an obsolete computer). Such a criterion would be devastating to the programs of many not-for-profit organizations as well as resulting in biased and misleading financial statements.

The provision concerning merely providing a slogan may prove difficult to implement. In general, slogans are phrases expressing the aims or nature of an organization. As such, slogans may be appropriate calls to action. Does, for example, a phrase such as "Don't Drink and Drive" provided in connection with information explaining problems associated with drunken driving meet the test? Under this provision, it may not be considered a call to action.

The draft also provides conflicting guidance regarding the specificity of calls to action. Paragraph 30 requires a specific call but footnote 6 to paragraph 31 indicates the call may be implied.

Paragraphs 30 and 31 of the exposure draft provide conflicting guidance. Information must be provided to explain need for and benefits of action (par. 30) to support a program purpose. However, information stating the needs to be met is considered to be in support of the fund raising appeal (par. 31). Further, educational materials are fund raising unless audience is motivated to action other than donating funds. This provision takes the draft well beyond the original intent of the "primary purpose" rule.

Incidental Costs

The exposure draft indicates that many entities conduct fund raising activities in conjunction with program or management and general activities that are incidental to such program or management and general activities. However, this use of the term incidental is inconsistent with the provisions of SFAS No. 117 concerning ongoing or major operations and incidental activities. Therefore, this inconsistency should be eliminated.

The apparent intent of this provision is to define immaterial activities. To determine whether costs of fund raising appeals are immaterial for program or management and general purposes, the draft should provide an operational guideline such as a 5 percent rule. That is, if the direct costs of the fund raising appeal are less than 5 percent of the total cost of the material or activity that includes a fund raising appeal, then fund raising costs are considered immaterial and allocation is not required.

Allocation Methods

The exposure draft provides that the allocation of joint costs should be based on the degree to which the cost element was incurred for the benefit of the activity or activities undertaken. It further indicates that the cost allocation method used should be rational and systematic, should result in an allocation of joint costs that is reasonable and not misleading, and should be applied consistently, given similar facts and circumstances. It also indicates the reasonableness of the joint cost allocation should be evaluated based on whether it reflects the degree to which costs have been incurred for the benefit of fund raising, bona fide program, or management and general activities. (par. 33).

Seeking to evaluate the reasonableness of joint cost allocations in terms of the degree to which costs have been incurred for the benefit of various purposes reflects a lack of understanding of true joint cost behavior. The physical units method and the direct costs method of joint cost allocation (para. 34 of the draft) both attempt to estimate on a systematic, rational, and verifiable basis the degree to which costs have been incurred for the purposes served by the materials and activities that include a fund raising appeal. However, the nature of joint costs make the allocation of them extremely difficult and not readily susceptible to evaluation of "reasonableness." If the degree to which costs were incurred for various purposes could be established, then the costs would not be joint costs.

The exposure draft illustrates some commonly used allocation methods: the physical units method, the relative direct cost method, and the stand-alone costs method (par. 34). No particular method is prescribed or precluded. However, a commonly used method to allocate joint costs of materials and activities that include a fund raising appeal is the use of subjective estimates of relative program and fund raising content rather than the physical units or direct costs methods. This subjective estimate method is not systematic and rational, is not verifiable, and cannot be consistently applied. Therefore, the use of this method should be specifically precluded from practice.

RECOMMENDATIONS FOR IMPROVEMENT

Discussed below are the principal recommendations to improve the guidance in the exposure draft. These recommendations focus on refining the current guidance in SOP 87-2 for determining when to allocate joint costs. Each recommendation is based on the FASB conceptual framework and is designed to be consistent with SFAS No. 117. The costs of implementation are also kept in mind in proposing these recommendations. A detailed discussion of the supporting rationale for each recommendation is contained in the appendix.

Scope of Standard

The tests underlying the purpose criterion in the exposure draft fail to establish whether a program purpose is met as defined by SFAS No.117. Therefore, the requirement to classify all costs of materials and activities that include a fund raising appeal if the draft purpose criteria tests are not met is not only arbitrary but also inconsistent with the more authoritative guidance of SFAS 117. Therefore, the scope of the proposed Statement of Position should be limited to joint costs.

Recommended Purpose Criterion

The exposure draft states that in determining whether a bona fide program or management and general function has been conducted, the purposes for conducting the activity must be considered. It provides for several tests such as the compensation test, the evaluation test, and the with/without appeal test to determine whether a program purpose is met by a multipurpose activity.

The following provisions are recommended to define the purpose criterion and to establish the conditions when the purpose criterion is met.

1. SFAS No.117 defines program, management and general, and fund raising activities as follows:

Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs. (par. 27)

Management and general activities include oversight, business management, general record keeping, budgeting, financing and related administrative activities, and all management and administration except for direct conduct of program services or fund raising activities. (par. 28)

Fund raising activities include publicizing and conducting fund raising campaigns; maintaining donor mailing lists; conducting special fund raising events; preparing and distributing fund raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others. (par. 28)

2. Materials and activities that include a fund raising appeal (hereinafter a "multi-purpose activity) are considered by definition to be designed in part as a fund raising appeal. Therefore, the fund raising purpose is met.

3. A multi-purpose activity meets a program purpose only if verifiable evidence exists that all of the following conditions described below are met.

a. Mission b. Organization c. Evaluation

4. Mission - the multi-purpose activity can assist the organization in providing goods or services to its beneficiaries that fulfill the purpose or mission for which the organization exists.

5. Verifiable evidence of the mission condition includes:

a. Statements in the organization's mission, bylaws, or annual report.

b. Documentation in minutes of board of directors, committees, or other meetings or in other memoranda.

c. Restrictions imposed by donors (who are not related parties) on gifts intended to fund the activity.

6. Organization - The not-for-profit organization or the entity has the structure and capability to implement the program purpose of the multi-purpose activity.

7. Verifiable evidence for the organization condition includes:

a. Documentation in job descriptions of internal parties conducting the activity.

b. Resources budgeted to implement the program purpose or purposes specified in the multi-purpose activity.

c. Long-range plans or operating policies.

8. For example, suppose advocacy organization A utilizes a multi-purpose direct response campaign to disseminate information on issues and asks its audience for opinions on issues for communication to public officials. The organization should have verifiable evidence that it has the capability to process the surveys and communicate the responses to public officials to meet the organization condition.

9. As another example, suppose organization B disseminates information concerning a societal problem through a multi-purpose direct mail campaign and provides its audience a hotline number to request more information and to assist in dealing with the problem. The organization should have sufficient resources budgeted to staff the hotline phones and to provide the requested information to meet the organization condition.

10. Control - the organization or entity controls the development of the multi-purpose activity.

11. Verifiable evidence of the control condition includes:

a. Written instructions to internal parties conducting the multi-purpose activity.

b. Written instructions to third parties, such as script writers, consultants, or list brokers, concerning the purpose of the activity, audience to be targeted, or method of conducting the activity.

c. Documentation of active participation of management in the development of the multi-purpose activity.

d. Qualifications and duties of personnel. If the entity employs a third party, such as a consultant or a contractor, to perform part or all of the activity, the third party's experience and full range of available services should be considered in determining whether it is performing program activities. If the entity's employees perform part or all of the activity, the full range of their job duties should be considered in determining whether those employees are performing program or management and general activities.

12. Evaluation - the organization has either:

a. A process to measure the program results of a multi-purpose activity, or

b. Indications the audience for the multi-purpose activity has taken action to assist the organization in meeting the program purpose specified in the multi-purpose activity.

13. Verifiable evidence of the evaluation condition includes:

a. Documentation of a process for evaluation of program results and, where practical, measurement of program results.

b. Documentation that the audience has implemented the program purpose called for by the multi-purpose activity.

14. For example, organization A referred to in paragraph 8 could have evidence in the form of returned surveys. Organization B referred to in paragraph 9 could have evidence of hotline usage. Organizations could also utilize random follow-up communications with recipients of multi-purpose activities to meet the evaluation condition.

15. If verifiable evidence described in paragraph 13 does not exist, the following shall establish whether the evaluation condition is satisfied:

a. If a similar program or management and general component is conducted without the fund raising appeal using the same medium, on a scale that is similar to or greater than the scale on which it is conducted with the appeal, the purpose criterion is met.

b. If the program activity is also conducted in a different medium without a significant fund raising component, the evaluation condition is met.

16. If any of the program purpose conditions are not met, the multi-purpose activity fails the program purpose criterion. If the multi-purpose activity does not meet the management and general purpose criterion in paragraph 17, all joint costs of the multi-purpose activity shall be accounted for as fund raising costs.

17. A multi-purpose activity meets a management and general purpose only if verifiable evidence exists that each of the following conditions are met.

a. Mission b. Organization c. Stewardship

18. Mission - the multi-purpose activity can assist the organization in providing information concerning its mission accomplishments or stewardship to persons or entities in need of such information.

19. Verifiable evidence of the mission condition includes:

a. Statements in the organization's mission, bylaws, or annual report.

b. Documentation in minutes of board of directors, committees, or other meetings or in other memoranda.

20. Organization - The not-for-profit organization or the entity has the structure and capability to conduct the management and general functions covered by the multi-purpose activity.

21. Verifiable evidence for the organization condition includes:

a. Documentation in job descriptions of internal parties conducting the activity.

b. Resources budgeted to implement the management and general purpose or purposes specified in the multi-purpose activity.

c. Long-range plans or operating policies

22. Stewardship - the organization has a specific need to provide the information to persons or organizations interested in the stewardship or mission accomplishments of the organization as evidenced by:

a. Specific regulatory or contractual requirements; or

b. Indications the audience for the multi-purpose activity has an interest in the management and general information specified in the multi-purpose activity.

23. If any of the management and general purpose conditions are not met, the multi-purpose activity fails the management and general purpose criterion. If the multi-purpose activity has also failed the program purpose criterion specified in paragraph 17, all joint costs of the multi-purpose activity shall be accounted for as fund raising costs.

Recommended Audience Criterion

The exposure draft states that the audience criterion is not met if the audience is selected principally on its ability or likelihood to contribute. The audience criterion is met if the audience is selected principally on its need for the program or because it can assist the entity to further program goals other than by contributing. The draft also indicates that characteristics of the audience should be considered as a basis to determine whether this criterion is met. The draft does not address the situation where the principal reasons for selection of an audience for a multi-purpose activity are both program and fund raising.

The following provisions are recommended to define the audience criterion and establish the conditions for determining when the audience criterion has been met.

1. A multi-purpose activity (i.e. materials and activities that include a fund raising appeal) should have a target audience consistent with each of the purposes met under the purpose criterion.

2. A multi-purpose activity meets the audience criterion for each of its purposes as follows:

a. For Fund Raising - the audience has the ability or likelihood to contribute funds to the organization.

b. For Program - the audience has a potential or demonstrated need for, or interest in, the program material or activity component of the multi-purpose activity based on verifiable evidence of;

   1) Affinity - participation in programs of similar organizations;

   2) Consumer profile - interests related to the organization's program component of the multi-purpose activity; or

   3) Ability to participate - can respond to program-purpose related calls for action contained in the multi-purpose activity.

c. Management and General - the audience has a need for, or interest in, stewardship information concerning the organization, based on verifiable evidence such as prior donor or volunteer lists or specific requirements for such information.

3. An audience must meet the condition corresponding to each purpose of the multi-purpose activity. If an activity has a program and a fund raising purpose, then the target audience must meet the condition in paragraph 2.a. for fund raising and 2.b. for program. If an activity has program, management and general, and fund raising purposes, then the target audience must meet each of the conditions specified in paragraph 2.

4. For example, an individual may be a target audience for a multi-purpose direct mail campaign which contains information and calls for action concerning environmental problems, information concerning past accomplishments and uses of funds, and an appeal for funds. The individual is a contributor to a similar organization and thus meets the fund raising condition. That individual participates in outdoor sports including skiing and hunting. Therefore, that individual may have an interest in environmental issues and would qualify as an audience for program information concerning problems with the environment. As state regulation requires specific information about the organization to be included in the direct mail package, the individual has a need for management and general information. Thus, all necessary conditions are met.

5. The source of the names and the characteristics of the audience should be considered. The source of such lists may indicate the purpose for which they were selected. For example, lists acquired from organizations with similar or related programs meet the audience criterion. Also, lists based on consumer profiles related to the organization's mission or purpose meet the audience criterion.

6. If the audience does not meet the condition corresponding to each purpose of the multi-purpose activity, the activity fails the audience criterion. Since, by definition, the fund raising appeal is a purpose of the activity, the audience is presumed to meet the condition for fund raising, and all joint costs of the multi-purpose activity should be charged to fund raising.

Recommended Content Criterion

The exposure draft indicates that to meet the content criterion, the material or activity must call for specific action by the recipient that will help accomplish the entity's mission. That action must be unrelated to providing financial or other support to the entity itself by (1) benefiting the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or (2) benefiting society by addressing societal problems. Information must be provided explaining the need for and benefits of the action. Sufficient detail should be provided describing the action to be taken; merely providing a slogan is not sufficient. However, the draft also indicates information stating the needs or concerns to be met should be considered as supporting the fund raising appeal.

The following provisions are recommended to define the content criterion and to establish the conditions when the content criterion is met.

1. A multi-purpose activity (i.e. materials and activities that include a fund raising appeal) should include verifiable content related to each purpose of the activity.

2. The content criterion is met for program purposes if either conditions "a" and "b" or "a" and "c" are met as follows:

a. Factual information is provided about the needs or concerns to be met, and how those needs relate to the Program purpose(s) of the organization; and

b. For audiences in need of the program provided by the multi-purpose activity (i.e. beneficiaries), the content includes an express or implied call to motivate the audience to take the action that would result in the organization meeting its program goals; or

c. For audiences that can assist the organization or entity in meeting its program goals, the content includes a specific call to action the audience can or should take to assist the organization in meeting its program goals.

3. For example, organization C is an advocacy organization whose mission includes educating the public about child abuse and stronger child protection laws. Included in the educational materials distributed through direct mail is an easy to remember phone number (e.g. 1-800 AID A KID) recipients can call for assistance when needed. The call to action is implied since the action would only be taken when needed. In this case, the educational materials meet conditions a and b for program content.

4. Organization C also conducts a separate mail campaign educating the public about child abuse and urging recipients to contact their legislators in support of better child protection laws. In this case, the call to action is specific and the educational materials meet conditions "a" and "c" for program content.

5. The content criterion for management and general is met if either conditions "a" and "b" or "a" and "c" are met as follows:

a. Content - includes information identifying and describing the organization, how funds have been used in the past, and past program results and accomplishments; and

b. The content is provided to audiences such as prior donors, contributors, or others to report on stewardship performance or mission accomplishments; or

c. The content is provided to audiences of prospective donors or program participants in compliance with specific regulatory requirements.

6. For purposes of this SOP, the content criterion for fund raising is presumed to be met.

7. Based on paragraph 6, fund raising content includes:

a. Information identifying and describing the organization, how funds have been used in the past, and past program results and accomplishments, if the audience for this information is prospective program participants or donors and condition 5(c) is not met;

b. Information concerning how donated funds will be used, and the actions the audience can or should take to contribute funds to the organization; and

c. Any information not meeting the conditions for Program or Management and General content in paragraphs 2 and 5.

Incidental Activities

The exposure draft indicates that many entities conduct fund raising activities as part of multi-purpose activities that are incidental to program or management and general activities. However, this use of the term "incidental" is inconsistent with the provisions of SFAS No. 117 concerning ongoing or major operations and incidental activities. Therefore, the term "incidental" should be replaced by the term "immaterial".

To determine whether costs of fund raising appeals are immaterial for program or management and general purposes, the draft should provide an operational guideline such as a 5 percent rule. That is, if the direct costs of the fund raising appeal are less than 5 percent of the total cost of the material or activity that includes a fund raising appeal, then fund raising costs are considered immaterial and allocation is not required.

Allocation Methodology

The exposure draft provides that the allocation of joint costs should be based on the degree to which the cost element was incurred for the benefit of the activity or activities undertaken. It further indicates that the cost allocation method used should be rational and systematic, should result in an allocation of joint costs that is reasonable and not misleading, and should be applied consistently, given similar facts and circumstances.

The physical units method, the direct cost method, and the stand-alone cost method of cost allocation attempt to estimate on a systematic, rational, and verifiable basis the degree to which costs have been incurred for each purpose served by a multi-purpose activity. The exposure draft indicates these methods are acceptable approaches for cost allocation.

No particular method is prescribed or precluded by the draft. However, a commonly used method to allocate joint costs of multi-purpose activities is the use of subjective estimates of relative program and fund raising content rather than the physical units, direct costs, or stand-alone costs associated with multi-purpose activities. This subjective estimate method is not systematic and rational, is not verifiable, and cannot be consistently applied. Therefore, the use of this method should be specifically precluded from practice.

Technical Corrections

Listed below are several recommended technical corrections to the exposure draft. These items are discussed in detail in the appendix.

- Reference not-for-profit organizations as organizations or NPOs.
- Reference state and local government entities as entities.
- Relate expenses to not-for-profit organizations.
- Relate expenditures to state and local government entities.
- Define joint materials.
- Utilize definitions of programs, management and general, fund raising, and membership development from SFAS No.117 in the exposure draft.
- Establish that multi-purpose materials and activities may incur direct costs and indirect costs. Direct costs are costs that are specifically identifiable with a particular program, management and general, or fund raising function in an economically feasible way. Indirect costs, referred to as joint costs, are costs that cannot be specifically identified with a particular function in an economically feasible way.
- Define purpose, audience, and control criteria.
- Utilize FASB No.117 definitions to establish the purpose criterion.
- Eliminate use of terms "substantially all," "in part," "skewed," "principally," and "reasonable."

CONCLUSIONS

The basic presumption underlying current guidance is that all costs of materials and activities that include a fund raising appeal are fund raising costs unless proven otherwise. This presumption is the source of many of the operational problems of SOP 87-2. The presumption primarily concerns the reliability of accounting information. However, it requires examination of a broad range of issues that are ultimately related to the intent of the management of the not-for-profit organization. It results in conditions that not only prove difficult to implement but also imply not-for-profit organizations and their auditors lack integrity in accounting for costs of materials and activities that include a fund raising appeal. The draft SOP is also based on this presumption and therefore contains many provisions which will be very difficult if not impossible to implement.

The draft SOP will increase the requirements for substantiating the reasons or purposes not-for-profit organizations pursue multi-purpose materials and activities that include a fund raising appeal. Current guidance already requires consideration of supporting evidence to determine the reasons for an organization's use of materials and activities that include a fund raising appeal. It is clear that the proposed SOP will increase the administrative costs for all not-for-profit organizations. It is not clear who will benefit from the exposure draft.

The draft SOP goes far beyond the realm of current financial accounting for not-for-profit organizations. This is indicated by issues such as whether activities would be conducted without a fund rasing appeal, whether program accomplishment measures exist, and whether donor participation in programs should be considered in determining accounting for costs of materials and activities that include a fund raising appeal. As discussed above, these issues raise serious conceptual and practical concerns.

The draft SOP is driven by considerations specific to certain organizations, programs, and approaches to development of materials and activities that include a fund raising appeal. This is indicated by issues such as whether services are performed by consultants and where and how list rentals originate. Since the proposed guidance would apply to all not-for-profit organizations that incur costs for materials and activities that include a fund raising appeal, the conditions to account for these costs should not be driven by specific media, program, or source considerations. Otherwise, the guidance may prove very restrictive to some not-for-profit organizations and unworkable for others.

Because of the many conceptual and practical shortcomings of the exposure draft, the AICPA should adopt the recommendations of this report to improve the SOP. Accounting for costs of materials and activities of not-for-profit organizations that include a fund raising appeal has been plagued by non-accounting issues for over thirty years. The opportunity to eliminate old presumptions and practices to provide a sound conceptual and practical basis to account for these costs is now.

ANALYSIS OF EXPOSURE DRAFT

This appendix provides a detailed analysis of the proposed statement of position exposure draft. For ease of reference, the original sequence of the exposure draft is retained and shown in italics. Each underlined section is referenced to the analysis of its logic, its consistency with current accounting concepts and standards, and its operational implications. Most, but not all, provisions of the exposure draft are discussed below.

Exposure Draft Summary (S)

(S-1) This proposed SOP would apply to <u>all not-for-profit organizations (NPOs)</u> and <u>state and local governmental</u> entities that <u>report expenses or expenditures by function</u>...
(S-2) It would be applied by all not-for-profit organizations and state and local governmental entities in determining <u>fund raising costs</u>.

Analysis

(S-1) Although the proposed SOP would apply to all not-for-profit organizations (NPOs) and state and local governmental entities, this analysis is limited to the perspective of not-for-profit organizations. It should be noted that not-for-profit organizations report expenses not expenditures by function. To report only expenditures would violate the accrual accounting basis used by not-for-profit organizations. State and local government entities generally use the modified accrual basis of accounting which recognizes expenditures as incurred. Although these concepts are related, they are not the same. The draft should recognize that fund raising expense can include expenditures made in past and current periods and also liabilities for expenditures to be made in future periods, especially for not-for-profit organizations.

(S-2) The focus on fund raising costs is too limited. Since the proposed statement of position deals with accounting for costs of materials and activities that include a fund raising appeal, the draft should explicitly identify that it would be applied to determine the reporting of costs of functions served by the materials and activities as well as the costs of the fund raising appeal included with the materials and activities.

This proposed SOP sets forth the following:

(S-3) <u>The costs of all material and activities</u> that include a fund raising appeal <u>should be reported as fund raising costs, including costs that are otherwise clearly identifiable with program or management and general functions,</u>
(S-4) <u>unless a bona fide program or management and general function has been conducted in conjunction with the appeal for funds</u>.

Analysis

(S-3) The draft would go beyond the scope of joint costs. Current guidance is limited to joint costs. As discussed more fully below, accounting for most costs of materials and activities that include a fund raising appeal is well established. This is specifically noted by the Financial Accounting Standards Board in its conclusions underlying SFAS No. 117, Financial Statements of Not-for-Profit Organizations as follows:

> The Board also concluded that information about the costs of significant programs or services are both relevant and measurable with sufficient reliability. Many costs are directly related to a major program or service or to a supporting activity. Some costs relate to two or more major programs and may require allocations. Techniques for allocating costs among significant programs or services are reasonably well developed; allocating costs among segments, products or services, and accounting periods are common in general-purpose accounting and reporting managerial accounting, tax accounting, and contract accounting of all entities. (par. 58)

The exposure draft provides no basis for extending coverage beyond joint costs of materials and activities that include a fund raising appeal.

Also, as discussed more fully later, the draft requirement to report all costs as fund raising cost, including costs that are otherwise clearly identifiable with program or management and general functions violates the basis of financial reporting. FASB Statement on Financial Accounting Concepts No. 2 requires financial information to be representationally faithful, that is, correspondence or agreement between a measure or description and the phenomenon that it purports to represent (sometimes called validity).

(S-4) The exposure draft use of the concept of a bona fide program or management and general function in conjunction with the appeal for funds continues a fundamental flaw in current guidance. The use of the term <u>bona fide</u> (i.e., good faith) is rare in accounting. Its inclusion in the draft questions the integrity of the management and board of directors of every not-for-profit organization. Further, the draft criteria, discussed below, of what constitutes a bona-fide program are unrelated to the fundamental concept of a program or management and general function of an organization.

The logic of the draft is significantly affected by this concept. Although the draft purports to provide guid-

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ance for costs of materials and activities that include a fund raising appeal, this concept puts the program or management and general function in conjunction, or along with the fund raising appeal. As discussed more below, this view biases the criteria specified in the draft.

(S-5) If a bona fide program or management and general function has been conducted in conjunction with an appeal for funds, (S-6) the joint costs of those activities should be allocated. (S-7) Costs that are clearly identifiable with fund raising, program, or management and general functions should be charged to that cost objective.

Analysis

(S-5) The phrase bona fide should be eliminated. The term is not defined in the draft. Further, use of the phrase bona fide is redundant. FASB Statement of Financial Accounting Concepts No. 6 indicates that a not-for-profit organization is required to use its resources to provide goods and services to its constituents and beneficiaries as specified in its articles of incorporation or by-laws (par.18). The phrase bona fide is defined as good faith or without fraud or deception (Webster). This concept underlies all accounting as indicated by the FASB Statement of Financial Accounting Concepts No. 2 discussion of the reliability of financial information (par. 58 - 78). Utilizing this phrase in connection with program indicates the underlying belief that fraud or deception is intended.

An organization could pursue a bona fide program that is not necessarily consistent with it's mission or by-laws. FASB Statement of Financial Concepts No.2 indicates that good intentions alone do not guarantee reliable financial information (par. 109). Thus, the proposal should not rely on intentions, but rather verifiable evidence.

(S-6) The draft should specify that, "if the criteria of this statement are met, the joint costs of materials and activities that include a fund raising appeal should be allocated to the program, management and general, and fund raising function served by such materials and activities." The current description is limited to "those activities" and it is not clear which activities are at issue.

(S-7) This sentence of this provision describes current accounting practice. As discussed earlier, SFAS No.117 notes:

> Information about the costs of significant programs or services are both relevant and measurable with sufficient reliability. Many costs are directly related to a major program or service or to a supporting activity. Some costs relate to two or more major programs and may require allocations. Techniques for allocating costs among significant programs or services are reasonably well developed; allocating costs among segments, products or services, and accounting periods are common in general-purpose accounting and reporting managerial accounting, tax accounting, and contract accounting of all entities. (par.58)

(S-8) Criteria of purpose, audience, and content must be met in order to conclude that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds.

Analysis

(S-8) Each of these criteria are discussed in detail below. However, the draft should indicate that the criteria must be met to substantiate that "materials and activities that include a fund raising appeal serve program, management and general, and fund raising functions." The rationale for this wording is discussed in more detail below.

(S-9) Some commonly used and acceptable allocation methods are described and illustrated though no methods are prescribed or prohibited.

Analysis

(S-9) As discussed more fully later, the methods described and illustrated in the draft are common methods. However, the draft does not describe and illustrate any unacceptable methods. Identification of unacceptable methods would provide the basis for more consistent and improved accounting practice.

(S-10) Certain information must be disclosed if joint costs are allocated.

Analysis

(S-10) The required and recommended disclosures proposed by the draft are discussed below.

Introduction

1. (1-1) Some not-for-profits organizations (NPOs) and state and local governmental entities (referred to as entities throughout this SOP), such as governmental colleges and universities and governmental hospitals and other health care providers solicit support through (1-2) a variety of fund raising activities, including direct mail, telephone solicitation, door-to-door canvassing, telethons, and special events. (1-3) Sometimes an activity serves more than one function, such as fund raising, program, or management and general. (1-4) Generally, on these occasions, a portion of the costs of the activity is clearly identifiable with a particular function. However, other costs, referred to as joint costs, also generally exist that are not clearly identifiable with any one particular function.

Analysis

(1-1) This sentence identifies NPOs and state and local governmental entities for purposes of the SOP. However, the draft subsequently refers to only entities. As NPOs and state and local government entities do not use the same basis of accounting, the draft needs to maintain this distinction throughout the proposal.

(1-2) Although the title of the SOP refers to materials and activities that include a fund raising appeal, this sentence emphasizes fund raising activities rather than materials and activities that include a fund raising appeal. To be consistent with the purpose of the SOP, this sentence should indicate that NPOs and state and local governmental entities often utilize a wide variety of materials and activities that include fund raising appeals.

(1-3) This sentence should indicate that (these materials and) activities may serve both program or management and general functions and fund raising functions.

(1-4) This sentence should indicate that this SOP concerns those situations where portions of the costs of the materials and activities are clearly identifiable with particular functions but other costs, referred to as joint costs, also generally exist that are not clearly identifiable with, or are common to, more than one function.

2. *(2-1) External users of financial statements, including contributors, creditors, accreditation agencies, and regulators, want assurance that the amounts entities spend to solicit contributions, as well as the amounts spent for the program and management and general functions, are fairly stated... (2-2) Proper identification and allocation of joint costs may be a significant factor in measuring the costs of activities by function.*

Analysis

(2-1) The first sentence of this paragraph defines external users in terms of those most interested in the financial statements of NPOs. However, the second part of the sentence refers to entities, (defined in the previous paragraph as state and local governmental entities), and to the amounts "spent to solicit contributions, as well as the amounts spent for the program and management and general functions." State and local governmental entities utilize the modified accrual basis of accounting which reports amounts spent. However, NPO's use accrual accounting to report amounts of expenses.

FASB Statement of Financial Accounting Concepts No.4, Objectives of Financial Reporting by Nonbusiness Organizations, indicates that information about organization performance:

...measured by accrual accounting generally provides a better indication of an organization's performance than does information about cash receipts and payments. Accrual accounting attempts to record the financial effects of transactions, events, and circumstances that have cash consequences for an organization in the periods in which those transactions, events, and circumstances occur rather than in only the periods in which cash is received or paid by the organization. Accrual accounting is concerned with the process by which cash is obtained and used, not with just the beginning and end of that process. It recognizes that the acquisition of resources needed to provide services and the rendering of services by an organization during a period often do not coincide with the cash receipts and payments of the period. (Par. 50)

To be consistent with the accounting basis used by NPOs, this sentence should include NPOs in the description and indicate that external users are interested in how resources are obtained and used, not spent.

(2-2) This sentence should be expanded to include the joint costs of materials as well as activities.

3. *(3-1) The SOP establishes financial accounting standards for identifying joint costs and determining the circumstances in which costs of materials and activities that include fund raising appeals may be allocated....*

Analysis

(3-1) This sentence indicates the exposure draft would establish financial accounting standards for identifying joint costs and then determining the circumstances in which cost of materials and activities that include fund raising appeals may be allocated. This greatly expands the scope of the SOP beyond present practices and will lead to confusion. Many costs of materials and activities that include a fund raising appeal are directly identifiable with particular functions (as noted in the draft Summary) and therefore are not allocated. Thus this sentence should refer only to joint costs.

This sentence should also indicate that it identifies circumstances when joint costs should be allocated, i.e., allocation is required.

If the proposed or other criteria that may be developed to provide relevant and reliable information about joint costs of materials and activities that include a fund raising appeal are met by an organization, then that organization should allocate joint costs to program, fund raising, or management and general activities. FASB Statement on Financial Accounting Concepts No.6 indicates that allocation is a critical aspect of financial reporting (par. 142, 149-150). SOP 87-2 currently requires allocation if existing criteria are met. Not requiring allocation will produce a lack of comparable financial statements between organizations that allocate joint costs of materials and activities that include a fund raising appeal to programs, fund raising or management and general functions, and those that do not.

Not requiring allocation if criteria are met will also produce the potential for misleading financial statements. The purpose of allocation is to provide external users of financial statements a fair presentation of the costs of each purpose served by the materials and activities that include a fund raising appeal. Failure to allocate will result in misstatements of costs of activities to which joint costs should have been allocated and were not and costs of activities that should not have been charged but were.

Scope
4. (4-1) This SOP establishes accounting standards for <u>all NPOs and state and local government entities that report expenses or expenditures by function</u>.

Analysis
(4-1) This sentence indicates that the revisions suggested in the analysis of (1-1) and (2-1) should be made. In addition, this sentence should be revised to read, "This SOP establishes accounting standards for all NPOs required to report expenses by function and all state and local government entities that report expenditures by function."

5. (5-1) This SOP applies only to <u>costs of materials and activities that include a fund raising appeal</u>.

Analysis
(5-1) This indicates that the revisions suggested in the analysis of (1-1) and (2-1) concerning references to materials and activities should be made.

Background
8. In 1987, the AICPA issued SOP 87-2. ...SOP 87-2 required that all circumstances concerning informational materials and activities that include a fund raising appeal be considered and that the following criteria be applied:

- *(8-1) <u>All joint costs</u> [of informational materials or activities that include a fund raising appeal] <u>should be reported as fund raising expense</u> if it cannot be demonstrated that a <u>program or management general function has been conducted in conjunction with the appeal for funds</u>...(paragraph 15)*

Analysis
(8-1) This reference to SOP 87-2 clearly indicates that its scope is limited to joint costs of informational materials or activities that include a fund raising appeal. It further indicates that the scope considers materials and activities that include a fund raising appeal, not a fund raising appeal that includes a program or management and general activity.

- *(8-2) Demonstrating that a bona fide program or management and general function has been conducted [in conjunction with the appeal for funds] <u>requires verifiable indications of the reasons for the activity</u>. Such indications include the <u>content of the non-fund raising portion of the activity; the audience targeted; the action</u>, if <u>any, requested of the recipients; and other corroborating evidence</u>, such as written instructions <u>to parties outside the organization who produce the activity</u>, or documentation in minutes of the organization's board of <u>the reasons for the activity</u>. (paragraph 16)*

Analysis
(8-2) This paragraph reiterates that the fund raising appeal is part of a broader activity. It further identifies the conditions which provide the verifiable indications of a multi-purpose activity. SOP 87-2 utilizes the verifiable indications to establish the reliability of the program or management and general function. FASB Statement on Financial Accounting Concepts Statement No.2 points out that verifiability is the ability through consensus among measurers to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.

As discussed more fully later, the draft should retain the condition of verifiable evidence as the primary means to determine whether the criteria of the statement are met by a particular multi-purpose material or activity.

- *(8-3) <u>Most fund raising appeals</u> include descriptions of the causes for which the entities exist and the planned uses of the funds, to inform prospective donors why funds are needed and how they will be used. <u>Unless an appeal is designed to motivate its audience</u> to action other than providing financial support to the organization, <u>all costs of the appeal should be charged to fund raising</u>.*

Analysis
(8-3) This paragraph of SOP 87-2 is specifically limited to appeals. Thus, it reiterates current cost accounting practices. The fund raising appeal is limited to the appeal and all costs of the appeal are fund raising costs. The paragraph does not imply that all costs <u>of the ac-</u>

tivity are fund raising costs. The SOP indicates that it applies only to joint costs. (par 2). The typical fund raising appeal would not motivate its audience to anything other than fund raising. Logically, the non-fund raising portion of the activity would contain an appropriate call to action for a program or management and general purpose.

- *(8-4) In order to accomplish their basic missions, some organizations educate the public in the attainment of their missions by telling people what they can or should do about particular issues. Those organizations should allocate joint costs to program activities if the informational materials or activities further those program goals. (paragraph 18)*

Analysis
(8-4) Under SOP 87-2 the action step is motivational - i.e. it is a call to action and it does not have to necessarily result in an action being taken. Logically, this is analogous to the action step of the fund raising appeal. The appeal does not necessarily result in a contribution. This distinction should be made in the exposure draft as well.

Present Practice
9. *(9-1) The activities of some entities raise consciousness and stimulate action; others are primarily educational. (9-2) Those activities are often done in conjunction with fund raising. (9-3) Many entities allocate the joint costs of those activities primarily to educational programs, based on the content of the materials distributed or the activities conducted.*

(9-4) These entities believe that their primary programs are to educate the public or stimulate action and that such activities or the distribution of such materials helps accomplish those program goals.

Analysis
(9-1) This sentence limits description of present practice to activities and some entities. Materials are excluded as are not-for-profit organizations (NPOs). This description should be expanded to materials and NPOs to more accurately reflect present practice.

(9-2) This sentence indicates that activities are done in conjunction with fund raising. This sentence should be revised to indicate that materials and activities often include a fund raising appeal.

(9-3) This sentence indicates many entities allocate the joint costs of those activities. This sentence should be revised to indicate that NPOs allocate joint costs of materials and activities to be consistent with the rest of the paragraph.

(9-4) This sentence should also be modified to include NPO's as well as entities.

10. *(10-1) Other entities allocate costs to fund raising, program, or management and general based on the purpose of the material or activity, determined by the reason for its distribution, the audience to whom it is addressed, and its content.*

Analysis
(10-1) This sentence indicates other entities allocate costs. This sentence should be revised to include NPO's and to indicate that NPO's allocate joint costs of materials and activities that include a fund raising appeal to fund raising, program, or management and general functions.

11. *(11-1) Some believe the guidance in SOP 87-2 is inadequate to determine whether fund raising appeals, such as those that also list the warning signs of a disease, are designed to motivate their audiences to action other than to provide support to the organization and (11-2) whether appeals that merely repeat slogans are designed to help the entity attain its mission by educating the public in a meaningful manner. (11-3) It is unclear what attributes the targeted audience should possess in order (11-4) to conclude that an educational program function is being conducted.*

Analysis
(11-1) This paragraph summarizes the beliefs of some but provides no identification of whom these parties are. The paragraph does not indicate whether others believe SOP 87-2 is adequate or inadequate for other reasons than those stated. If the summarization is accurate, it indicates a fundamental misunderstanding of SOP 87-2.

SOP 87-2 provides guidance to determine accounting for joint costs of informational materials and activities that include a fund raising appeal. Such materials and activities have both a program or management and general portion and a fund raising appeal portion. The fund raising appeal should be designed to serve a fund raising purpose. The non-fund raising portion should be designed to serve a program or management and general purpose. The emphasis on appeal implies that those who hold the beliefs described do not believe a program or management and general purpose is served by the activity. In other words, there is no activity, only an appeal for funds.

(11-2) This phrase continues the emphasis on appeals and describes slogans in terms of whether the appeals are designed to help the entity attain its mission by educating the public in a meaningful manner. This description, if accurate, indicates that the beliefs held concern only appeals and not materials and activities; only entities and not NPO's and entities; and only educating the public and not other programs. Public awareness, volunteer acquisition, and advocacy are but a few of other program purposes that could effectively be met by informational materials and activities that include fund raising appeals. Public education is by no means the only program purpose covered by SOP 87-2.

The draft should identify and publicize the beliefs of all who are affected by the current guidance, not just some. For example, others may believe that critics of SOP 87-2 do not understand accounting in general or allocation in particular, and education of users may be an appropriate action to pursue.

(11-3) Issues concerning slogans (from 11-2) and audience attributes are discussed in detail later.

(11-4) As discussed under 11-2, education programs are but one type of program that can be served by materials and activities that include a fund raising appeal.

12. (12-1) SOP 87-2 has been difficult to implement and inconsistently applied in practice, because of the following:

- *The second sentence of paragraph 1 of SOP 87-2 states that (12-2) "some of the costs incurred by such organizations are clearly identifiable with fund raising, such as the cost of fund raising consulting services." It is unclear whether (12-3) activities that would otherwise be considered program activities may continue to be characterized as program activities if they are performed or overseen by professional fund raisers. (12-4) It is unclear whether activities would be reported differently (for example, program versus fund raising) depending on whether the fund raising consultant is compensated by a predetermined fee or by some other method, such as a percentage of funds raised.*

Analysis

(12-1) This sentence indicates SOP 87-2 has been difficult to implement and inconsistently applied for the reasons stated. However, these reasons are not valid as explained below.

(12-2) Some of the costs incurred are clearly identifiable with fund raising. If so, then they should be reported as fund raising. It is difficult to comprehend how costs that are clearly identifiable with fund raising would cause problems in implementation.

(12-3) This sentence creates confusion by suggesting the delivery of the material or activity overrides the substance of the material or the activity. Program activities are program activities. For example, does a personnel recruitment function cease to be a recruitment function if it is performed by a CPA firm instead of a personnel recruiting firm? Does a payroll function cease to be a payroll function if an organization outsources it to a bank instead of performing it internally?

(12-4) This section suggests that the form of compensation dictates the substance of the material or activity. However, the basis for payment does not change the substance of the transaction. For example, does rent expense cease to be rent expense if it is based on a percentage of gross sales instead of a flat fee? The draft cites no basis to conclude that SOP 87-2 implementation has been inhibited or inconsistently applied because of compensation arrangements. How fund raising consultants or any other parties (internal or external) involved with informational materials and activities that include fund raising are compensated is not germane to how the costs of those services should be reported. What is germane is the purposes for which the services were performed.

- *(12-5) SOP 87-2 is unclear about whether allocation of costs to program expense is permitted (12-6) if the activity for which the costs were incurred would not have been undertaken were the activity not intended to raise funds.*

Analysis

(12-5) This phrase implies joint cost allocation is optional. However, SOP 87-2 requires allocation of joint costs of informational materials and activities that include a fund raising appeal to the program or management general purpose served and the fund raising function.

(12-6) This phrase implies the purpose of the activity is to raise funds. However, a multi-purpose material or activity is not intended to simply raise funds. The fund raising appeal included in the material or activity is intended to raise funds.

Further, accounting for the joint costs of materials and activities that include a fund raising appeal on what the organization would or would not have done is inappropriate. FASB Statement of Financial Accounting Concepts No.6 points out:

> "...transactions, events, and circumstances are the sources or causes of changes in assets, liabilities, and equity or net assets. None of these sources or causes involve prospective conditions. A transaction is a particular kind of external event involving transfer of something of value between entities. An event is a happening of consequence to an entity. Circumstances are a condition or set of conditions that develop from an event or a series of events. Thus a condition should relate to transactions, events, or conditions that have occurred rather than those that would occur (emphasis added) (par. 135-137).

Therefore SOP 87-2 appropriately is limited to actual transactions.

- *(12-6) SOP 87-2 defines joint costs through examples, and it is unclear what kinds of costs are covered by SOP 87-2.*

Analysis
(12-6) This statement is misleading. SOP 87-2, paragraph 1, describes joint costs as costs that relate to several functions. SOP 87-2, paragraph 2 makes it clear that SOP 87-2 applies only to joint costs.

- *(12-7) SOP 87-2 is unclear concerning whether salaries and indirect costs can be joint costs.*

Analysis
(12-7) SOP 87-2, paragraph 1, describes joint costs as costs that relate to several functions. Therefore salaries and indirect costs can be joint costs. As discussed below, joint costs are costs that are not clearly identifiable with, or are common to more than, one function.

13. (13-1) SOP 87-2 does not address the issue of how to allocate joint costs. (13-2) Some believe that guidance should be provided on the subject, possibly through illustrations of the use of acceptable allocation methods.

Analysis
(13-1) This statement is correct. SOP 87-2, paragraph 2, notes that the issue of how to allocate joint costs is not addressed, as a number of cost accounting techniques are available.

(13-2) The analysis in this report is consistent with these beliefs.

DEFINITIONS

Joint Activities
14. For purposes of this SOP, (14-1) joint activities are activities that are part of the fund raising function and (14-2) one or more of the following functions:

- *Program* • *Management and general*

Analysis
(14-1) This definition of joint activities suggests that the fund raising program, and management and general functions include the joint activity, that is, the joint activity stems from the functions. However, these functions are served by, that is, they stem from, the joint activity. A joint activity corresponds to a single process that yields two or more products or services simultaneously. A joint cost is the cost of a single process that yields multiple products or services simultaneously (see Horngren, p. 527). Materials and activities that include a fund raising appeal may or may not involve a joint process. That is, materials and activities can be developed that serve programs, management and general, and fund raising purposes independently or together.

The cause-effect relationship, i.e., that activities lead to functions, is important because it relates directly to how costs are identified and reported by not-for-profit organizations. Thus the draft definition should indicate that a joint activity involves a joint process, or one which serves both a program or management and general function and a fund raising function.

(14-2) To maintain consistency with more authoritative guidance, this sentence should reference SFAS No. 117.

SFAS No.117 defines program, management and general, and fund raising activities as follows:

> Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs. For example, a large university may have programs for student instruction, research, and patient care, among others. Similarly, a health and welfare organization may have programs for health or family services, research, disaster relief, and public education, among others. (Par. 27)
>
> Management and general activities include oversight, business management, general record keeping, budgeting, financing and related administrative activities, and all management and administration except for direct conduct of program services or fund raising activities. (Par. 28)
>
> Fund raising activities include publicizing and conducting fund raising campaigns; maintaining donor mailing lists; conducting special fund raising events; preparing and distributing fund raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others. (Par. 28)

Joint Materials

Despite frequent references to the term, the exposure draft does not define materials. The draft should include a definition of material that indicates that joint materials serve both a program or management and general function and a fund raising function. The draft should further indicate that materials may be utilized in an activity that consists of a joint process, that is, serves more than one purpose simultaneously.

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Joint Costs

15. For purposes of this SOP, (15-1) joint costs are the costs of conducting, producing, and distributing materials and activities that include both a fund raising appeal and a bona fide program or management and general component and that are not specifically attributable to a particular component. Joint conducting and producing costs may include the costs of salaries, facilities rental, contract labor, consultants, paper, and printing. Joint distribution costs may include costs of postage, telephones, airtime, and facility rentals. Some costs, such as utilities, rent, and insurance, commonly referred to as indirect costs, may be joint costs. (15-2) However, for some entities, the portion of those costs that are joint costs are impracticable to measure and allocate.

Analysis

(15-1) This definition describes both materials and activities and therefore the draft should define joint materials as discussed above. However, it introduces the term component to describe program and management general. To maintain consistency with SFAS No.117, this definition should refer to activities rather than components.

(15-2) This sentence refers to entities. It should include NPOs as well. Measuring and allocating joint costs should not present any practical problems to either NPOs or entities. Costs are either directly identifiable with program, management and general, or fund raising activities, or indirectly identifiable. As this sentence provides no useful purpose, it should be deleted from the exposure draft.

If materials and activities are developed to serve a program or management and general purpose and include a fund raising appeal as well, then more than one purpose is simultaneously met and joint costs may be incurred. In this case, direct costs may be incurred that are traced to each purpose or cost object; indirect costs may be incurred that are allocated to the development of the materials and activities and further allocated to each purpose met, and joint costs may be part of the indirect costs incurred in the development of materials and activities that are allocated to each purpose met.

The exposure draft should establish that multi-purpose materials and activities may incur direct costs and indirect costs. Direct costs are costs that are specifically identifiable with a particular program, management and general, or fund raising function in an economically feasible way. Indirect costs, referred to as joint costs, are costs that cannot be specifically identified with a particular function in an economically feasible way.

Direct costs should not be allocated, as indicated in (16-1) below. However, indirect costs, including joint costs, would be allocated to each purpose met by the materials and activities that include a fund raising appeal using a cost allocation method or methods.

16. (16-1) Costs that are specifically attributable to a particular cost objective, such as fund raising, program, or management and general, are not joint costs. For example, (16-2) some costs incurred for printing, paper, professional fees, and salaries to produce donor cards, are not joint costs, though they may be incurred in connection with conducting a joint activity. However, as discussed in paragraphs 18 and 19, (16-3) accounting for such costs is covered by this SOP if they are incurred for joint materials and activities even though the costs are not joint costs.

Analysis

(16-1) This sentence utilizes the phrase "cost objective" in connection with fund raising, program, and management and general. To be consistent with SFAS No. 117, which is more authoritative guidance, the draft should indicate in this sentence that the cost objective is a particular function, as discussed in paragraph 18 of the draft.

(16-2) This example that some costs to produce donor cards are not joint costs is misleading. If the donor card relates to both a program activity (e.g., donate blood) and a fund raising activity (e.g., donate funds), the donor card relates to more than one function or cost objective, and therefore the costs are joint costs.

(16-3) This sentence refers to joint materials and activities. As discussed above, the term joint materials should be defined.

This sentence is also very confusing. Costs directly identifiable with a program, management and general, or fund raising function, i.e. direct costs, should be reported as costs of the appropriate function in accordance with paragraph 26 of SFAS No. 117, which states:

> To help donors, creditors, and others in assessing an organization's service efforts, including the costs of its services and how it uses resources, a statement of activities or notes to financial statements shall provide information about expenses reported by their functional classification such as major classes of program services and supporting activities.

SFAS No.117 notes in its basis for conclusions that:

> ...information about the costs of significant programs or services are both relevant and measurable with sufficient reliability. Many costs are directly related to a major program or service or to a supporting activity. Some costs relate to two or more major programs and may require allocations. (par. 58)

Therefore, sufficient authoritative guidance exists for costs that are not joint costs. This reference will prove confusing and contradictory to users and therefore should be eliminated.

Exposure Draft Conclusions

Flow chart

17. (17-1) The flow chart in appendix B on page 29 of this SOP illustrates the decision-making process for applying the conclusions in this SOP to determine whether a bona fide program or management and general function has been conducted and to which function costs of an activity should be charged. The flow chart is explained in paragraph 21.

Analysis

(17-1) As discussed below, the flow chart contains numerous errors and discrepancies. This description is misleading as it indicates that costs of an activity may be charged (but not costs of material) to a function but not functions. The draft should indicate that the flow chart should aid the decision-making process to determine how the costs of materials and activities that include a fund raising appeal should be assigned and allocated to program, management and general, and fund raising functions.

Joint Materials and Activities

18. (18-1) The cost of joint materials and activities may include both joint costs and costs that are clearly identifiable with a particular cost objective (function), such as fund raising, program, or management and general.

Analysis

(18-1) As discussed above, the draft does not define joint materials. This sentence appropriately relates the cost(s) of materials and activities to the functions as cost objectives. This relationship is consistent with functional expense reporting requirements of SFAS No. 117, as discussed earlier in analysis of (16-3). This provision indicates the draft should make the distinction between direct costs and indirect costs clear as discussed earlier in (15-2).

19. (19-1) All costs of materials and activities that include a fund raising appeal should be reported as fund raising costs, including costs that are otherwise clearly identifiable with program or management and general functions, unless (19-2) it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds. (19-3) However, if this can be demonstrated, costs that are clearly identifiable with a particular cost objective should be charged to that cost objective and joint costs should be allocated between fund raising and the appropriate program or management and general function... For example, the costs of materials that otherwise accomplish program goals and are unrelated to fund raising, such as the costs of an educational pamphlet included in a joint activity, should be charged to program if it can be demonstrated that a bona fide program function has been conducted in conjunction with the appeal for funds. However, (19-4) if the pamphlet is used in fund raising packets and it cannot be demonstrated that a bona fide program or management and general function has been conducted with the appeal for funds, the costs of the pamphlets should be charged to fund raising.

Analysis

(19-1) This provision, despite the qualifying language in (19-2) conflicts directly with paragraph 26 of SFAS No. 117 discussed earlier in 16-3. If costs are clearly identifiable with program or management and general functions, then the costs must have been incurred to conduct such functions.

(19-2) This qualifying phrase requires the demonstration that a program or management and general function has been conducted in conjunction with an appeal for funds. Per se, this demonstration should be self-evident. That is, the act of incurring the costs for the types of activities described in paragraphs 27 and 28 of SFAS No. 117 discussed earlier in (16-3), would demonstrate what functions had been conducted. However, as discussed below, the exposure draft imposes additional conditions to demonstrate that if a program or management and general function has been met. As will be explored, these conditions do not relate to SFAS No. 117, which is more authoritative guidance.

(19-3) This sentence reflects appropriate accounting for costs of materials and activities that include a fund raising appeal. However, at issue is how the organization or entity can demonstrate that a program or management and general function has been met. This is discussed below.

(19-4) The accounting treatment indicated in this sentence is only appropriate if a program or management and general function has not met criteria that are clearly consistent with SFAS No. 117.

This provision not only represents a major departure from current practice but also proposes accounting for costs of materials and activities that include a fund raising appeal that may be misleading.

As discussed in *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*, the "Primary Purpose" rule was adopted in 1964. This rule called for allocation to fund raising of all multipurpose information expenses other than the incremental direct costs of separate educational pieces. Thus, the primary purpose rule required the costs of the fund raising appeal and the joint costs to be reported as fund raising. However, costs clearly identifiable (that is, the incremental direct) costs of separate educational materials were reported as program costs. The primary purpose rule contained no bona fide program requirement.

SOP 87-2 modified the primary purpose rule to require that all joint costs of informational materials or activities that include a fund raising appeal be reported as fund raising expense if it cannot be demonstrated that a program or management and general function has been conducted in conjunction with the appeal for funds. However, if it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, joint costs should be allocated between fund raising and the appropriate program or management and general function. (Paragraph 15)

This draft provision would require that all costs rather than joint costs be reported as fund raising costs. This requirement may result in misleading financial reporting. As *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations* notes:

> It is evident that even the most obviously educational publications, news releases, and other informational activities of voluntary agencies may also have fund raising value, if only as demonstrations of an agency's real service to the public and therefore entitlement to public support. The fund raising expense category can become very misleading, however, unless the information materials and activities which are included [in the fund raising category] are restricted to those that are <u>explicitly fund raising</u> (emphasis added) (p. 53).

This provision also establishes accounting guidance for materials and activities that include a fund raising appeal that is biased in reporting fund raising costs. According to FASB Statement of Financial Accounting Concepts No. 2, bias in measurement is the tendency of a measure to fall more often on one side than the other of what it represents instead of being equally likely to fall on either side. Bias in accounting measures means a tendency to be consistently too high or too low. (Par. 77)

Concepts Statement No.2 notes that relevance and reliability are the two primary qualities that make accounting information useful for decision making. To be relevant, information must be timely and it must have predictive value or feedback value or both. To be reliable, information must have representational faithfulness and it must be verifiable and neutral.

Neutrality means that, in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest. A neutral choice between accounting alternatives is free from bias towards a predetermined result.

Neutrality in accounting has a greater significance for those who set accounting standards than for those who have to apply those standards in preparing financial reports, but the concept has substantially the same meaning for the two groups, and both will maintain neutrality in the same way. Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest. (Par. 98)

To be neutral, accounting information must report economic activity as faithfully as possible, without coloring the image it communicates for the purpose of influencing behavior in some particular direction. (Par. 100)

The FASB notes in setting standards that it is not desirable to tack with every change in the political wind, for politically motivated standards would quickly lose their credibility, and even standards that were defensible if judged against the criteria discussed in this Statement would come under suspicion because they would be tainted with guilt by association. (Par. 104)

Neutrality in accounting is an important criterion by which to judge accounting policies, for information that is not neutral loses credibility. If information can be verified and can be relied on faithfully to represent what it purports to represent -and if there is no bias in the selection of what is reported - it cannot be slanted to favor one set of interests over another. (Par. 107)

It may be the responsibility of other agencies to intervene to take care of special interests that they think might be injured by an accounting standard. The Board's responsibility is to the integrity of the financial reporting system, which it regards as its paramount concern. (Par.110)

To maintain neutrality and avoid the possibility of misleading financial statements, the draft should not require costs clearly identifiable with program or management and general functions to be reported as fund raising costs. This provision should be eliminated.

Bona Fide Program or Management and General Function

20. (20-1) In order to conclude that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, all of the following criteria, which are discussed in paragraphs 21 to 31 and illustrated in appendix A, must be met:

- *Purpose* • *Audience* • *Content*

Analysis

(20-1) This paragraph determines that all the criteria of purpose, audience, and content must be met. However, the draft does not define what these criteria are. The draft should specifically define what is meant for each of these criteria. Webster defines a criterion as a standard, rule, or test on which a judgement or decision can be based.

As a general consideration, accounting for costs of materials and activities of not-for-profit organizations that include a fund raising appeal should meet the criteria in FASB Statement of Financial Accounting Concepts No. 2. These criteria are relevance and reliability of the financial information concerning materials and activities to be reported in the financial statements. Historically, the costs of materials and activities have been allocated to program, management and general, and fund raising expense based on content, the reasons for distribution, and the target audience (Audits of Voluntary Health and Welfare Organizations, p. 27) (SOP 78-10, par. 97). SOP 87-2 added an action-step as part of content to determine whether allocation to program costs is appropriate (SOP 87-2, par. 17).

The purpose criterion should be established in terms of the SFAS No.117 definitions for program services, supporting services, management and general activities, and fund raising activities as follows:

> Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs. (SFAS No.117, par. 27)
>
> Supporting activities are all activities of a not-for-profit organization other than program services. Generally, they include management and general, fund raising, and membership-development activities. Management and general activities include oversight, business management, general record keeping, budgeting, financing and related administrative activities, and all management and administration except for direct conduct of program services or fund raising activities. Fund raising activities include publicizing and conducting fund raising campaigns; maintaining donor mailing lists; conducting special fund raising events; preparing and distributing fund raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others. Membership-development activities include soliciting for prospective members and membership dues, membership relations, and similar activities. (SFAS No.117, par.28)

Therefore, the draft should provide specific conditions to determine whether these SFAS No.117 program, management and general, or fund raising purposes were met by materials or activities that include a fund raising appeal. These conditions are discussed in detail below.

Similarly, the draft should provide specific conditions to determine whether the audience for materials and activities that included a fund raising appeal is appropriate for the purposes of such materials and activities. Specific conditions should also be provided to determine whether the content of the materials and activities is consistent with the purpose of and the audience for such materials and activities. These conditions are also discussed below.

21. (21-1) The flow chart in appendix B on page 29 illustrates the decision-making process for determining whether the criteria in paragraph 20 have been met...

Analysis

(21-1) The flow chart in appendix B does not fully illustrate the decision-making process required by paragraphs 22 through 32. The appendix indicates that only certain guidance of the SOP is illustrated. However, several key decision steps are omitted from the flow chart.

Since paragraph 21 of the draft summarizes the decision-making process described in more detail, the flow chart narrative is not analyzed. The errors in the flow chart are described later.

Purpose

22. (22-1) In determining whether a bona fide program or management and general function has been conducted, the purposes for conducting the activity must be considered.

Analysis

(22-1) This sentence indicates that the purposes for conducting the activity must be considered to determine whether a program or management and general function has been conducted. As discussed in the analysis of (20-1), if the purpose is to be a criterion, then the purposes of the materials and activities must be established. These purposes can include program, management and general, or fund raising.

Current accounting guidance requires verifiable indications that a bona fide program or management and general function has been conducted through *corroborating evidence such as documentation of the organization's reasons* (SOP 87-2, par. 16).

The exposure draft should utilize corroborating evidence as the primary basis to determine the purposes of materials and activities that include a fund raising appeal. This is discussed in more detail later.

23. (23-1) If substantially all compensation or fees for performing the activity are based on amounts raised, the purpose criterion is not met and all costs of the activity should be charged to fund raising. (23-2) Further, if the performance of the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met and all costs of the activity should be charged to fund raising.

Analysis

(23-1) This provision establishes a compensation test. Because it is an absolute test, that is, allocation is precluded if the test is not met, it must be considered on its own. This test has the following deficiencies.

- It is an arbitrary test because it has no relationship to the program or management and general purpose of materials and activities that include a fund raising appeal. As such, it is inconsistent with SFAS No. 117. That is, an activity may result in goods and services being provided to beneficiaries in accordance with paragraph 27 of SFAS No. 117. However, this test arbitrarily precludes recognition of the costs of such an activity as program costs. This results in biased and misleading financial statements.
- It does not consider materials, which may be a significant aspect of the activity.
- It does not consider that multiple parties may be involved in delivering materials and activities that include a fund raising appeal. That is, one party may develop the program materials and be compensated based on a flat fee and another party may develop the delivery activity and be compensated based on funds raised. This arbitrary test may preclude allocation in this instance.
- It does not specify the nature of the compensation. Compensation arrangements for development of delivery of materials and activities can take a variety of forms and may incorporate a number of factors not directly related to each of the purposes of the materials and activities. For example, a compensation arrangement may be based solely on amounts raised to adjust for the risks borne by each party concerning the fund raising purpose of the materials or activities. However, compensation for risk may have no bearing on program or management and general purposes served by the materials and activities as developed by the compensated party. In addition, many contracts specify advance of funds from the party performing the activity for postage and other expenses to the organization. Some may interpret reimbursement of these expenses as compensation based on the amounts raised.
- It fails to recognize that compensation based on amounts raised may be the only practical and agreed-upon basis to measure the materials or activities that include fund raising appeals, even though such materials or activities meet program or management and general purposes.
- It does not define the phrase "substantially." Some parties may interpret this to mean greater than 50%; others may interpret this to mean greater than 95%. This lack of specificity will not only create implementation problems but also lead to allegations of abuses. Oversight and regulatory agencies may consider "substantially all" at a far lower level than not-for-profit organizations do, thus creating the potential for allegation and controversy.
- It references the purpose criterion, which is not defined in the exposure draft. (The lack of a definitive purpose criterion is discussed in analysis of (20-1)).

Because of the numerous conceptual and operational problems associated with this test, is should not be a test to determine the purposes of materials and activities that include a fund raising appeal.

(23-2) This provision establishes an evaluation test. Because it is an absolute test, that is, allocation is precluded if the test is not met, it must be considered on its own. This test has many of the same deficiencies as the compensation test in (23-1).

- It is arbitrary because it does not allow for the evaluation of the party performing the activity in terms of programs. That is, a party could be evaluated substantially on both fund raising and program effectiveness. However, this condition would preclude consideration of the program evaluation because it is an absolute test. In other words, it does not allow use of paragraph 26.b discussed later, because of the barrier erected by paragraph 24. Therefore it is also inconsistent with SFAS No. 117, and would create biased and misleading financial statements.

- It does not consider materials which may be a significant part of the activity.
- It, like the compensation test, does not consider that multiple parties may be involved in multi-purpose materials and activities. Therefore, this test would preclude allocation if the party performing the activity is evaluated based on funds raised even though the party developing the materials is evaluated based on program effectiveness.
- It does not define the term "substantially". Thus, as with the compensation test, it would prove difficult to implement in practice and therefore lead to allegations of abuse.
- It also references the purpose criterion which is not defined.

Because of the numerous conceptual and operational problems associated with this test, it should not be a test to determine the purposes of materials and activities that include a fund raising appeal.

24. (24-1) <u>If the conditions in paragraph 23 have not resulted in all costs of the activity being charged to fund raising</u>, the purpose criterion may be met either by the conditions in paragraph 25 or the conditions in paragraph 26.

Analysis

(24-1) This sentence indicates paragraph 23 is a barrier. Therefore, interpretation of paragraph 23 using the qualifying conditions in paragraph 26 is precluded. It also fails to consider materials.

This provision also indicates that the draft is biased toward reporting all costs of multi-purpose materials and activities as fund raising. The compensation and evaluation tests are negative and are unrelated to determining program and management and general purposes of materials and activities. As such, they fail to consider the provisions of SFAS No. 117.

This lack of consistency with SFAS No. 117 also creates a significant auditing problem. Statements on Auditing Standards No. 69 establishes the meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" through a hierarchy of accounting principles. SFAS No. 117 is at level "a." The exposure draft, when promulgated, would be at level "b." As level "a" takes precedence over level "b," then the conditions in SFAS No. 117 are operative. That is paragraphs 27 and 28 of that pronouncement provide guidance on programs and supporting services. The exposure draft tests are inconsistent with, and subordinate to, that guidance.

This conflict with more authoritative guidance is another reason that the compensation test and evaluation test should not be tests to determine the program and management purposes of materials and activities that include a fund raising appeal.

25. (25-1) <u>If a similar program or management and general component is conducted without the fund raising appeal using the same medium</u>, such as direct mail, direct response advertising, or television, and (25-2) <u>on a scale that is similar to or greater than the scale on which it is conducted with the appeal, the purpose criterion is met</u>.

Analysis

(25-1) This provision creates a "without appeal" test. However, the term "component" is not defined in the exposure draft. The phrase "materials or activities" should be used. With the scale qualifier in (25-2), this provision is the only positive and definitive test to meet the purpose criterion (although undefined).

A "without appeal" material or activity may indicate that a program or management and general purpose was served. By itself, however, it should not be the definitive test. Rather it should be incorporated as a supporting condition as discussed below.

(25-2) This provision adds a "greater than or equal to" scale to the same medium condition in (25-1). This provision may prove costly for organizations. Also, it conflicts with the intent of SFAS No. 117, which states:

> ...information about the costs of significant programs or services are both relevant and measurable with sufficient reliability. Many costs are directly related to a major program or service or to a supporting activity. Some costs relate to two or more major programs and may require allocations. Techniques for allocating costs among significant programs or services are reasonably well developed; allocating costs among segments, products or services, and accounting periods are common in general-purpose accounting and reporting managerial accounting, tax accounting, and contract accounting of all entities (par. 58).
>
> This Statement provides latitude for organizations to define their major programs and determine the degree of aggregation used when reporting expenses of major programs. That latitude has several advantages. Foremost, it allows organizations to report in ways that they believe are meaningful, related to their service efforts, and consistent with internal management information systems to provide the information necessary to comply with this Statement (par. 59).

This statement describes program services (paragraph 27) and supporting activities (paragraph 28) broadly. The Board believes those descriptions are consistent with functional reporting practices commonly used by most not-for-profit organizations for general-purpose reporting, regulatory filings, or sometimes both. By conforming to predominant existing practices of classification, this Statement should minimize disruption to the continuity of financial reporting by not-for-profit organizations and minimize transitional costs (par.60).

Organizations may well conduct program and management general activities without an appeal on a scale less than with an appeal. For example, an organization may distribute program literature along with its annual report to current resource providers. It also may distribute the same program literature to a much broader audience and include a fund raising appeal. Under this provision, this broad based appeal would not meet the purpose criterion because of the scale test.

Also, illustration 9 of the exposure draft indicates how this test does not improve accounting guidance. In that illustration, actual delivery of program services is cast as doubtful by this test.

Based on the foregoing, the greater than or equal to scale should be eliminated from this provision. Further, the purposes of the costs of materials and activities of not-for-profit organizations that include a fund raising appeal should be determined from those materials and activities and supporting documentation as discussed below.

26. (26-1) If the purpose criterion is not met based on the condition in paragraph 25, it may be met based on other factors. (26-2) Those other factors are not universally applicable, and they should be considered based on the facts and circumstances concerning a particular joint activity. (26-3) The relative importance of those factors should be weighed in determining whether the purpose of the activity includes conducting a bona fide program or management and general activity. (26-4) Accordingly, the following indicators should be considered in determining whether the purpose criterion is met.

Analysis

(26-1) This provision does not provide a definitive basis to determine whether materials and activities that include a fund raising appeal serve program or management and general purposes. That is, it indicates the purpose criterion may be met, not that it is met.

(26-2) This provision will prove very difficult to implement. The draft provides no basis to determine when the factors are applicable, and only states that they are not universally applicable. The facts and circumstances are limited to a joint activity and thereby do not consider materials.

(26-3) This provision provides no scale or other measurement basis to determine the relative weight of the factors provided.

(26-4) Each indicator in the paragraph is discussed later. However, rather than merely considering the indicator, the draft should specify how each can be used to establish whether the purpose criterion is met.

a. The method of compensation for performing the activity. (26-5) If compensation or fees are based in part (but less than substantially) on amounts raised, the purpose criterion may not be met. (26-6) Paragraph 23 discusses situations in which such compensation is based substantially on amounts raised.

Analysis

(26-5) This provision has the same operational problems concerning compensation discussed in (23). Therefore, this factor is not an operational test. If the "substantially" level is not established (i.e. 90%), then "in part" cannot be specifically defined either. This provision should be eliminated.

(26-6) As discussed in (23-1), the "substantial" test is not operational.

b. (26-7) The method of evaluating the performance of the activity. The following should be considered:

- *(26-8) Whether there is a process to identify and evaluate program results and accomplishments. (26-9) Identification and, where practical, measurement of program results and accomplishments may indicate that a bona fide program has been conducted.*
- *(26-10) Whether evaluation of the effectiveness of the activity is skewed to the activity's effectiveness in raising funds or skewed to the accomplishment of program goals. The former may indicate that the purpose criterion is not met. The latter may indicate that it is met.*

Analysis

(26-7) The method of evaluating the performance of the activity should also include materials. However, the provision should be structured to ensure the results of the materials and activities and the results of the fund raising appeal are not the only bases to determine the purposes of materials and activities. That is, the draft should provide conditions to establish the purposes of the materials and activities and the related costs of these efforts. SFAS No. 117 states:

> To help donors, creditors, and others in assessing an organization's service efforts, including the costs of its services and how it uses resources, a statement

of activities or notes to financial statements shall provide information about expenses reported by their functional classification such as major classes of program services and supporting activities. (par. 26)

In contrast, program accomplishments are not presently part of financial accounting. As SFAS No. 117 points out:

"Ideally, financial reporting also should provide information about the service accomplishments of a [not-for-profit] organization" (Concepts Statement 4, paragraph 53). However, this Statement emphasized information to be reported in financial statements. Since information about service accomplishments generally is not measurable in units of money, it cannot be included and reported in the totals of the financial statements. (par.54)

Therefore, the conditions for purpose should focus on the intended purpose rather than on the results achieved.

(26-8) This provision is a sound basis to establish purpose. The draft should indicate that if a process exists, it is verifiable evidence to indicate a program purpose exists. This is discussed below in the recommended purpose criterion.

(26-9) This provision is also a sound basis to establish intent. The draft should indicate that program results or accomplishments relating to the materials and activities that include a fund raising appeal are verifiable indications that a program purpose exists. This is discussed below as part of the recommended purpose criterion.

(26-10) This provision would prove difficult to implement. The draft provides no basis to measure "skewness." As discussed in the analysis of (23-1) above, the evaluation must consider both materials and activities. It must also consider the multiple parties that may be involved with multi-purpose materials and activities. This provision should be eliminated.

c. (26-11) Different media for the program or management and general component and fund raising. (26-12) Consider whether the program or management and general component is also conducted in a different medium without a significant fund raising component.

Analysis

(26-11) Whether a particular program activity is conducted using a different medium than the one actually used has no relevance to the purposes of the activity actually undertaken.

(26-12) This provision contains no guidance to utilize this consideration to establish what purposes are met and how they are met by a different medium.

d. (26-13) Qualifications and duties of personnel. The qualifications and duties of those performing the activity should be considered according to the following criteria.

- *If the entity employs a third party, such as a consultant or a contractor, to perform part or all of the activity, (26-14) the third party's experience and full range of available services should be considered in determining whether it is performing program activities.*
- *If the entity's employees perform part or all of the activity, (26-15) the full range of their job duties should be considered in determining whether those employees are performing program or management and general activities. For example, employees who are not members of the fund raising department and those who perform other non-fund raising activities are more likely to perform activities that include bona fide program or management and general functions than are employees who otherwise devote significant time to fund raising.*

Analysis

(26-13) The qualifications and duties of those performing the activity (taken to mean all aspects of development and delivery of materials and activities that include a fund raising appeal) are factors that should be considered to substantiate the purposes of the materials and activities. These factors should be considered corroborative evidence as discussed below in the recommended purpose criterion section.

(26-14) and (26-15) These provisions should be considered supporting evidence to establish whether program, management and general, or fund raising purposes were met by the materials and activities that include a fund raising appeal. This is discussed in more detail below as part of the recommended purpose criterion section.

(26-17) e. Tangible evidence of activities. Consider whether tangible evidence supports the existence of a bona fide program or management and general component of the activity. Examples of such tangible evidence include the following:

- The organization's mission, as stated in its fund raising material, bylaws, or annual report
- Minutes of board of directors, committees, or other meetings
- Restrictions imposed by donors (who are not related parties) on gifts intended to fund the activity
- Long-range plans or operating policies

- Job descriptions
- Written instructions to other entities, such as script writers, consultants, or list brokers, concerning the purpose of the activity, audience to be targeted, or method of conducting the activity
- Internal management memoranda

Analysis
(26-17) This provision, modified to consider both materials and activities, should become the major conditions to establish the purposes of materials and activities that include a fund raising appeal. This provision is incorporated in the recommended purpose criterion discussed below.

Recommended Purpose Criterion

The following provisions are recommended to define the purpose criterion and to establish the conditions when the purpose criterion is met.

1. SFAS No. 117 defines program, management and general, and fund raising activities as follows:

> Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs. (par. 27)
>
> Management and general activities include oversight, business management, general record keeping, budgeting, financing and related administrative activities, and all management and administration except for direct conduct of program services or fund raising activities. (par. 28)
>
> Fund raising activities include publicizing and conducting fund raising campaigns; maintaining donor mailing lists; conducting special fund raising events; preparing and distributing fund raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others. (par. 28)

2. Materials and activities that include a fund raising appeal (hereinafter a "multi-purpose activity) are considered by definition to be designed in part as a fund raising appeal. Therefore, the fund raising purpose is met.

3. A multi-purpose activity meets a program purpose only if verifiable evidence exists that all of the following conditions are met.

a. Mission
b. Organization
c. Control
d. Evaluation

4. Mission - The multi-purpose activity can assist the organization in providing goods or services to its beneficiaries that fulfill the purpose or mission for which the organization exists.

5. Verifiable evidence of the mission condition includes:

a. Statements in the organization's mission, bylaws, or annual report.
b. Documentation in minutes of board of directors, committees, or other meetings or in other memoranda.
c. Restrictions imposed by donors (who are not related parties) on gifts intended to fund the activity.

6. Organization - The not-for-profit organization or the entity has the structure and capability to implement the program purpose of the multi-purpose activity.

7. Verifiable evidence for the organization condition includes:

a. Documentation in job descriptions of internal parties conducting the activity.
b. Resources budgeted to implement the program purpose or purposes specified in the multi-purpose activity.
c. Long-range plans or operating policies.

8. For example, suppose advocacy organization A utilizes a multi-purpose direct response campaign to disseminate information on issues and asks its audience for opinions on issues for communication to public officials. The organization should have verifiable evidence that it has the capability to process the surveys and communicate the responses to public officials to meet the organization condition.

9. As another example, suppose organization B disseminates information concerning a societal problem through a multi-purpose direct mail campaign and provides its audience a hotline number to request more information and to assist in dealing with the problem. The organization should have sufficient resources budgeted to staff the hotline phones and to provide the requested information to meet the organization condition.

10. Control - The organization or entity controls the development of the multi-purpose activity.

11. Verifiable evidence of the control condition includes:

a. Written instructions to internal parties conducting the multi-purpose activity.

b. Written instructions to third parties, such as script writers, consultants, or list brokers, concerning the purpose of the activity, audience to be targeted, or method of conducting the activity.

c. Documentation of active participation of management in the development of the multi-purpose activity.

d. Qualifications and duties of personnel. If the entity employs a third party, such as a consultant or a contractor, to perform part or all of the activity, the third party's experience and full range of available services should be considered in determining whether it is performing program activities. If the entity's employees perform part or all of the activity, the full range of their job duties should be considered in determining whether those employees are performing program or management and general activities.

12. Evaluation - The organization has either:

a. A process to measure the program results of a multi-purpose activity, or

b. Indications the audience for the multi-purpose activity has taken action to assist the organization in meeting the program purpose specified in the multi-purpose activity.

13. Verifiable evidence of the evaluation condition includes:

a. Documentation of a process for evaluation program results and, where practical, measurement of program results.

b. Documentation that the audience has implemented the program purpose called for by the multi-purpose activity.

14. For example, organization A referred to in paragraph 8 could have evidence in the form of returned surveys. Organization B referred to in paragraph 9 could have evidence of hotline usage. Organizations could also utilize random follow-up communications with recipients of multi-purpose activities to meet the evaluation condition.

15. If verifiable evidence described in paragraph 13 does not exist, the following shall establish whether the evaluation condition is satisfied:

a. If a similar program or management and general component is conducted without the fund raising appeal using the same medium, on a scale that is similar to or greater than the scale on which it is conducted with the appeal, the purpose criterion is met.

b. If the program activity is also conducted in a different medium without a significant fund raising component, the evaluation condition is met.

16. If any of the program purpose conditions are not met, the multi-purpose activity fails the program purpose criterion. If the multi-purpose activity does not meet the management and general purpose criterion in paragraph 17, all joint costs of the multi-purpose activity shall be accounted for as fund raising costs.

17. A multi-purpose activity meets a management and general purpose only if verifiable evidence exists that each of the following conditions are met:

a. Mission b. Organization c. Stewardship

18. Mission - The multi-purpose activity can assist the organization in providing information concerning its mission accomplishments or stewardship to persons or entities in need of such information.

19. Verifiable evidence of the mission condition includes:

a. Statements in the organization's mission, bylaws, or annual report.

b. Documentation in minutes of board of directors, committees, or other meetings or in other memoranda.

20. Organization - The not-for-profit organization or the entity has the structure and capability to conduct the management and general functions covered by the multi-purpose activity.

21. Verifiable evidence for the organization condition includes:

a. Documentation in job descriptions of internal parties conducting the activity.

b. Resources budgeted to implement the management and general purpose or purposes specified in the multi-purpose activity.

c. Long-range plans or operating policies

22. Stewardship - the organization has a specific need to provide the information to persons or organizations interested in the stewardship or mission accomplishments of the organization as evidenced by:

a. Specific regulatory or contractual requirements; or

b. Indications the audience for the multi-purpose activity has an interest in the management and general information specified in the multi-purpose activity.

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23. If any of the management and general purpose conditions are not met, the multi-purpose activity fails the management and general purpose criterion. If the multi-purpose activity has also failed the program purpose criterion specified in paragraph 17, all joint costs of the multi-purpose activity shall be accounted for as fund raising costs.

Audience

27. (27-1) If the audience for the materials or activities is selected principally on its ability or likelihood to contribute, the audience criterion is not met and (27-2) all costs of the activity should be charged to fund raising.

Analysis

(27-1) The audience has historically been a condition to determine whether allocation is appropriate for costs of materials and activities that include a fund raising appeal. SOP 87-2 indicates that the audience targeted is an indication that a program or management and general function has been conducted with an appeal for funds (par. 16). However, the audience criterion should not depend on whether its selection is based principally on its ability or likelihood to contribute for three reasons.

First, selection of an audience based principally on its ability or likelihood to contribute is inconsistent with multi-purpose materials and activities that include a fund raising appeal. Any material or activity that includes a fund raising appeal will be logically addressed to an audience with the ability or likelihood to contribute. However, if the likelihood of contribution were the principal reason for selection, then only a single purpose material or activity, that is, the fund raising appeal, would be necessary. That is, a not-for-profit organization would not conduct a multi-purpose activity for a single reason. To do so would reflect poor stewardship. Multi-purpose materials and activities indicate multiple considerations for audience selection.

Second, a condition of assessing whether the audience is selected principally on its ability or likelihood to contribute may be inappropriately applied. For example, if prior donors receive materials and activities that include a fund raising appeal, then the argument could be raised that the audience was selected principally on its ability or likelihood to make further contributions. However, the proposed FASB Technical Bulletin No. 84-e noted that a prior contribution is verifiable evidence of a recipient's interest in the organization's programs.

Third, a condition of whether the audience is selected principally on its ability or likelihood to contribute is not operational. The examples in SOP 87-2 indicate the difficulty in providing two extreme examples which define two audience characteristics in terms of the organization's perceptions. One example indicates if an audience is selected principally because of its perceived need for or interest in the educational information and not for its capacity to support the organization financially, any accompanying fund raising appeal would appear to be incidental and all costs would be program costs. The other example indicates that if the audience is selected on its presumed ability to provide financial support without consideration of its need for the educational information, the purpose would appear to be entirely fund raising, and all costs should be considered fund raising costs (par. 19).

(27-2) This provision indicates all costs of the activity should be charged to fund raising. This provision would make the financial statements biased and misleading for the same reasons discussed above in the (23-2) analysis of purpose. The draft should eliminate the "principal" reason condition because it is not operational. Recommended tests for the audience criterion are described below.

28. (28-1) If the audience is selected principally based on its need for the program or because it can assist the entity in meeting its program goals other than by financial support provided to the entity, the audience criterion is met. The following are examples of the kinds of targeted audiences and the conditions under which they would or would not generally meet the audience criterion:

a. (28-2) A broad segment of the population. (28-3) Appealing to a broad segment of the population to avoid heart disease, for example, by avoiding cholesterol or reducing dietary fat, may meet the audience criterion. However, (28-4) an appeal to a broad segment of the population concerning a condition affecting only a small segment of the population or geographical area would indicate that the audience criterion had not been met.

b. (28-5) A population specifically in need of the program services of the organization. (28-6) An appeal concerning urban poverty and including information about qualifying for food stamps and other assistance mailed to residents of a particular urban area in need of those programs would meet the audience criterion. However, (28-7) such a solicitation targeted to specific high-income suburban neighborhoods would not meet the audience criterion.

c. (28-8) A population that is able to perform actions to help achieve the program objectives. (28-9) An environmental appeal including advice to use mass transit mailed to an urban or suburban audience where mass transit exists would meet the audience criterion. However, (28-10) such an appeal would not meet the audience criterion if mailed to rural areas where mass transit is unavailable.

Analysis

(28-1) This provision deals only with entities and only with programs. NPOs and management and general functions are not addressed. In addition, it requires the audience selection to be based principally on need for the program or because the audience can assist in meeting program goals other than by financial support. Principally is not operational in this condition for the same reasons discussed in (27-1) and should not be part of the draft.

This provision is also logically inconsistent with a multi-purpose activity. That is, this provision allows the audience to be selected principally based on its need for the program (i.e., a direct beneficiary) or because it can assist the entity (i.e., the organization) in meeting its program goals (i.e., an extension of the organization) other than by financial support. In effect, this would require a single purpose activity (i.e., a program) with an "incidental" fund raising activity at best.

(28-2) This example of a target audience is not well illustrated. A broad segment of the population may well be an appropriate one for many types of multi-purpose materials and activities that include a fund raising appeal.

(28-3) This example indicates that asking a broad segment of the population to take specific health steps may meet the audience criterion. This example should not use the term "appeal" to avoid confusion with the fund raising appeal portion of the materials and activities. In addition, this audience "should meet" rather than "may meet" the audience criterion.

(28-4) This statement is misleading. For example, a material or activity that includes a fund raising appeal to a broad segment of the population concerning a condition affecting only a small segment of the population or geographical area can clearly assist an organization in meeting its program goals and therefore meet the audience criterion. For example, the material or activity can ask for organ or bone marrow transplant volunteers (i.e., broad population supporting small segment). Further, a material or activity can ask whether a broad audience is aware of anyone specifically in need of the programs of the organization.

The exposure draft is biased against concluding the audience criterion is met for a broad segment of the population. That is, (28-3) indicates the audience criterion may be met, while (28-4) indicates it would not be met.

(28-5) This example of a target audience is not well illustrated. A population specifically in need of the program services is not necessarily defined by neighborhoods. There are numerous demographic characteristics that transcend zip codes.

(28-6) The example of an appeal concerning poverty and information about food stamps to residents of a particular urban area would meet the audience criterion. However, it provides no illustration of why the particular urban area needs the information provided.

(28-7) This same solicitation (from 28-6) targeted to specific high income suburban neighborhoods would not meet the audience criterion. However, the November 27, 1993, edition of "Front Page" (Fox Network) provided insights concerning food stamps and eligibility that clearly indicates that neighborhoods are a poor indicator of need for food stamps. In that story, residents of an affluent suburb of Boston qualified for food stamps for a variety of reasons.

For the example cited, it can logically be argued that every citizen should be informed of an entitlement program, including qualifications, costs, and how to apply. For example, a parent may well have a child who is eligible. Awareness of the program by a broad segment of the population can assist a population specifically in need of the organization's program services.

(28-8) This example of a target audience able to perform actions to help achieve program objectives does not provide a sufficient illustration.

(28-9) This example again casts the material and activity in the context of an appeal. Only the fund raising portion of the material and activity should be considered an appeal to ensure clarity. The example keys on use of mass transit as the program objective and indicates direct mailings to urban or suburban audiences where mass transit exists meets the audience criterion.

(28-10) This example indicates environmental material and activity including a fund raising appeal mailed to rural areas would not meet the audience criterion because of the advice to use mass transit. However, many people in rural areas commute to mass transit points. In addition, the advice could also include car pooling, which can be used anywhere to aid the environment. The example should indicate that advice to use car pooling would meet the audience criterion because rural populations would be able to take this action. This example relies on conventional wisdom and sterotypes rather than verifiable evidence to determine whether the audience is appropriate.

29. (29-1) <u>The source of the names and the characteristics of the audience should be considered in determining whether the audience was selected principally on its ability or likelihood to contribute</u>. For example, if the audience is made up of existing donors who have also participated in program activities in the past, it is likely that the audience criterion would be met. (29-2) <u>If the audience is made up of past donors with no such previous program participation, the audience criterion would likely not be met</u>. Many entities use list rentals and exchanges to reach new audiences. (29-3) <u>The source of such lists may indicate the purpose for which they were selected</u>. (29-4) <u>For example, lists acquired from organizations with similar or related programs are more likely to meet the audience criterion than are lists based on consumer profiles</u>.

Analysis

(29-1) This provision indicates the source of names and audience characteristics should be considered to determine whether the audience was selected principally on ability or likelihood to contribute. As discussed in the analysis of (27-1) and (28-1), "principally" is not operational. In addition, this provision should recognize that the audience was selected for multiple purposes for a multi-purpose material or activity that includes a fund raising appeal.

(29-2) This example is misleading. Indicating that the audience criterion would likely not be met for donors with no such previous program participation does not consider the possibility for the organization to pursue an aspect of a program that may be different from previous materials and activities. It also implies actual measurement of past program participation which may or may not be practical.

(29-3) This provision should indicate the source of such lists may indicate the purposes, not just purpose, for which the lists were selected.

(29-4) This example is misleading. The draft cites no evidence to indicate that lists acquired from organizations with similar programs are more likely to meet the audience criterion than lists based on consumer profiles. Consumer profiles may be strong indicators of a need for an organization's programs. For example, outdoor enthusiasts may need information concerning exposure to ultraviolet rays or environmental problems. Teenage drivers need information concerning the dangers of underage drinking.

The draft should indicate that verifiable evidence should be used to establish that the audience has a need for, or interest in, the materials and activities that include a fund raising appeal. This is discussed in more detail later.

Recommended Audience Criterion

The following provisions are recommended to define the audience criterion and establish the conditions for determining when the audience criterion has been met.

1. A multi-purpose activity (i.e., materials and activities that include a fund raising appeal) should have a target audience consistent with each of the purposes met under the purpose criterion.

2. A multi-purpose activity meets the audience criterion for each of its purposes as follows:

a. Fund raising - the audience has the ability or likelihood to contribute funds to the organization.

b. Program - the audience has a potential or demonstrated need for, or interest in, the program material or activity component of the multi-purpose activity based on verifiable evidence of;

   1) Affinity - participation in programs of similar organizations;

   2) Consumer profile - interests related to the organization's program component of the multi-purpose activity; <u>or</u>

   3) Ability to participate - can respond to program-purpose related calls for action contained in the multi-purpose activity.

c. Management and General - the audience has a need for, or interest in, stewardship information concerning the organization, based on verifiable evidence such as prior donor or volunteer lists or specific requirements for such information.

3. An audience must meet the condition corresponding to each purpose of the multi-purpose activity. If an activity has a program and a fund raising purpose, then the target audience must meet the condition in paragraph 2.a. for fund raising and paragraph 2.b. for program. If an activity has program, management and general, and fund raising purposes, then the target audience must meet each of the conditions specified in paragraph 2.

4. For example, an individual may be a target audience for a multi-purpose direct mail campaign which contains information and calls for action concerning environmental problems, information concerning past accomplishments and uses of funds, and an appeal for funds. The individual is a contributor to a similar organization and thus meets the fund raising condition. That individual participates in outdoor sports including skiing and hunting. Therefore, that individual may have an interest in environmental issues and would qualify as an audience for program information con-

cerning problems with the environment. As state regulation requires specific information about the organization to be included in the direct mail package, the individual has a need for management and general information. Thus, all necessary conditions are met.

5. The source of the names and the characteristics of the audience should be considered. The source of such lists may indicate the purpose for which they were selected. For example, lists acquired from organizations with similar or related programs meet the audience criterion. Also, lists based on consumer profiles related to the organization's mission or purpose meet the audience criterion.

6. If the audience does not meet the condition corresponding to each purpose of the multi-purpose activity, the activity fails the audience criterion. Since, by definition, the fund raising appeal is a purpose of the activity, the audience is presumed to meet the condition for fund raising, and all joint costs of the multi-purpose activity should be charged to fund raising.

Content

30. (30-1) <u>In order to meet the content criterion, the materials or activity must support bona fide program or management and general functions, as follows:</u>

a. (30-2) <u>Program. The material or activity must call for specific action by the recipient that will help accomplish the entity's mission and</u> (30-3) <u>that is unrelated to providing financial or other support to the entity itself</u> (30-4) <u>by (1) benefiting the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or (2) benefiting society by addressing societal problems</u>. (30-5) <u>Information must be provided explaining the need for and benefits of the action. Sufficient detail should be provided describing the action to be taken</u>; (30-6) <u>merely providing a slogan is not sufficient</u>.

b. (30-7) <u>Management and General. The materials and activities should report on mission accomplishments or inform supporters about the entity's stewardship performance</u>.

Analysis

(30-1) Content has historically been one of the conditions to determine whether allocation is appropriate for costs of materials and activities of not-for-profit organizations that include a fund raising appeal. SOP 87-2 states that the content of the non-fund raising portion of the activity is one of the indications that demonstrate that a program or management and general purpose has been conducted with an appeal for funds (par. 16). The content of the materials and activities that include a fund raising appeal is an appropriate criterion to determine whether allocation of costs should occur. However, the draft should define this criterion as discussed below.

(30-2) This provision is not consistent with the audience criterion in paragraph 28 of the draft. It states that if the audience is selected based on its need for the program or because it can assist the entity (i.e., organization) in meeting its program goals other than by financial support provided to the entity, the audience criterion is met. This provision requires the content to call for specific action by the recipient that will help accomplish the entity's mission. However, it does not address the type of action call required if the material and activity delivers the goods and services to the audience in need of the program.

Materials and activities that include a fund raising appeal by definition have a call to action to meet the fund raising purpose. By analogy, materials and activities should include a program-related call to action to meet the program purpose if that purpose requires a specific call to action to achieve the intended outcome. It is not clear how specific a call to action is required by recipients of educational materials.

Paragraph 27 of SFAS No. 117 indicates that public education is a program service for many not-for-profit organizations. This provision contains no guidance concerning the specific action required by the recipient. This problem is further exacerbated by footnote 6 to paragraph 31 which states that some educational messages have an implied message to motivate the audience.

The exposure draft should clarify the nature of the action required for the different target audiences discussed in paragraph 28 of the draft. A recommended content criterion is discussed below.

(30-3) The draft should eliminate the phrase "that is unrelated to providing financial or other support to the entity itself." The "other support to the entity itself" could preclude volunteering time to assist in operating the organization. For example, the footnote to paragraph citing volunteering as an action is not related to the organization. It could also preclude donations such as materials to an organization's thrift shop.

(30-4) The provision describing the benefits to the recipient will be difficult to establish. This provision should be modified to indicate that the action, if taken, could benefit the audience's physical, mental, emotional, or spiritual health and well being.

(30-5) This provision conflicts with paragraph 31 of the draft discussed below. Information explaining the need for the action cannot be both program related in paragraph 30 and fund raising related in paragraph 31. The draft should clarify the nature of information and its classification. This is discussed in more detail later.

(30-6) This provision goes well beyond accounting guidance. The draft does not define a slogan, but states it is not a sufficient call to action. This is a sweeping and arbitrary generalization that is unsupported in the draft. Paragraph 42 of the exposure draft indicates that it provides accounting guidance for considering how, for purposes of this SOP, accounting for the costs of activities that include a fund raising appeal should be affected by the use of slogans in those appeals.

Accounting guidance should provide organizations and entities information about items that qualify under the definitions of elements of financial statements and that meet criteria for recognition and measurement to be accounted for and included in financial statements by use of accrual accounting procedures. (FASB Concepts Statement No. 6)

Telling an organization that its slogan, defined by Webster as a phrase expressing the aims or nature of an enterprise or organization, is not a sufficient call to action does not qualify as accounting guidance. Instead, it infringes upon an organization's prerogative to develop its programs and the means to accomplish them. The draft should eliminate the reference to slogans and limit the requirement for a call to action to one that, express or implied, can assist the organization or entity in meeting its program goals.

(30-7) Content regarding how funds provided were used relates to past actions taken by the organization and therefore serves the management and general purpose of stewardship. Content that relates only to future actions to be taken by the organization on how funds will be used builds the case for the fund raising appeal and therefore serves the fund raising purpose.

Content relating to stewardship indicates to recipients of materials and activities what the organization has done and therefore serves the management and general purpose. If content relating to mission accomplishment indicates only what the organization has done in the past, it also serves the management and general purpose.

However, an organization's annual report may contain content related to program, management and general and fund raising purposes. Therefore, content of materials and activities must be viewed in context of the purposes and audiences of materials and activities that include a fund raising appeal.

SOP 87-2 currently requires the content of materials and activities that contain a fund raising appeal to motivate recipients to action other than providing financial support. The call to action should be related to a program purpose for allocation to program. However, a call to action is not necessary for allocation to management and general.

31. (31-1) <u>Statements identifying and describing the entity or stating the needs or concerns to be met or how the funds provided will be used should be treated as in support of the fund raising appeal</u>. (31-2) <u>Educational materials and activities should be treated as support of fund raising unless they motivate the audience to action other than providing financial support to the organization</u>.

Analysis

(31-1) This provision should be modified to better describe statements (i.e., information) that relate to fund raising. In this sentence, statements identifying and describing the entity and how funds will be used may be as in support of the fund raising purpose. However, as discussed under (30-5) above, information stating the needs or concerns to be met support the program purpose.

(31-2) This provision, in connection with the footnote regarding implied messages to motivate the audience, needs clarification. If an organization has a program that is served by educational materials and activities, then such materials support the program purpose. As discussed earlier in (30-2), this creates a very confusing situation. Further, it is not clear how the guidance in (30-6) can declare a slogan as an insufficient call to action and yet have a footnote to (31-2) indicate the action step can be implied. Recommended conditions for the action step are discussed in more detail below.

Recommended Content Criterion

The following provisions are recommended to define the content criterion and to establish the conditions when the content criterion is met.

1. A multi-purpose activity (i.e., materials and activities that include a fund raising appeal) should include verifiable content related to each purpose of the activity.

2. The content criterion is met for program purposes if either conditions "a" and "b" or "a" and "c" are met as follows:

a. Factual information is provided about the needs or concerns to be met, and how those needs relate to the Program purpose(s) of the organization; <u>and</u>

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b. For audiences in need of the program provided by the multi-purpose activity (i.e. beneficiaries), the content includes an express or implied call to motivate the audience to take the action that would result in the organization meeting its program goals; or

c. For audiences that can assist the organization or entity in meeting its program goals, the content includes a specific call to action the audience can or should take to assist the organization in meeting its program goals.

3. For example, organization C is an advocacy organization whose mission includes educating the public about child abuse and stronger child protection laws. Included in the educational materials distributed through direct mail is an easy to remember phone number (e.g. 1-800 AID A KID) recipients can call for assistance when needed. The call to action is implied since the action would only be taken when needed. In this case, the educational materials meet conditions a and b for program content.

4. Organization C also conducts a separate mail campaign educating the public about child abuse and urging recipients to contact their legislators in support of better child protection laws. In this case, the call to action is specific and the educational materials meet conditions "a" and "c" for program content.

5. The content criterion for management and general is met if either conditions "a" and "b" or "a" and "c" are met as follows:

a. Content - includes information identifying and describing the organization, how funds have been used in the past, and past program results and accomplishments; and

b. The content is provided to audiences such as prior donors, contributors, or others to report on stewardship performance or mission accomplishments; or

c. The content is provided to audiences of prospective donors or program participants in compliance with specific regulatory requirements.

6. For purposes of this SOP, the content criterion for fund raising is presumed to be met.

7. Based on paragraph 6, fund raising content includes:

a. Information identifying and describing the organization, how funds have been used in the past, and past program results and accomplishments, if the audience for this information is prospective program participants or donors and condition 5(c) is not met;

b. Information concerning how donated funds will be used, and the actions the audience can or should take to contribute funds to the organization; and

c. Any information not meeting the conditions for program or management and general content in paragraphs 2 and 5.

Incidental Costs

32. (32-1) *Many entities conduct fund raising activities in conjunction with program or management and general activities that are incidental to such program or management and general activities...In circumstances in which a fund raising, program, or management and general activity is conducted in conjunction with another activity and is incidental to that other activity, joint costs are not required to be allocated and may therefore be charged to the other activity. However, the costs of the incidental activities may be charged to their respective functional classification if the conditions for charging those costs to that functional classification included in this SOP are met. However, if the program or management and general activities are incidental to the fund raising activities, it is unlikely that the conditions required by this SOP to permit allocation of joint costs would be met.*

Analysis

(32-1) SOP 87-2 indicates that a fund raising appeal may be incidental in a situation where the content and audience need or interest in an educational message override consideration of the capacity of the audience to support the organization financially (par. 20). However, this use of the term incidental is inconsistent with SFAS No. 117.

SFAS No. 117 defines program and supporting activities (par. 26-28) and requires the reporting of revenues and expenses for a not-for-profit organization's major or control operations and activities (par. 23). Incidental transactions are discussed in par. 24. As programs, fund raising and management and general activities are part of the not-for-profit organization's ongoing major or central operations, they should not be considered incidental. Rather if the process of determining whether allocation is appropriate and the resulting allocation produces immaterial amounts, then the results of allocation need not be applied. Therefore, the term "incidental" should be replaced by the term "immaterial."

To assist in the determination, the draft should provide specific guidance, such as a 5 percent rule. That is, if the direct costs of the fund raising appeal are less that 5 percent of the total cost of the materials or activity, then fund raising costs would be considered immaterial. Similarly if the direct costs of a program material item or activity were less than 5 percent, then program costs would be considered immaterial. In such cases allocation is not required.

Allocation Methods

33. *(33-1) The allocation of joint costs should be based on the degree to which the cost element was incurred for the benefit of the activity or activities undertaken (that is, fund raising, program, or management and general). (33-2) The cost allocation methodology used should be rational and systematic. It should result in an allocation of joint costs that is reasonable and not misleading, and it should be applied consistently, given similar facts and circumstances. However, that requirement is not intended to prohibit entities from using more than one allocation method. (33-3) The reasonableness of the joint cost allocation should be evaluated based on whether it reflects the degree to which costs have been incurred for the benefit of fund raising, bona fide program, or management and general activities. (33-4) In making that evaluation, the purpose, audience, and content criteria should be considered.*

Analysis

(33-1) SOP 87-2 points to cost accounting literature for guidance in allocating costs (par. 5). A cost allocation methodology should be based on a criterion to relate costs incurred to cost objects or purposes served. Principal criteria to select a cost allocation method are:

- Cause and effect, which bases allocations on what causes purposes or cost objects to incur costs;
- Benefits received, which allocates costs to purposes or cost objects in proportion to benefits received; and
- Ability to bear, which allocates costs in proportion to the cost object's ability to bear additional costs.

The cause and effect criterion is considered superior (see Horngren, p. 460). However, none of these criteria are operational in the case of true joint costs.

The physical units method and the direct costs method of joint cost allocation (par. 34 of the draft) both attempt to estimate on a systematic, rational, and verifiable basis the degree to which costs have been incurred for the purposes served by the materials and activities that include a fund raising appeal. However, the nature of joint costs make the allocation of them extremely difficult and not readily susceptible to evaluation of the cause and effect. If the degree to which costs were incurred for various purposes could be established, then the costs would not be joint costs.

(33-2) This guidance for methodology should lead the exposure draft to prohibit organizations and entities from using methods that cannot be verified. For example, a commonly used method to allocate joint costs of multi-purpose activities is the use of subjective estimates of relative program and fund raising content rather than the physical units, direct costs, or stand-alone costs associated with multi-purpose activities. This subjective estimate method is not systematic and rational, is not verifiable, and cannot be consistently applied. Therefore, the use of this method should be specifically precluded from practice.

(33-3) Joint cost allocations cannot be reasonably evaluated in terms of the degree to which costs have been incurred for the functions served by a multi-purpose activity. If they could, they would not be joint costs. Therefore, the methodology selected must be systematic and rational as described in (33-2) above.

(33-4) This provision injects subjectivity into the allocation process. The purpose, audience, and content criteria should be utilized to determine whether to allocate, not how to allocate.

34. Some commonly used cost allocation methods follow.

- *Physical Units Method. Joint costs are allocated to activities in proportion to the number of units of output that can be attributed to each of the activities. Examples of units of output are lines, square inches, and physical content measures. This method assumes that the benefits received by the fund raising, program, or management and general component activity from the joint costs incurred are directly proportional to the lines, square inches, or other physical output measures attributed to each component. (34-1) This method may result in an unreasonable allocation of joint costs if the units of output, for example, line counts, do not reflect the degree to which costs are incurred for the joint activities. For example, a (34-2) joint cost allocation based on line counts may not reflect the purpose for which the activity was undertaken or the reasons the audience was selected. (34-3) Use of the physical units method may also result in an unreasonable allocation if the physical units cannot be clearly ascribed to fund raising, program, or management and general. For example, direct mail and telephone solicitations sometimes include content that is not clearly identifiable with either fund raising, program, or management and general; or the physical units of such content are inseparable.*

Analysis

(34-1) The exposure draft should recognize that all allocation methods for joint costs have inherent limitations because of the nature of joint costs. However, the physical units method is the only method which focuses on the outputs of the multi-purpose activity.

(34-2) This statement is misleading. Cost allocation based on line counts require specific consideration of the content and how such content relates to the purposes of materials and activities that include a fund raising appeal. In addition, the purpose and audience criteria are utilized to determine whether allocation is required.

(34-3) The statement does not provide any guidance as to what is reasonable. If content is inseparable, it can easily be treated as common content just as salutations, headings, dates, and signatures can. Inseparable content should present no particular operational problems.

- *Relative Direct Cost Method. Joint costs are allocated to each of the components on the basis of their respective direct costs. Direct costs are those costs that are incurred in connection with a cost objective (program, fund raising, or management and general). (34-4) <u>This method may result in an unreasonable allocation of joint costs</u> if <u>the joint costs of the materials or activities are not incurred in approximately the same proportion and for the same reasons as the direct costs of those activities</u>. (34-5) <u>For example, if a relatively costly booklet informing the reader about the entity's mission (including a call to action) is included with a relatively inexpensive fund raising letter, the allocation of joint costs based on the cost of these pieces may be unreasonable</u>.*

Analysis
(34-4) The direct cost method is an input oriented method. As such it provides an estimate of the costs incurred. Whether that estimate is reasonable is impossible to ascertain in a joint cost situation.

(34-5) The draft provides no basis for the assertion in this statement. In fact, for the example provided, direct costs of the booklet compared to fund raising letter may provide an excellent estimate of the postage and other common costs that should be allocated to each piece of the package.

- *Stand-Alone Joint-Cost-Allocation Method. Joint costs are allocated to each component based on the ratio that the cost of conducting each component would have borne to the total costs of conducting each of the joint components had each component been conducted independently. This method assumes that efforts for each component in the stand-alone situation are proportionate to the efforts actually undertaken in the joint cost situation. (34-6) <u>This method may result in an unreasonable allocation because it ignores the effect of each function that is performed jointly with other functions on other such functions</u>. For example, the programmatic impact of a direct mail campaign or a telemarketing phone message may be significantly lessened when performed in conjunction with a fund raising appeal.*

Analysis
(34-6) The principal weakness of the stand-alone cost method is that verifiable evidence may be lacking. This statement does not support the assertion of an unreasonable allocation.

Disclosure of Joint Costs
35. Entities that allocate joint costs should disclose the following in the notes to their financial statements:

- *The types of materials and activities for which joint costs have been incurred*
- *A statement that such costs have been allocated*
- *The allocation method*
- *The total amount allocated during the period*
- *The portion allocated to each functional expense category*

36. This SOP recommends, but does not require, that, in addition to disclosure of the total joint costs and the portion allocated to each functional expense category, the amount of joint costs for each activity be disclosed, if practical.

Analysis
(35 and 36) The required and recommended disclosures are appropriate.

37. The following illustrates the disclosures discussed in paragraphs 35 and 36:

Note X. Allocation of Joint Costs
In 19XX, the organization conducted <u>four activities</u> that included appeals for funds and incurred joint costs of $310,000. These activities included <u>direct mail campaigns, two special events, and a telethon</u>.

Analysis
(37) The organization conducted at least five activities (direct mail campaigns - at least 2, two special events - 2, and a telethon - 1, for a total of at least 5).

Discussion of Conclusions

Rationale for Not Including the Word Joint in the Title
39. The title of SOP 87-2 included the word joint to reflect the focus on joint-cost disclosures. The AICPA Accounting Standards Executive Committee (AcSEC) believes that the SOP should provide guidance for more costs than merely joint costs. Therefore, the SOP covers all costs of materials and activities that include a fund raising appeal.

Rationale for Not Including the Word Informational in the Title
40. The title of SOP 87-2 included the word informational due to concerns at the time the SOP was issued about abuses in reporting the costs of public information and education. AcSEC believes that this SOP provides accounting guidance (40-1) <u>that applies broadly to all materials and activities of entities that include a fund raising appeal, including those made in conjunction with program or management and general functions that include no informational materials, such as annual dinners</u>. There-

fore, AcSEC believes that including the word informational in the title would imply a more limited scope than is intended and the word informational is excluded from the title of this SOP.

Analysis

(40-1) This statement indicates that the exposure draft is intended to apply to any material and activity that includes a fund raising appeal. However, neither the body of the exposure draft nor any of the examples provide any guidance for applying the tests of the proposed SOP to special events or annual dinners. This broad reach makes it imperative that the draft include clear, operational guidance concerning incidental activities and associated costs discussed in paragraph 32 of the proposed SOP.

Allocation Criteria

41. (41-1) Determining whether the costs of joint activities should be classified as fund raising, program, or management and general sometimes is difficult, and such distinctions sometimes are subject to a high degree of judgment. (41-2) Practice indicates that some entities prefer to report costs as program or management and general rather than as fund raising. (41-3) For practical reasons, AcSEC concluded that costs of activities that include a fund raising appeal should be presumed to be fund raising costs unless there is a bona fide program or management and general function. (41-4) AcSEC believes that such a rebuttable presumption is necessary to prevent potential abuses in financial reporting.

Analysis

(41-1) Difficulty and the use of a high degree of judgment are not limited to cost allocation issues in accounting. Given this situation, however, the exposure draft should strive to provide guidance to simplify practice as much as possible and reduce the reliance on judgment wherever possible. For example, the exposure draft should preclude the use of allocation methods that rely solely on subjective estimates as discussed earlier in (33-2). However, the chair of the not-for-profit organization's committee which created the exposure draft has stated the draft will require "an awful lot more analysis"as discussed earlier. Therefore, the draft is exacerbating the problems of current guidance rather than reducing them.

(41-2) This statement refers only to entities. However, this practice is clearly appropriate and consistent with the guidance provided by paragraph 27 of SFAS No. 117. That guidance indicates that program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Public education is specifically mentioned as a program service.

This practice could also be viewed as an organizational reaction to the naive and simplistic use of information concerning fund raising by the media, some oversight organizations, and some state regulators. For example, Standards indicates:

> Many contributors and government regulators compute ratios of fund raising costs to funds raised, and there is ongoing discussion of appropriate ratios and comparisons of organizations. There are numerous factors that make calculation and comparison of such ratios misleading. Those factors include:
>
> - Federated Fund raising Costs Omitted - Many agencies, in addition to support from the public that they obtain directly, receive public support indirectly through federated and other fund raising organizations whose fund raising costs are not included in the reporting agency's financial statements.
> - Differing Time Periods for Revenue and Expenses-Bequests or government grants, that may be unsolicited or received years after they were solicited, may preclude any meaningful matching of support and revenue with fund raising costs.
> - Use of Volunteers - Many agencies receive significant assistance from volunteers in their fund raising efforts. The assistance may vary in size and quality from agency to agency and may or may not be includable in contributing and fund raising costs.
> - Forms of Solicitation - Some agencies have higher fund raising costs because the fund raising methods available to them are inherently more costly - e.g., direct mail vs. certain forms of personal solicitation.
>
> Accordingly, factors other than the support and fund raising costs, as they appear in the annual financial statements, must be considered whenever fund raising ratios are calculated. (p. 125)

(41-3) This conclusion is limited to costs of activities only. The exposure draft provides no basis of explanation for the practical reasons underlying this biased approach to accounting for costs of materials and activities that include a fund raising appeal. As discussed at length above, the tests in the exposure draft are unrelated to program and management and general functions of not-for-profit organizations. However, these undefined practical reasons are used to justify arbitrary criteria.

(41-4) The belief that potential abuses in financial reporting will be prevented by the proposed guidance is evidently a presumed benefit of this proposal. This potential benefit must be balanced against the actual costs that will be incurred by all not-for-profit organizations and state and local government entities that utilize materials and activities that include a fund raising appeal. As discussed in (40-1), the population of materials and activities is greatly expanded by this proposal. The actual costs to implement this proposal, i.e., the additional analysis required, promise to be significant. As the potential abuses are not identified, there exists no basis to conclude whether this rebuttable presumption is necessary or justified.

Also, since the potential abuses are not identified, there is no basis to conclude whether the rebuttable presumption and the criteria of the proposal will likely prevent such abuses. The prevalent use of ill-defined terms such as "substantially," "skewed," and "principally," throughout the proposal do not provide clear guidance. Consequently, not-for-profit organizations will likely be accused of more abuse rather than less after implementation of this proposal as presently drafted.

42. Paragraph 30, footnote 5, (42-2) states that certain calls to action are too vague to be considered motivating factors and therefore do not satisfy the criteria in the SOP that requires, "...specific action by the recipient that will help accomplish the entity's mission..." The last sentence of paragraph 30 (a) states that [s]ufficient detail should be provided describing the action to be taken; merely providing a slogan is not sufficient." The SOP does not conclude whether slogans benefit society. (42-2) Rather, it provides accounting guidance for considering how, for purposes of this SOP, accounting for the costs of activities that include a fund raising appeal should be affected by the use of slogans in those appeals.

Analysis

(42-1) This statement is an assertion about calls to action. The exposure draft neither provides any guidance nor cites any authoritative references to determine whether calls to action are sufficiently motivational. Further, in footnote 6 to paragraph 31, the draft indicates some calls to action are implied.

(42-2) No valid rationale exists for an accounting standard to specify whether or not a slogan is motivational. Therefore, there is no valid rationale for an accounting statement of position to assert that a slogan is sufficiently motivational.

43. Many entities include (43-1) incidental fund raising efforts with bona-fide program or management and general activities. Such efforts may be a practical, efficient means for entities to raise funds, (43-2) though the principal purpose of the activity may be to fulfill program or management and general functions. AcSEC believes that in those circumstances, the existence of such incidental activities should not affect the determination of whether the activity is a program or management and general activity. (43-3) Similarly, the existence of incidental program or management and general activities should not affect the determination of whether the activity is a fund raising activity. Therefore, this SOP states (43-4) that the existence of incidental activities does not lead to the conclusion that joint costs are required to be allocated between fund raising and the appropriate program or management and general activity.

Analysis

(43-1) Use of the term incidental in the exposure draft is contradictory with the SFAS No. 117 use of the term incidental in connection with gains and losses as follows:

> A statement of activities may report gains and losses as net amounts if they result from peripheral or incidental transactions or from other events and circumstances that may be largely beyond the control of the organization and its management. Information about their net amounts generally is adequate to understand the organization's activities. (par. 25)

If a transaction is incidental, the costs may be reported net of revenues with an associated gain or loss, and consequently report the transaction net.

As discussed above, the exposure draft should not use the term "incidental" to describe what it intends to define as immaterial.

44. (44-1) AcSEC believes that no particular allocation method or methods are necessarily more desirable than other methods in all circumstances. Therefore, this SOP neither prescribes nor prohibits any particular allocation methods. AcSEC believes that entities should apply the allocation methods that result in the most reasonable cost allocations for the activities of those entities. This SOP illustrates several cost allocation methods, (44-2) any one of which may result in a reasonable or unreasonable allocation of costs in certain circumstances. The methods illustrated are not the only acceptable methods, but are merely intended to illustrate some methods that may be acceptable in some circumstances. However, AcSEC believes that, generally, the methods illustrated in this SOP are among those most likely to result in meaningful cost allocations.

Analysis

(44-1) This belief is inconsistent with the concerns about difficulty and the use of judgment discussed in (41-1) and the concern about potential abuses in financial reporting discussed in (41-4). Despite this belief, any allocation method that is not systematic and rational and that cannot be independently verified by others is never a desirable method. Prohibition of allocation methods where results cannot be independently verified would be a straightforward means to reduce diversity in practice. FASB Statement on Financial Concepts No. 2 defines verifiability as:

> The ability through consensus among measures to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.

Allocation methods which rely on subjective estimates should be specifically proscribed as discussed in (33-2).

(44-2) There is no basis to establish the reasonableness of a joint cost allocation.

ILLUSTRATIONS OF APPLYING THE CRITERIA OF PURPOSE, AUDIENCE, AND CONTENT TO DETERMINE WHETHER A BONA FIDE PROGRAM OR MANAGEMENT AND GENERAL ACTIVITY HAVE BEEN CONDUCTED

Analysis

The title should indicate whether costs of materials and activities that include a fund raising appeal should be allocated to program or management and general functions. This is because allocation is discussed in every illustration and cost allocation is demonstrated in several.

There are no illustrations of incidental activities, sufficiently motivational slogans, or specific examples of content.

Illustration 1

Facts

A.1 Entity A's mission is to prevent drug abuse. Entity A's annual report states that one of its objectives in fulfilling that mission is to assist parents in preventing their children from abusing drugs.

A.2 Entity A mails informational materials to the parents of all junior high school students to help and encourage parents to counsel children about the dangers of drug abuse and to detect drug abuse, and includes an appeal for funds. Entity A conducts other activities that inform the public about the dangers of drug abuse that do not include appeals for funds.

A.3 The purpose criterion is met because (1) Entity A's mission is to perform such programs and (2) it otherwise conducts the program activity in this illustration without a fund raising appeal.

A.4 The audience and content criteria are met.

A.5 The costs of the paper including an appeal for funds should be charged to fund raising, and the costs of the informational materials should be charged to program.

A.6 Joint costs should be allocated based upon a reasonable method.

Illustration 1 - Analysis

The illustration does not indicate whether the purpose test is met because of the test in paragraph 25, i.e., the other activities without appeals for funds are conducted on a scale greater than the activity with an appeal using the direct mail medium or because of the conditions in paragraph 26.c. This is significant because the paragraph 25 test is definitive and the paragraph 26.c. test is only one of several factors. Also, it is unclear if the "without appeal" activities should contain calls to action similar to the activity with fund raising appeals.

Statement A.5 implies that all content of the fund raising paper is fund raising and all content of the educational materials is program. This may not be a typical direct mail package.

Illustration 2

Facts

A.7 Entity B's mission is to reduce the incidence of illness from XYZ disease, which afflicts a broad segment of the population. One of Entity B's objectives in fulfilling that mission is to inform the public about the early warning signs of the disease and specific action that should be taken to prevent the disease.

A.8 Entity B maintains a list of its prior contributors and sends them donor renewal mailings. The mailings include a separate piece of paper containing messages about the early warning signs of the disease and specific action that should be taken to prevent it. The information on that separate piece of paper is also sent to a similar-sized audience, but without the fund raising appeal. Prior donors are deleted from the mailing list if they have not contributed to Entity B during the last three years.

A.9 The purpose and content criteria are met.

A.10 The audience criterion is not met, because Entity B selects individuals to be added to or deleted from the mailing list based on their likelihood to contribute.

A.11 Therefore, all costs including those of the separate program piece should be charged to fund raising.

Illustration 2 - Analysis

The illustration does not discuss how the purpose and content criteria are met. The statement in A.10 is based on the presumption that past contributors are removed because they have not contributed. However, no indication is given as to why prior donors have not contributed. For example, past contributors may have moved or died in the past three years. In addition, there is no evidence in the illustration that contributors are added to the list because they contributed, as cited in the conclusion in A.10.

This illustration indicates that an organization that maintains a donor list consistent with common operational practice will fail the audience test. It also implies that the audience criterion is applied retroactively. That is, the audience criterion is applied to how the mailing list is maintained rather than whether the target audience can take action that can assist the organization to meet its program goals.

Illustration 3

Facts

A.12 Entity C's mission is to reduce the incidence of illness from XYZ disease, which afflicts a broad segment of the population. One of Entity C's objectives in fulfilling that mission is to increase government funding for research about the disease.

A.13 Entity C maintains a list of its prior contributors and calls them on the telephone asking for donations and encouraging them to contact their elected officials to urge increased government funding for research about the disease. Entity C's research indicates that its donors are twice as likely as nondonors to contact their elected officials about such funding. <u>When prior donors have not given for three years, they are deleted from the calling list</u>.

Conclusion

A.14 The purpose, audience, and content criteria are met.

A.15 Though the activity is directed <u>primarily at those who previously contributed</u>, as in Illustration 2, the audience's program involvement and ability to perform actions to help achieve the mission <u>demonstrate that the audience was selected based on its ability to assist Entity C in meeting its program goals</u>.

Illustration 3 - Analysis

The illustration does not indicate how the purpose criterion is met.

The illustration does not indicate how the content criterion was met.

The illustration indicates the audience criterion was met because the audience was selected based on its ability to assist the organization in meeting its program goals. However, the word "principally" is not used and the facts of the illustration do not provide the basis to determine whether the audience was selected principally because of its ability to contribute (i.e., previously contributed) or principally because of its ability to assist organization C (entity refers to state and local government) in meeting its program goals. Use of the word "primarily" to describe the direction of the activity is also confusing.

Illustration 4

Facts

A.16 Entity D conducts an <u>annual fund raising mailing</u> that includes information on <u>a separate piece of paper telling recipients what kind of action to take concerning a particular environmental problem</u>. Mailing labels in <u>zip codes with average household incomes above $45,000 are purchased from a list supplier</u>.

A.17 The purpose criterion may be met depending on an evaluation of the indicators in paragraph 26. The content criterion would be met.

A.18 The criterion of audience would generally not be met. Because the audience selection <u>is based principally on the ability or likelihood to contribute, and not on its being</u> a broad segment of the population, its need of the program services, or its ability to perform actions to help achieve the mission, <u>all costs including the specific costs of the separate program piece would generally be charged to fund raising</u>.

Illustration 4 - Analysis

This illustration describes the material and activity as an annual fund raising campaign. The description used should indicate that it is a multi-purpose activity which includes program and fund raising materials.

The illustration does not indicate which of the five sets of conditions in paragraph 26 would be appropriate to determine whether the purpose criterion is met.

The illustration does not indicate how the content criterion is met.

The illustration indicates the audience criterion would not be met (A-18) because selection is based principally on the ability or likelihood to contribute. No evidence is provided to determine whether this in fact is the principal reason for audience selection. The audience may very well be in need of the organization's program services and may very well be able to perform actions to help achieve the organization's objectives. This illustration points out the flaw in the draft audience criterion, i.e., the use of the word "principally" is not operational. In this case, it is asserted that the principal reason for selection is fund raising. In reality, the reasons could be both fund raising and program, i.e. the need for and benefits of the action to be taken.

This illustration provides guidance in direct conflict with paragraph 26 of SFAS No. 117, which states that information about expenses shall be provided by their functional classification such as major classes of program services and supporting activities. By reporting program costs as fund raising, both categories are misstated. Paragraph 27 of SFAS No. 117 indicates program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists.

In this illustration, since the purpose criterion may be met and the content criterion would be met, then a program activity has been conducted since the service (i.e., the environmental information) was provided to households, i.e., beneficiaries. Therefore, the exposure draft criteria are arbitrarily used to reclassify program costs. Further, accounting guidance is being used to dictate to a not-for-profit organization how to structure its multi-purpose materials and activities to preclude the latitude called for by SFAS No. 117.

Illustration 5

Facts

A.19 Entity E is a membership organization whose mission is to improve the quality of life for senior citizens. One of Entity E's objectives included in that mission is to increase the physical activity of senior citizens. Entity E also sends representatives to speak to groups about the importance of exercise and also to conduct exercise classes.

A.20 Entity E mails a brochure on the importance of exercise that encourages exercise in later years to residents over the age of 58 in three zip code areas. The last two pages of the four-page brochure include a perforated contribution remittance form on which Entity E explains its program and makes an appeal for funds. The content of the first two pages of the brochure is primarily educational; it explains how seniors can undertake a self-supervised exercise program and urges them to do so.

A.21 The leaflet is distributed to educate people in this age group about the importance of exercising, to encourage them to exercise, and to raise funds for Entity E. These objective are documented in a letter to the public relations firm that developed the piece and are supported by a medical advisory board's approval of the exercise program. The audience is selected based on age, without regard to ability to contribute. Entity E believes that most of the recipients would benefit from the information about exercise.

A.22 The purpose, audience, and content criteria are met, and the joint costs should be allocated.

Illustration 5 - Analysis

This illustration is somewhat unrealistic. As a membership organization (A.19), E may have membership development as one of the purposes of this multi-purpose activity and material. This purpose is not discussed in the illustration, but may well be a functional expense classification on the organization's statement of activity per paragraphs 26-28 of SFAS No. 117.

This illustration does not discuss how the purpose, audience, and content criteria were met.

This explanation is critical because of its relationship to Illustration 6 discussed below. For purposes of that discussion, suppose the purpose criterion is met based on the conditions of paragraph 26.d (qualifications and duties of personnel) and 26.e (tangible evidence). Suppose further the audience criterion is met because it is selected based on its needs for the program, and the content criterion is met because the call to action is one the audience can take. Given this situation, the illustration indicates that joint costs should be allocated.

Illustration 6

Facts

A.23 <u>The facts are the same</u> as those in Illustration 5, except that Entity F <u>employs a fund raising consultant to develop the brochure and pays that consultant 30 percent of funds raised</u>.

Conclusion

A.24 The content and audience criteria are met.

A.25 The purpose criterion <u>is not met, however, because the party performing the activity is compensated based on a percentage of funds raised</u>. Therefore, all costs of the activity should be charged to fund raising.

Illustration 6 - Analysis

This illustration indicates the arbitrary nature of the compensation test underlying the purpose criterion. As discussed for Illustration 5, program services are delivered to beneficiaries. Joint costs should be allocated to appropriate program and supporting services and the functional expenses should be reported in the organization's financial statements. The criteria of the exposure draft are met and the appropriate allocations result. However, given the same facts except for the type of firm and how that firm was compensated, program services are arbitrarily determined not to have been provided, even though in fact they were.

The comparison of illustration 5 and 6 indicates that the compensation test is unrelated to whether a program purpose was intended by material and activities that include a fund raising appeal. It also shows that use of the compensation test is not only arbitrary but also violates the provisions of more authoritative guidance in SFAS No. 117. It further indicates that the test is biased against fund raising consultants.

Illustration 7

Facts

A.26 Entity G's mission is to protect the environment. One of Entity G's objectives included in that mission is to take action that will increase the portion of waste recycled by the public.

A.27 Entity G conducts a door-to-door canvass of a community that recycles a low portion of its waste. The canvassers inform the residents about the environmental problems created by not recycling, recommend actions residents could take to help increase recycling, and ask for donations. The ability or likelihood of the residents to contribute is not a basis for selection, and all neighborhoods in this geographic area are covered if their recycling falls below a predetermined rate.

Conclusion

A.28 The purpose, audience, and content criteria are met, and the joint costs should be allocated.

A.29 The audience is selected based on presumed need for the program messages without regard to the ability to provide financial support. Therefore, the direct costs clearly identifiable with including a request for funds during the canvass, such as the cost of collection canisters, should be charged to fund raising. Other costs should be charged to the program function. The joint costs would generally include the costs of the canvassers that Entity G reimburses.

Illustration 7 - Analysis

This illustration does not indicate how the purpose and content criterion are met. The discussion of the audience (A.29) provides some guidance on how the audience criterion (paragraph 27 and 28) should be applied.

Illustration 8

A.30 Entity H's mission is to provide summer camps for economically disadvantaged youths. Educating the families of ineligible youths about the camps is not one of the objectives included in that mission.

A.31 Entity H conducts a door-to-door solicitation campaign for its camp programs. In the campaign, volunteers with canisters visit homes in middle-class neighborhoods to collect contributions. Entity H believes that people in those neighborhoods would not need the camp's programs, but may contribute. The volunteers explain the camp's programs, including why the disadvantaged children benefit from the program, and distribute leaflets to the residents regardless of whether they contribute to the camp. The leaflets describe the camp, its activities, who can attend, and the benefits to attendees. Requests for contributions are not included in the leaflets.

A.32 The content criterion is not met because there is no call to action. Further, the audience criterion is not met because the audience does not need the program and cannot assist the entity in meeting its program goals other than by providing support. The purpose criterion may be met depending on an evaluation of the indicators in paragraph 26.

A.33 All costs of this activity should be charged to fund raising. (There are no direct program costs because no program was performed.)

A.34 If the activity were conducted in a disadvantaged neighborhood and residents were also given a telephone number to call or an address to write to for more information, the conclusion may be different. In those circumstances, the audience and content criteria would be met and the purpose criterion may be met based on an evaluation of the indicators in paragraph 26. Only the cost of the canisters would likely be charged to fund raising because the fund raising would be incidental to the program purpose. The information about the program and how to take advantage of it would be charged to program. The joint costs would generally include the costs of the canvassers that Entity H reimburses.

Illustration 8 - Analysis

This illustration provides contradictory conclusions. Statement A.32 indicates that based on the facts of A.31 the purpose criterion may be met based on paragraph 26. However, it is not clear which set or sets of conditions in paragraph 26 would apply to demonstrate a program purpose. That paragraph indicates its criteria are not universally applicable and depend on the facts and circumstances that exist. The contradiction appears in A.33 which indicates no program was performed. If this is true, how could the purpose criterion have been met?

This illustration also points out the need for better guidance concerning the content criterion in the draft. Paragraph A.33 indicates the leaflet in A.31 describing the camp, its activities, etc. is fund raising because no program was performed. Paragraph A.34 indicates this same leaflet becomes program information. However, educating families is not an objective of the organization. Thus, such information may not be program information given the conditions of the exposure draft.

Illustration 9

A.35 Entity I's mission is to give the public lifesaving educational messages. One of Entity I's objectives in fulfilling that mission, as stated in the minutes of the board's meetings, is to produce and show television broadcasts including information about lifesaving techniques.

A.36 Entity I conducts an annual national telethon to raise funds and to reach the American public with lifesaving educational messages. The broadcast includes segments on personal health care and other segments describing Entity I's services. Entity I broadcasts the telethon to the entire country, not merely to areas selected on the basis of giving potential or prior fund raising results.

Conclusion

A.37 The audience and content criteria are met.

A.38 In assessing whether the purpose criterion is met, a determination should be made as to whether or not the activity is or would be conducted without the fund raising appeal using the same medium. If Entity I uses television broadcasts devoted entirely to lifesaving educational messages to conduct program activities without fund raising, the purpose criterion would be met. If Entity I does not use such television programs to conduct program activities without fund raising, and the purpose criterion is not met based on the indicators in paragraph 26, the purpose criteria would not be met and all costs of the telethon should be charged to fund raising.

A.39 If the purpose criterion is met, joint costs such as television time, overall planning, and production should be allocated between program and fund raising. One method of allocation may be based on the relative amounts of time each was on the air. The direct costs clearly identifiable with the lifesaving educational messages are not joint costs and should be charged to the program function. The costs of the service description messages that inform the audience about the organization and the related appeal for funds are not joint costs and should be charged to fund raising.

Illustration 9 - Analysis

This illustration does not discuss how the audience and content criteria are met. In particular, it does not detail the action step which meets the content criterion.

This illustration shows that the exposure draft lacks a definitive positive purpose criterion other than the with/without appeal test. The conditions in paragraph 26 provide no definitive basis to conclude a program purpose is met. The conditions in paragraph 23 provide negative tests.

Illustration 10

Facts

A.40 Entity J's mission is to provide food, clothing, and medical care to children in developing countries.

A.41 Entity J conducts television broadcasts ranging from 30 minutes to one hour in length that describe Entity J's programs, show the needy children, and then end with an appeal for funds.

Conclusion

A.42 The purpose, audience, and content criteria are not met. There is no call to action other than supporting Entity J, the audience's need for or ability to assist any programs is not a significant factor in selecting the audience, and all descriptions of Entity J's activities are in support of fund raising.

A.43 All costs should be charged to fund raising.

Illustration 10 - Analysis

This illustration does not discuss why the purpose program is not met.

Illustration 11

A.44 Entity K is a University that distributes its annual report, which includes reports on mission accomplishments, to those who have contributed over the three preceding years, its board of trustees and its employees. Included in the package containing the annual report are educational materials about Entity K's mission, requests for funds, and donor reply cards.

A.45 The purpose, audience, and content criteria are met.

A.46 Though the activity is directed primarily at those who previously contributed, the audience was selected based on its presumed interest in Entity K's reporting on its financial position, results of operations, mission accomplishments, and fulfillment of its fiduciary responsibilities.

A.47 The costs clearly attributable to the annual report should be charged to management and general. <u>The costs of the educational materials and donor reply cards should be charged to fund raising</u>. The joint costs should be allocated between management and general and fund raising.

Illustration 11 - Analysis

This illustration does not discuss how the purpose and content criterion are met. Presumably the purpose is management and general, but no indication is provided as to which of the tests in paragraph 23-26 were used to determine purpose.

Similarly, the audience criterion is not discussed. It is not clear that the information about the entity's mission should necessarily be treated as fund raising.

Illustration 12

A.48 Entity L is an animal rights organization. It mails a package of material to individuals included in lists rented from various environmental and other organizations that support causes that Entity L believes are congruent with its own. In addition to donor response cards and return envelopes, the package includes postcards addressed to legislators and bumper stickers urging support for legislation restricting the use of animal testing for cosmetic products. It also includes a letter instructing the reader to take specific actions to further Entity L's goals. The mail campaign is part of an overall strategy that includes magazine advertisements and the distribution of similar materials at various community events.

Conclusion

A.49 The purpose, audience, and content criteria are met. A bona fide program function is performed, the audience is not limited to potential donors; it also includes individuals who can assist Entity L in achieving its program goals, and the content includes a request for action in support of the program.

A.50 Entity L accounts for the costs of the activity as follows:

- *Costs Charged Directly to Fund Raising....................*
- *Costs Charged Directly to Program...........................*
- *Joint Costs ....*

A.51 Entity L uses the relative direct-cost-method to allocate joint costs.

A.52 In reviewing the purpose of the activity, Entity L concludes that though the fund raising component is important, the activity was conducted primarily for program purposes. Passing the proposed legislation was highlighted as a major goal in Entity L's three-year program plan, and Entity L believes the mail campaign is essential for achieving this goal. Accordingly, the allocations resulting from the methodology used by Entity L are reasonable.

Illustration 12 - Analysis

This illustration does not specify how the purpose criterion was met nor does it show how the audience was selected primarily for program purposes. In addition, the illustration does not use the term "principally" as specified in the draft. The illustration also fails to demonstrate how the allocation of joint costs using the direct cost method is reasonable. The logic in the illustration suggests that the entity thought it was reasonable, and therefore it is reasonable. Thus, the illustration indicates that the reasonableness condition is not operational.

Illustration 13

A.53 Entity M is a community hospital. Entity M's mission includes a requirement to educate the public about health maintenance and disease prevention. Twice a year, brochures are sent to all residents in the hospital's service area. These brochures discuss the importance of exercise and good nutrition and how to detect certain diseases, and encourage recipients to exercise, eat right, and practice self-detection. Once each year, Entity M includes an envelope with a request for contributions with the brochure.

Conclusion

A.54 The purpose, audience, and content criteria are met and the joint costs should be allocated.

Illustration 13 - Analysis

This illustration fails to discuss how the purpose, audience, and content criteria were met

Summary Analysis of Illustrations

- Only one illustration provides a definitive discussion of how the purpose criterion is met. Except for the first illustration, the statement is simply made that the purpose criterion is met. Several cases, however, show how the purpose criterion is not met.
- There are no illustrations of slogans that are considered sufficiently motivational.
- There is only one (simple) illustration of a cost allocation method
- There is no illustration of meeting the content criteiron beyond a very general description.
- There is no illustration of how reasonableness of joint cost allocation can be definitively determined.
- There is no illustration of how an evaluation is skewed more to fund raising or more to program purposes.
- There is one illustration of compensation based on funds raised. However, it is not specified whether this is "substantially" or "in part."

In summary, the illustrations are symptomatic of the difficulties that are likely to be encourtered in attempts to implement the proposal in its present form.

EXPOSURE DRAFT APPENDIX B

Flow Chart

Analysis

The flow chart contains the following deficiencies:

Does not incorporate joint materials

Does not include the substantial evaluation test under purpose

Fails to label most decision points in the flow chart

Does not indicate that the SOP concerns all costs of all materials and activities.

'47 cont.

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January 10, 1994

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Dear Joel:

NCIB's response to the AICPA's Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal has two parts: our general objections are stated in the body of the letter, and our more specific comments appear in the attachment.

Overall, we do not accept what seem to be underlying assumptions governing the Exposure Draft. The Exposure Draft indicates to us

- that the AICPA believes that virtually all of the theoretical underpinnings of SOP 87-2 have demonstrated validity, and that all that is needed to correct or stem misinterpretations and abuses is additional clarification or application specificity;

- that the AICPA believes that not-for-profit accountants and external auditors, as well as independent review bodies, will accommodate the detailed preparation and checking of the institutional joint cost documentations put forward by the Exposure Draft as both essential and routine;

- that the AICPA believes that the all-or-nothing provisions for the allocation of costs to fundraising, should the mailing or other activity be deemed to be fundraising (paragraph 19), will act to keep organizations within the letter of the law (instead of making prospecting for creative loopholes more common);

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- that the AICPA believes that guidelines for joint (or any other) allocations can have practical validity in the absence of reasonably stringent guidelines for standardized and comparable allocations methodologies.

We disagree with all the above assumptions.

We have, since the publication of SOP 87-2, become increasingly dissatisfied with not-for-profit reporting based on its joint allocation guidelines.

We have found that a joint costs allocations analysis of one organization, within the context of SOP 87-2, is 1) virtually impossible to prepare, and 2) in only a very limited way usefully comparable with an analysis of the joint cost allocations of a second organization. As a result, we have found it increasingly difficult to fulfill our mandate to contributors: to provide them with accurate, reliable analyses and evaluations of not-for-profit programs and activities, including the ways in which a not-for-profit makes use of contributors' dollars.

It is probable, therefore, that NCIB's staff will soon recommend to our Board of Directors that NCIB decline to apply SOP 87-2, or, if adopted, the guidelines outlined in the AICPA's Exposure Draft, with respect to our own independent analyses and evaluations.

So, on the one hand, we find ourselves in such diametrical disagreement with the Exposure Draft's implicit assumptions and goals that, for our purposes, further discussion is almost pointless. Adoption of this Exposure Draft will, in our judgement, enhance neither accounting practice nor the credibility of financial statements.

However, we have read the document thoroughly, and our more specific comments are in Attachment A.

We regret that these comments must be so consistently critical. We have publicly called for and applauded the AICPA's undertaking to improve not-for-profit understanding and practice in the area of joint allocations.

But we do not feel that the results as displayed in the Exposure Draft offer any practical improvement in controlling, monitoring, or evaluating (either externally or internally) an organization's selection of activities appropriate for joint cost allocation treatment or its selection of joint cost allocation methodologies.

We don't want to go back to the drawing board either. We are just as bone-weary as everyone else who has been grappling with joint cost allocations over the last, actually, decades.

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It is our belief, therefore, that there are now two options for dealing with the situation:

- the philanthropic sector can continue to flail around in the quicksand which was the foundation of SOP 78-10 and is the foundation of SOP 87-2, with the expected results (the position apparently advocated by the Exposure Draft); or

- the philanthropic sector can return to the discussion stage last seen in 1974, where the basic rationales for permitting <u>any</u> joint costs allocations involving a fund-raising component were still items for debate.

On behalf of our contributor constituency, we vote for the latter.

Sincerely,

Ken

Kenneth L. Albrecht
President

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NCIB Response to AICPA Exposure Draft of Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal

Appendix

We agree that there are such things as joint costs. We agree that joint costs are frequently incurred in the simultaneous undertaking of two activities when one activity is fund-raising. We agree that it would be desirable to accurately identify and allocate all joint costs to their proper function, <u>especially</u> when one of the joint activities is fund-raising. We do not believe that the ED has provided guidance which will make it possible to do so with confidence.

We consider the Accounting for Joint Activities Flow Chart (Appendix B of the ED) to be a fine theoretical exposition of an ideal allocations decision-making process. The chart is impressive and convincing in its straightforwardness and succinct expression. But there isn't a clear directive in it that isn't qualified, diluted or flatly contradicted by the narrative in the ED itself.

The following comments address some of the issues and phrasings in the ED which illustrate our frustrations at the ambivalence and circularity of the document as a whole. These comments are referenced to the related paragraphs by (P plus the number).

1. (P15) The inclusiveness of the listing of costs eligible to be treated as "joint costs" is too broad and ill-defined. In particular, the inclusion of indirect costs as potentially allocable with the caveat that some unidentifiable group of such costs may not be "practicable" to allocate is not useful guidance.

2. (P19) We do not agree that "costs that are [otherwise] clearly identifiable with program or management and general functions" should be allocated entirely to fund-raising if the activity as a whole is determined to be predominantly fund-raising.

3. (P25) There needs to be a range defined for "similar" scale. Dollar outlay? Households reached? Intensity of pitch versus breadth of outreach?

4. (P26) We believe that the criteria, as outlined in italics, could provide valid, "best-of-all-possible-worlds" guidance to the identification of an other-than-fund-raising purpose.

However, the introductory sentences beginning with "Th[e] other factors [below] are not universally applicable...the relative importance of those factors should be weighed...the following indicators should be considered.." are a brisk return to the real world. They seriously undercut any accounting or auditing enforceability the italicized "indicators" may have had.

These non-italicized elaborations of how the italicized indicators may be documented are vague and easily manipulable. "You'll know it when you see it" would, in general, do just about as well.

As examples:

"..a process to identify and evaluate program results..," "Identification and, where practical, measurement of program results and accomplishments..," "..different medium..," "who otherwise devote significant time to fund-raising..," "..experience and full-range of available services..,".

5. (P27) The focus should be on an audience's "likelihood."

6. (P28a) We do not agree that "An appeal to a broad segment of the population concerning a condition affecting only a small segment.." would almost automatically be unlikely to meet the audience criterion.

(P28c) "A population that is able to perform actions.." needs a more stringent definition to be useful.

7. (P29) "..who have also participated in program activities in the past,.." needs a more stringent definition to be useful. Did they answer five questions on the phone or did they volunteer 100 hours?

"Similar or related" in the sentence "Lists acquired from organizations with similar or related programs are more likely to meet the audience criterion..." needs a more stringent definition to be useful. We do not agree that such lists are usually "more likely to meet the audience criterion.." Such lists are, more usually, those most difficult to categorize as having been selected exclusively with either program or fund-raising intentions.

8. (P30a and P31, and footnotes 5 and 6) The ED has made no progress whatsoever in clarifying "action," let alone "specific action," or "[action] that is unrelated to providing financial or other support," or "[action] benefiting the recipient" or "[recommended actions including] sufficient detail [for desired performance]."

As examples:

The encouragement of activities "improving the recipient's spiritual health" is allowed as action, though a "general call" to any such activities defined as "prayer" is not. That is actually discriminatory.

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It appears that actions required must be complicated and/or generally badly understood to be allowable. Millions of dollars later, "don't drink and drive" and "don't smoke" don't need any further elaboration.

"if the results of the questionnaire help the entity achieve its mission? needs a more stringent definition to be useful. As defined by whom? and in what way?

Straightforward, albeit simple, orders to action are not allowable, but "implied" messages may be.

9. (P30b) The definition of allocable "management and general" materials needs to be more stringent to be useful. Fund-raising documents usually include information on what the organization does and how well it does it. The definition as written does nothing to identify which of such descriptive statements are or are not allocable.

10. (P32) Do the final sentences of this paragraph mean that if the organization activity in question has been determined to be predominantly progammatic, and the fund-raising component only incidental, the organization may yet allocate incidental costs to fund-raising instead of to program if it wants to?

14. (P33 and P34) It is not useful guidance to suggest that the ratification of allocation methodology selected as appropriate be based on an assessment of how "reasonable" the results of applying that methodology appear to be. The assessment of reasonableness cannot be anything other than subjective and is presumably, if not necessarily, formulated in advance in order to be so recognized when confirmed.

This one example of circular reasoning does more to damage the credibility of the Exposure Draft than any other section.

12. (P36) The reporting recommended should be required. In addition, the joint cost breakdown for each major individual activity, or each major category of activity, should be required reporting.

DMA NON-PROFIT COUNCIL
11 West 42nd Street, New York, NY 10036-8096 (212) 768-7277 FAX (212) 768-4546

January 7, 1994

49

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1221 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

The Direct Marketing Association is a national industry trade association that represents companies and organizations that use direct response techniques to contact the consumer to sell or promote products, services and Activities. The DMA Non-Profit Council is a subgroup of the Association that represents non-profit organizations that use direct marketing as a way of raising funds and delivering the program message. The Association is dedicated to improving the industry and addressing the current concerns that impact on non-profit Activities, fundraising and membership programs. To this end, this letter responds to your request for comments with respect to the above-referenced proposed statement of position (SOP). The proposed SOP sets forth the following:

- The costs of all materials and activities that include a fund-raising appeal should be reported as fund-raising costs, including costs that are otherwise clearly identifiable with program or management and general functions, unless a bona fide program or management and general function has been conducted in conjunction with the appeal for funds.

- If a bona fide program or management and general function has been conducted in conjunction with an appeal for funds, the joint costs of those Activities should be allocated. Costs that are clearly identifiable with fund-raising, program, or management and general functions should be charged to that cost objective.

- Criteria of purpose, audience, and content must be met in order to conclude that a bona fide program or management and general function has ben conducted in conjunction with the appeal for funds.

In general, the development of the proposed SOP appears to result from an AICPA acceptance of the view of certain regulators that abuses of SOP 87-2 exist. <u>However, the exposure draft provides no specific information as to the nature or breadth of these abuses. Absent a grounding in the specifics of an abuse, the exposure draft is arbitrary and unduly harsh. In addition, the timing of the proposed SOP is premature and its language inconsistent with more authoritative accounting guidance such as SFAS No. 117. Moreover, a project to revise and integrate the not-for-profit organization audit and accounting guides was approved by the Financial Accounting Standards Board on December 15, 1993, and hardly is in progress. Accordingly, we believe that future action on the proposed SOP should be deferred until there has been an empirical analysis of the precise nature and extent of the perceived abuses under SOP 87-2 and until such time as the proposed SOP can be issued in conformity with the other standards affecting not-for-profit organizations.</u>

Furthermore, we believe the proposed SOP as currently drafted would require entities that do fund-raising to make business decisions that may not be in the overall interests of the entity in order to secure financial statement treatment that recognizes the program or management and general components in a joint activity. Accordingly, we respectfully request that the proposed SOP also be revised to address the following concerns prior to being forwarded to the Accounting Standards Executive Committee for approval to issue a final SOP.

Purpose Criterion

In order to determine whether an activity includes a bona fide program or management and general component, the proposed SOP requires that the purpose for conducting the activity be considered. However, paragraph 23 provides that the purpose criterion is not met and all costs of a joint activity should be charged to fund-raising if (1) substantially all compensation or fees for performing the activity are based on amounts raised or (2) the performance of the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds. There does not appear to be an exception to these results. Moreover, while the term "substantially all compensation" suggests more than 50 percent of compensation, the term "evaluated substantially" is unclear.

The foregoing conditions do not allow for the distinction between evaluating the effectiveness of an activity (and therefore the party performing the activity) and compensating the party. In addition, the adverse effects of paragraph 23 are

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several. First, many entities evaluate their joint activities using multiple criteria including both the amounts raised and the effectiveness of the program or management and general component. As currently drafted, paragraph 23 makes no allowance for multiple evaluations -- "if the performance...is evaluated substantially on the...effectiveness in raising funds, the purpose criterion is not met..." We believe it is possible for evaluations to have multiple substantial components and in that event the underlying activity should not fail the purpose criterion.

In addition, because a contract contains terms to limit compensation based upon amounts earned, there does not necessarily exist a basis for the activity being treated as wholly fund-raising. Many entities have used such contracts as matte of fiscal conservativeness to ensure expenses would not outpace revenues. Paragraph 23 would effectively deny this business option by requiring all activity costs to be charged to fund-raising, even in situations where there are substantial program or management and general components and substantial efforts to evaluate the effectiveness of these components.

Paragraph 24 goes on to provide that if all costs of the activity have not been allocated to fund-raising, the purpose criterion can be met through conducting a similar program or management and general activity without a fund-raising appeal using the same medium. Most entities to which the proposed SOP is applicable are concerned about overall costs. Those entities, newly formed entities, and others with limited resources will find this criterion unacceptable and/or unattainable. Most entities can not afford the duplication suggested by this criterion. Fiscal efficiency dictates joint efforts to minimize cost and maximize effectiveness for each of the joint activities; however, the proposed SOP would penalize such efforts by having all costs of the join Activities charged to fund-raising.

Audience Criterion

As stated above, it is fiscally efficient and not uncommon for an activity to have multiple purposes. Likewise, such an activity would have similar multiple audiences. Paragraphs 27 and 28 set forth an either/or test that effectively precludes multiple audiences in a given activity -- either the audience is selected principally on its ability or likelihood to contribute funds, in which case all the costs of the activities are charged to fund-raising, or the audience is principally selected for some entity goal other than fund raising, in which case the costs could be allocated to fund-raising, program, and/or management and general. To make the determination as to the reason for selecting the audience, paragraph 29 states that the source of the names and the characteristics of the audience must be considered. In making the determination, no recognition is given to the fact that the audience may have been selected for both its need for the program as well as its ability or likelihood to contribute funds, or how a final determination would be made if there were no principal audience identified.

In addition to the failure to recognize the efficiency of reaching multiple audiences with a given activity, there appears to be a general presumption that if the audience is selected in part from list rentals and exchanges from other entities, one would look to the source organization to determine the basis for selection -- names from similar organizations are presumed to be more likely to meet audience criterion than an audience selected on the basis of a consumer profile. This generalization effectively ignores the purpose for which the similar organization developed its lists and the statistical ability of consumer profiles to identify precisely the audience which should be targeted for program Activities.

In conclusion, we believe the bias the exposure draft exhibits against joint costs ignores the wisdom of the United States Supreme Court as articulated in Riley v. Federation of the Blind of North Carolina:

> Although we do not wish to denigrate the State's interest in full disclosure, the danger the State posits is not as great as might initially appear. First, the State presumes that the charity derives no benefit from funds collected but not turned over to it. Yet this is not necessarily so. For example, as we have already discussed in greater detail, where the solicitation is combined with the advocacy and dissemination of information, the charity reaps a substantial benefit from the act of solicitation...Thus, a significant portion of the fundraiser's "fee" may well go toward achieving the charity's objectives even though it is not remitted to the charity in cash...

487 U.S. 781

Sincerely yours,

Kelly B Browning

Kelly B. Browning
Chair, DMA Non-Profit Council

PVA

PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

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January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The following are my comments on the Exposure Draft of the Proposed Statement of Position and revision of SOP 87-2.

The Paralyzed Veterans of America conducts several direct mail programs to provide the funds necessary to support our organization and our programs and to educate the public on the special needs of the paralyzed veterans and their dependence on the VA medical facilities.

The reports by the Better Business Bureau and the National Charities Information Bureau along with reports in the media ranking charities on the cost of fund raising and the program expenditure rates emphasizes the need for fairness and equality in the reports.

PVA did not allocate any of the cost of our direct mail fundraising to its programs until our annual report for the fiscal year ending September 1992. A review of the annual reports of a number of similar organizations determined that we were the only one in that group who was not allocating program costs in our direct mail programs although clearly defined program objectives were being accomplished. The evaluation of our staff, a consulting agency and PVA's auditors determined that we should allocate 12% of the cost of our direct mail programs to public education. This year's evaluation determined that we should allocate 14%.

There are a number of comments that I could make, but I will limit them to three specific ones.

801 Eighteenth Street, N.W., Washington, D.C. 20006 (202) USA-1300 FAX (202) 785-4452

The exposure draft in its detail goes far beyond the objectives defined in the summary in a number of areas. The criteria of purpose and audience (not content) does not recognize the degree of program content.

Under the Purpose section, paragraph 26 (b), one of the "indicators" is "Whether evaluation of the effectiveness of the activity is skewed" toward fund raising or toward accomplishment of the program goals. If an evaluation of a direct mail program is that it should be allocated 85% fund raising, 3% management and general and 12% program, then the mailing is obviously "skewed" toward fund raising. The allocation confirms this. Why is not appropriate for it to be skewed if in fact its 85% fund raising?

The same reasoning also applies to the audience and its selection and evaluation where the word "principally" is used. If the allocation is that the effort is 85% fund raising, then why is the selection of the audience if based principally on the likelihood to contribute, wrong?

If a direct mail or other effort is evaluated to be 51% program, then clearly it should be skewed to program for both its purpose and its audience.

The purpose and audience should reflect the evaluation of the content of the effort, and be relative to or in proportion to the program allocation. A 12% program allocation for a bona fide program accomplishment to an audience that is skewed or principally chosen for its ability to contribute should not be unacceptable.

If this draft is to be adopted without a modification recognizing the relationship between the amount of program allocation and the audience and content, then this draft should be discarded and AICPA should again adopt a Primary Purpose Rule.

Sincerely,

Tom Moore

Tom Moore
Associate Executive Director/Development

cc: Gordon H. Mansfield, Executive Director
John C. Bollinger, Deputy Executive Director
John Ring, Chief Financial Officer
Jim McLachlan, Director of Development

MERCY CORPS
INTERNATIONAL®

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December 22, 1993

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Joel,

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of Mercy Corps is to assist the world's suffering, impoverished, and oppressed through emergency relief, self-help projects and development education. We use multipurpose materials, including direct mail as cost-effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The Proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

Ellsworth Culver, President • **Dan O'Neill**, Co-Founder
3030 S.W. First Avenue • Portland, Oregon 97201 • Telephone: (503) 242-1032
Fax: (503) 223-0501 • Telex: 5101002493 MERCY CORP INT

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgment of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

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The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. <u>This provision has nothing to do with accounting guidance</u>. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; <u>oftentimes they completely describe the charity's aims or goals</u> ("Just Say No!")

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

<u>Example</u>: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

<u>This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.</u>

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been to liberal in the methods used to allocate joint cost, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Ron Frey
Director of Resource Development

RF:mb

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NATIONAL MULTIPLE SCLEROSIS SOCIETY

733 THIRD AVENUE, NEW YORK, N.Y. 10017-3288 (212) 986-3240 FAX (212) 986-7981

January 7, 1994

American Institute of Certified Public Accountants
Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.5A
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

As a national voluntary health and welfare organization we are well aware of the criticism of SOP 87-2. We do feel that the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that include a Fund Raising appeal could be an improvement.

The purpose criterion seems to say that if the primary purpose of an activity is to raise funds then the activity should be charged to fund raising, even though it may contain a program message. Most organizations use direct mail as a media to communicate both an appeal for funds and a program message in the same piece; this is just financially practical. If I might present an analogy, one could look at a manufacturing concern. In a certain process the firm produces a primary product and as a result of the process, a secondary or by-product is also produced. The cost of production is split or allocated between the primary product and the by-product. The same logic should apply here. Where a communication has a two fold purpose as determined by the content, costs should be allocated.

Thank you for the opportunity to comment. We wish you success in your endeavor.

Sincerely,

Joseph C. DeSapio

Joseph C. DeSapio
Vice President
Finance and Administration

JCD:wc

May & Company

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January 5, 1994

Ms. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

Following are my comments to the Exposure Draft, "Accounting For Costs Of Materials And Activities Of Not-For-Profit Organizations And State And Local Governmental Entities That Include A Fund-Raising Appeal".

Our firm performs several Not-For-Profit and Governmental audits. This exposure draft, if finalized in its present form, would have adverse effects on our clients and provide little or no benefit to the readers of their financial statements.

My first concern relates to the frequent use of such words as incidental, reasonable and substantially. The ambiguous nature of these words will result in inconsistent interpretations. Additionally, the exposure draft fails to consider the program benefits to individuals involved in the fund raising appeal. Just because the audience is selected from a consumer profile, or their likelihood to give, does not mean they will not benefit from the program. Lastly, the draft would reclassify costs originally and properly considered program, management or general costs as fund raising expenses. This conflicts with the intention of FASB 117.

In addition to my responsibility as our firm accounting and auditing partner, I am Chairman of the Mississippi Society of CPA's Accounting and Auditing Committee. Several of my colleagues have similar concerns. Your consideration of the adverse effects that will arise if this exposure draft is issued in its present form, will be greatly appreciated.

Sincerely,

MAY & COMPANY

Donna M. Ingram, CPA

DMI:rr

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HOYLETON

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January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I would like to personally voice my opposition to the proposed statement regarding accounting for costs of materials and activities of Not-for-Profit Organizations that include a fund-raising appeal.

Such organizations must prove themselves accountable to the public by demonstrating low fund-raising costs. How is an accurate record achieved when fund-raising costs are accelerated through such a change in position.

Not-for-Profits have been bombarded by rising postal rates, a difficult economy, and natural disasters. Competition and changing trends in corporate and individual giving affects such organizations as well.

I would urge the Committee to review their work to date.

Sincerely,

Paul Schippel

Paul Schippel
President

Join us in the celebration of Hoyleton's first 100 years of service! Many children, youth, and families have begun a new life by entering our portal and passing under the rosette window of the original home, and the archway of our present facility. We have combined the two entrances as a symbol for our century celebration and the continuing portal Hoyleton will be for countless children and families to come.

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FAX (618) 493-6390

Hoyleton Youth and Family Services
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J.L. LITTLE INC.
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January 7, 1994

Joel Tanenbaum
Technical Manager, Acctg Std Division
American Institute of Certified Public Accountants
1211 Avenue of the Americans
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. I am a CPA who performs services for Not-for-Profit Organizations and I am also the Treasurer for the INOVA Health Systems Foundation.

I am greatly concerned about the effect the proposed new standard would have on the way my clients, etc. report the costs involved. In just a few words, I believe that the majority of this exposure draft is inappropriate.

Sincerely,

Jerry L. Little
President

PRIESTS OF THE SACRED HEART
SACRED HEART MONASTERY
BOX 900 • HALES CORNERS, WISCONSIN • 53130

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January 3, 1994

Mr. Joel Tannenbaum, CPA
Technical Manager, Accounting Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal"

Dear Mr. Tannenbaum,

I am writing to you today in reference to the Exposure Draft dated September 10, 1993, a revision of SOP 87-2.

Over the past few years, critics of the fundraising practices of nonprofits have made themselves heard across our country. They identify some egregious examples, then project their concerns upon the entire fundraising community. While I share their concern for accountability, I am distressed at their tactic of using broad statements which taint the entire fundraising community.

I am employed by the Priests of the Sacred Heart, a Roman Catholic religious community. My job is to assist them in achieving the mission for which they exist and to raise funds. I do this principally through direct mail.

It is important to note that the work of the Priests does not bring them into contact with Catholics of means. Their constituents are among the poor and needy, here in the United States and abroad. Direct mail is the major means of supporting their mission.

We are concerned about honesty and integrity in fund-raising. We are concerned about being accountable to our donors. We agree that some fundraisers have been dishonest. However, we do not believe that the proposed revision of SOP 87-2 adequately resolves the issues.

In matters of accounting, I am a layperson. Nonetheless, I have studied 87-2 and the proposed revision. This revision calls upon accountants to make judgements in the area of programs, something they are not qualified to do.

56 cont'd

Accountants are also called upon to make judgements in the area of fundraising. Let me give you an example. In illustration 2 on page 21, entity B maintains a listing of prior donors and deletes those from renewal mailings if they have not contributed in a specific time period. Since the "audience" criteria is not met, all costs, *including clearly* identified program costs, are to be charged to fund-raising.

Our criterion for maintaining someone on our list is not the making of a contribution, but maintaining contact with us and showing an interest in our mission. Granted, this is most often done through a gift or contribution.

To continue to mail to those who have shown no interest in our mission for a significant period of time is to waste our resources and add to our costs for management and fund-raising.

The confusion is caused by tying the "audience criterion" to "contributions." It can lead to misleading judgements, and can ultimately be wasteful of the funds of an organization. I do not believe this is the purpose behind the revision of SOP 87-2.

I would urge the Not-for-Profit Organizations Committee to sit down with the nonprofit fundraising community so that our concerns can be heard. Together, we should be able to address the concerns of the American public and discover how best we can be accountable.

Sincerely,

John Cain

John J. Cain, Ph.D.
Development Administrator

JJC/yap

57

STATE OF COLORADO HIGHER EDUCATION ACCOUNTING STANDARDS COMMITTEE

Chair	Vice Chair	Secretary
Jud Hurd	Janeen Kammerer	Gary Williams
Director of Accounting	Vice President for Financial Services	Controller
University of Colorado at Boulder	Mesa State College	Auraria Higher Education Center
Campus Box 48	P.O. Box 2647	P.O. Box 4615, Campus Box B
Boulder, CO 80309-0048	Grand Junction, CO 81502	Denver, CO 80204
Phone: (303) 492-5551	Phone: (303) 248-1921	Phone: (303) 556-3276
Fax: (303) 492-5553	Fax: (303) 248-1903	Fax: (303) 556-4596

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York, 10036-8775

Dear Mr. Tanenbaum,

The State of Colorado Higher Education Accounting Standards Committee represents all the public colleges and universities in the State of Colorado. This committee is charged with interpreting generally accepted accounting principles and creating accounting standards which are used by all Colorado colleges and universities for financial statement preparation. Our FASB/GASB Subcommittee is responsible for reviewing and preparing, on behalf of the whole committee, responses to FASB and GASB exposure drafts, discussion memoranda, invitations to comment, and preliminary views.

We would like to comment on the AICPA exposure draft of the proposed statement of position, *Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal*. Our comments are contained in the attached letter prepared by our FASB/GASB Subcommittee. Thank you for the opportunity to comment and I hope that our comments are helpful.

Sincerely,

Jud Hurd

Jud Hurd
Chair

cc: Dick Schubert, FASB/GASB Subcommittee Chair
Janeen Kammerer, Vice Chair
Gary Williams, Secretary
File

DICK SCHUBERT
CHAIR, FASB/GASB SUBCOMMITTEE
STATE OF COLORADO HIGHER EDUCATION
ACCOUNTING STANDARDS COMMITTEE
Aims Community College
5401 West 20th Street, P O Box 69
Greeley, Colorado, 80632

(303) 330-8008, extension 228

December 29, 1993

AICPA PROPOSED STATEMENT OF POSITION
REPORTING FOR COSTS OF MATERIALS AND ACTIVITIES
OF NOT-FOR-PROFIT ORGANIZATIONS
AND STATE AND LOCAL GOVERNMENTAL ENTITIES
THAT INCLUDE A FUND RAISING APPEAL

Comments Deadline -- January 10, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York, 10036-8775

Dear Mr Tanenbaum:

The State of Colorado Higher Education Accounting Standards Committee -- which represents all of the public colleges and universities in the state of Colorado -- wishes to comment on your exposure draft of the proposed statement of position, *Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal*. The State of Colorado Higher Education Accounting Standards Committee interprets and creates accounting standards which are used by all state colleges and universities in Colorado for financial statement preparation.

The Committee's interest in this matter is from the perspective of public institutions of higher education. The public colleges and universities in Colorado follow the specialized industry accounting and reporting principles of the AICPA College Guide model as defined in GASB Statement 15.

We have four concerns we wish to bring to your attention.

APPLICABILITY TO GOVERNMENTAL ENTITIES

The proposed Statement of Position (SOP) clarifies the criteria to be used when classifying costs of activities that include a fund-raising appeal between various functional categories. The SOP improves upon the guidance found in SOP 87-2. It also expands the scope of that document to include governmental entities and other not-for-profit entities that currently do not report expenses or expenditures related to "fund-raising" as a separate category in their financial statements.

Although we believe the proposed SOP is relevant to the not-for-profit entities for which it is written, we vehemently oppose including governmental entities and entities that do not report fund-raising expenses or expenditures in its scope. We believe it would be more appropriate and more instructive to limit the scope of the SOP to those entities that are required to report "fund-raising" activities or "fund-raising" expenses as a separate category in their financial statements. That currently is not the case for colleges and universities and most governmental entities.

DISCLOSURE OF ALLOCATION METHODS

As written, the SOP would require colleges and universities and most governmental entities to disclose allocations of joint costs that include a fund-raising appeal. Yet these entities do not separately report or disclose fund-raising expenses in their financial statements. This factor alone would create a great deal of confusion to financial statement users.

We question requiring the disclosure of allocation method(s) for joint costs. An entity may use multiple methods to allocate costs associated with one activity alone. We believe the disclosure of these methods will tend to confuse, rather than inform, the user of the financial statements.

There apparently is no perceived need to disclose the allocation methods used when joint costs do not include a fund-raising element (for example, joint costs that are shared by two or more research projects). While we recognize there may be some legitimacy to disclosure of fund-raising costs, we believe that detail discussion of allocation methods is unnecessary.

We also question whether disclosure of allocation methods will inform or confuse the user of the financial statements. The illustrative disclosure in ¶37 of the exposure draft is a case in point. Would the average user of the financial statements understand the allocation process from reading this disclosure?

GUIDANCE WITH RESPECT TO RELATED ENTITIES

In higher education, fund-raising often is done through foundations which are separate legal entities. It has not yet been determined whether such foundations are related entities subject to the requirements of GASB Statement 14. We ask that the proposed SOP include guidance with respect to fund-raising costs of such entities 1) in their separately published financial statements and 2) if they are combined (blended) in the statements of another entity.

Assume a university distributes materials announcing the results of research projects it has undertaken, including an appeal for funds to continue the research. Assume that this material would meet the purpose, audience and content criteria if distributed by the university. Under the provisions of the proposed SOP, the university would be required to allocate joint costs of the distribution between fund-raising and program.

What happens if the distribution is done by a related foundation? In its separately issued financial statements, does the foundation report the full cost of the distribution as fund-raising expense or does it allocate part of the cost to "program" even though the program in question was not undertaken by the foundation per se?

If the foundation subsequently is included in the university's financial reporting, what is the treatment of the cost of the distribution? Does the treatment differ depending on the nature of the inclusion? Presumably if the foundation is "blended" into the university, the expenses of the distribution should be reported as if the university did the distribution. However, what is the reporting if the foundation's activity is disclosed by note or recognized in some other manner? These are important questions that need to be covered in the proposed SOP.

APPENDIX B FLOW CHART

In general, the SOP adequately defines the criteria to be used to determine the correct classification of costs associated with activities that include a fund-raising appeal. The flow chart is helpful but it is difficult to follow without "YES" and "NO" labels on the directional lines. The illustrations provided are very helpful.

57 cont'd

Thank you for the opportunity to comment on the exposure draft.

best wishes,

Dick Schubert

copies to: Financial Accounting Standards Board
Governmental Accounting Standards Board

Special Olympics Kansas

58

January 4, 1994

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund Raising Appeal"

Dear Mr. Tannenbaum:

This letter is a response to your request for comments on the above referenced proposed statement of position (SOP). Kansas Special Olympics currently utilizes telemarketing in order to educate Kansans about Special Olympics, as well as to raise funds to run our programs. While we agree that standard criteria must be developed in order to accurately report the operations of these programs, we believe that the criteria in the proposed SOP would not allow us or any other not-for-profit to provide accurate reporting.

The proposed criterion makes it very difficult to prove any public education value to our phone calls because there is no cost-effective way to measure any program call to action, such as a request to volunteer for the local Special Olympics program. We do not have the financial resources to reach as massive an audience without a fund raising appeal in addition t one with a fund raising appeal in addition to one with a fund raising appeal, as suggested by one of the tests of the criterion. Also, just because a fund raiser's fee might be based on the amount of income raised, it does not mean that the fund raiser has not put together an extensive package to educate the public about our mission, and therefore we believe we should be able to allocate some of the costs to public education.

5830 Woodson, Suite 106
Mission, Kansas 66202
(913) 236-9290
1-800-444-9803
Fax. No. (913) 236-9771

Branch Office:
3202 W. 13th, #9
Wichita, Kansas 67203
(316) 942-0325
Fax. No (316) 942-0876

58 cont'd

Mr. Joel Tannenbaum
January 4, 1994
Page 2

The audience criterion is very difficult to meet because its definition is much too narrow. The criterion states that it must be determined that we select an audience either on their ability to contribute, or on the ability to help our program meet its goals. Most of our phone calls are targeted to an audience that could potentially do both, because, as stated above, we cannot afford financially to have different appeals--one for public education and one for fund raising. Since our appeals include both public education and fund raising, we should be able to allocate costs between the two.

Overall, Kansas Special Olympics believes that as long as our appeals contain substantial public education about our mission in addition to a request for financial as well as other contributions, it should not make a difference that all of our messages have a fund raising appeal, or that our audience came from a list of an organization that may not be entirely similar to ours. Everyone we reach is a potential volunteer as well as a potential donor if we educate them properly. SOP 87-2 came about to replace the old "primary purpose rule", in order that organizations such as ours could properly account for public education. The narrow criteria in the proposed SOP seems to be going more in the direction of the "primary purpose rule", which would not allow us to report what we are actually doing--that is, educating the public about Special Olympics in addition to raising money.

Sincerely,

Chris Hahn

Chris Hahn
Executive Director

CH/mjp

59

Lutheran Social Services
715 Falconer Street • Jamestown, New York 14701

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Norman C Berg, Pres.

YOUTH (716) 665-2116 FAX (716) 665-8034
705 Falconer Street, Jamestown, NY 14701
Gustavus Adolphus Children's Home
Gustavus Adolphus Learning Center

GERIATRICS (716) 665-4905 FAX (716) 665-8132
715 Falconer Street, Jamestown, NY 14701
Lutheran Retirement Home
E.O. Hultquist Care Center
G.A. Lawson Care Center
E.O. Hultquist Infirmary
H.A. Lindgren Apartments
G.A. Carlson Tower
Brostrom Hall

"Loving Care for Youth, for the Aged"

Saturn
CORPORATION
4701 Lydell Road Cheverly, Maryland 20781 (301) 772-7000

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January 5, 1994

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for Profit Organizations and State and Local Governmental entities that Include a Fundraising Appeal."

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. My company is a database management and information services company whose client list is comprised primarily of non-profit fund raisers. To that end, I am concerned about any issues that effect them, and understand that they are concerned about the effect the proposed new standard would have on the way they report costs. In addition, the proposal dictates the content of Programs and Fundraising appeals, and the audiences to which they must communicate.

Our clients feel that the Exposure Draft needs revision because it its criteria are arbitrary, it is biased, and will not only not improve accounting practices, but will result in misleading financial statements.

I would appreciate your keeping me informed as to the status of this draft.

Sincerely,

Heather Hodjat

Heather Hodjat
Sales Executive

West Coast Office: 1840 S. Elena, Suite 103, Redondo Beach, CA 90277 •• (213) 373-0745

COLLEGE OF BUSINESS

61

OREGON
STATE
UNIVERSITY

Bexell Hall 200
Corvallis, Oregon
97331-2603

December 22, 1993

Joel Tanenbaum
Technical Manager
Accounting Standards Division,
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

Enclosed are the comments on "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal" by a committee of the Government and Nonprofit Section of the American Accounting Association. Not all committee members feel equally about the severity of the items commented on, but all agreed to the submission of this letter. Members of the committee are Ken Brown, Ph.D, Southwest Missouri State University; Teresa Gordon, Ph.D., University of Idaho, and Denise Nitterhouse, Ph.D., DePaul University.

Sincerely,

Mary Alice Seville
Committee Chairman

Telephone
503-737-2551

Fax
503-737-4890

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Response to Proposed Statement of Position "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that Include an Fund-Raising Appeal.

Prepared by a committee of the Government and Nonprofit Section of the American Accounting Association

We feel the proposed SOP is a definite improvement over SOP 87-2. We do have some specific comments.

1. The document does not deal with a potential problem - funneling management and general costs to program. This may be as serious as the fund-raising problem. The committee feels that contributors are interested in the percentage of funds going to program and tend to lump fund-raising and management and general together as necessary evils to be contained. Can the document be expanded to deal with this perceived problem?

2. The flow chart is necessary to help readers understand the document. To be the most useful, the flow chart should have yes or no on the arrows. Some readers will give up in frustration rather than taking the time to figure out which is which.

3. While this document may do the best that it can, it may be costly to implement and still will miss some items.
   a. Smaller organizations will likely have multi-function materials and costs that must be tested under the provisions of this document. Will the costs of analyzing the materials be worth the benefit? We are concerned that the audit costs will go up eating up scarce dollars or putting a burden on CPAs to further discount fees.
   b. It will continue to miss the costs to sophisticated organizations of cultivating contributors. Early contacts are intended to get them interested and involved. These will look like program costs under the criteria of this document when they are really setting the hook for a contribution request.

4. Other comments:
   ¶1 the wording suggests that *entities* refers only to state and local government organizations. Reword it so that it is clear the not-for-profit organizations are included.
   ¶15 include "professional fees" as a type of cost and change "airtime" to "advertising expenses"
   ¶16b the "whether..." sentences should be made into complete sentences and since it is a statistical term, "skewed" should be changed to "based primarily on."
   ¶16e consider evidence regarding the unit initiating the development of material as evidence of intent. Requisitions signed by a program department and all costs charged to that department's budget is evidence of "other than fund-raising purpose".

61 cont'd

¶21f provide more guidance on incidental. Suggestion - any donor response section, whether separate or not, is too large to be incidental.

¶26b an attempt to measure program results is weak evidence of intent. It isn't the measuring that indicates intent, but the level of accomplishment. If a low level of accomplishment is intended (because the activity is disguised fund-raising), does the fact that

¶26b the "whether..." sentences should be made into complete sentences and since it is a statistical term, "skewed" should be changed to "based primarily on."

¶26c The implications are not clear. The criteria given gives no direction as to whether two media with the same message makes it more or less likely that the message is the primary purpose of the activity.

¶26e consider evidence regarding the unit initiating the development of material as evidence of intent. Requisitions signed by a program department and all costs charged to that department's budget is evidence of "other than fund-raising purpose".

¶28a would be clearer if the first sentence read "Appealing to a broad segment of the population to avoid a condition that affects a broad segment of the population, for example,..."

¶31 "Statements identifying and describing the entity..." can be argued to be cost of management and general not fund-raising.

¶32 why not require consistency of treatment of incidental costs - if some are allocated all must be?

¶36 The intent of this paragraph is unclear given the definition of "activity" in paragraph 10. We suggest inserting the italicized words so that the last phrase reads "the amount of joint costs for each *type of fundraising* activity be disclosed, if practical." However, since the fundraising activities would have to be identified in order to apply the requirements of the SOP, we do not understand why this disclosure needs to be optional rather than required.

National
Law Enforcement Officers
MEMORIAL FUND, Inc.

(62)

January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal"

Dear Mr. Tanenbaum:

We are responding to the exposure draft issued by the American Institute of Certified Public Accountants (AICPA) which will supersede Statement of Position (SOP) 87-2. The objective of the exposure draft should be to improve the relevance and the reliability of reporting program, management and general, and fund-raising expenses. We have concerns about the impact the proposed standard will have on the manner in which we account for and present our expenses.

As an introduction, the National Law Enforcement Officers Memorial Fund, Inc. (NLEOMF) was founded in 1984 to erect and maintain a permanent national memorial to those law enforcement officers who have been slain in the line of duty. In addition, we seek to educate the general population as to the officers' and their families' sacrifices; establish the public conviction and attitude that Americans care about the law enforcement community and its work; and develop visitation at the Memorial.

We believe the exposure draft must be amended in four areas. These areas are as follows:

OFFICE:
605 E Street, NW
Washington, DC 20004
(202) 737-3400 FAX (202) 737-3405

MEMORIAL:
E Street, between 4th & 5th Sts., NW
Judiciary Square
Washington, DC
Metro subway stop/Red Line

- Accounting principles dictated by implementation strategies
- Expansion of decision-making criteria
- Increased latitude in financial reporting
- Criteria for cost allocation

Accounting principles dictated by implementation strategies

First, the exposure draft dictates different accounting treatment based upon implementation strategies. For example, an organization that uses a public relations firm to develop a program package with a fund-raising appeal allocates joint costs to program and fund-raising categories. Another organization that uses a fund-raising firm to develop the same package and pays that firm a fee based on the amounts raised must report all costs, including program costs, as fund-raising.

The measure for whether a program objective is accomplished is based upon an assessment of the material provided to the recipient not how the not-for-profit organization compensates the author of the material. This bias against particular types of firms and compensation methods results in distorted financial information. In addition, it precludes comparison of the accomplishment of program objectives between organizations which use external and internal authors of multi-purpose materials.

In addition, the exposure draft should require that the multi-purpose material or activity contain content that serves an organization's program purposes. Such materials or activities contain action steps or calls to action that audiences can take to help accomplish the program purposes of the organization to which the content relates.

We believe the exposure draft should require verifiable documentation as the primary test to determine whether a material or activity that includes a fund-raising appeal serves program purposes. This is the guidance in SOP 87-2. It should be retained.

Expansion of decision-making criteria

Second, the exposure draft requires all costs of materials and activities be reported as fund-raising if the criteria of the exposure draft are not met. The exposure draft establishes criteria which are unrelated to program purposes. Within the purpose criterion, the compensation, evaluation and "with/without" appeal tests cannot tell us whether any of our activities or materials serve a program purpose. Rather, compensation and evaluation based on funds raised are used to tell us that a program was not met even though the program goal, e.g. attend a seminar regarding the sacrifices of slain law enforcement officials, was achieved.

The suggested test of conducting a similar activity without an appeal does not tell us whether we accomplished a program purpose. Furthermore, such a test is financially burdensome. We believe our friends and supporters want us to conduct our activities in the most cost-effective manner possible. This belief often calls for multi-purpose materials and activities. More importantly, such a test may reduce the ability of charities to meet the health and welfare needs of the public. Thus, many of the thousand points of light may be extinguished.

The exposure draft tests for the audience criterion require determination of a principal reason, rather than multiple reasons, for audience selection. The exposure draft fails to demonstrate how consideration of the source of the names indicates why the audience was selected for a multi-purpose material or activity. It states that even though program purpose and content criteria are met in a situation, utilization of a list maintenance procedure results in all costs, including those of the program materials, being presented as fund-raising costs. We find this incomprehensible.

We believe that the exposure draft should require that the audience have a potential or demonstrated need for, or interest in, the program material or activity of the organization. For a program purpose, the audience must be one which can respond to a program-related call for action contained in the material or activity. These conditions would retain the action step for each purpose of the material or activity as found in SOP 87-2. The program purpose is substantiated by the call to action and the fund-raising purpose is substantiated by the request for funds.

The exposure draft test for the content criterion requires the material or activity to call for specific action by the recipient that will help accomplish the entity's mission. That action must be unrelated to providing financial or other support to the entity. This test appears to disqualify program related calls to action that support the organization itself. We, for example, make calls for volunteers to assist on special commemoration days or days when the names of slain police officers who have been added to the Memorial are recognized. Such a test could be devastating to the programs of many organizations.

<u>Increased latitude in financial reporting</u>

Third, through this criterion, the exposure draft creates an environment for similar organizations to report similar transactions differently. Thus, the readers, the public, and the regulators will find that financial statements cannot be meaningfully compared. In addition, organizations will inevitably take steps to counteract the bias created by these arbitrary criteria.

C2 cont'd

Criteria for cost allocation

Fourth, we believe the exposure draft in its current form could result in misleading financial statements. We use multi-purpose materials and activities, including direct mail, as a cost-effective means to both implement our programs and to raise funds to support our operations. Under the exposure draft statement, unless we can demonstrate that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, the revised standard would require reporting all costs of materials and activities that include a fund-raising appeal as fund-raising costs. It requires all costs of materials and activities to be reported as fund-raising, including costs otherwise clearly identifiable with programs, if its criteria are not met.

As discussed above, many of these criteria are unrelated to determining whether program purposes are actually served. The arbitrary and biased criteria of the exposure draft will require our auditors, without guidance from accounting standards, to second guess our management and our board.

Our reporting of all costs that are identifiable with program or management and general functions as fund-raising will not lead to proper accounting for these costs. Rather, it will result in misleading financial statements. We urge the AICPA to reconsider the focus of this exposure draft. There appears to be a belief that some organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public. This criticism appears to be directed at the issue of how allocation of joint costs is done rather than whether allocation of joint costs is appropriate. Therefore, we believe your efforts should be directed toward developing guidance for allocations of joint costs in SOP 87-2 rather than recreating a new standard for employing allocations of joint costs.

Yours very truly,

Craig W. Floyd

Craig W. Floyd
Chairman

CWF/351/rhf

63

Edward W. Fitzgerald, M.S., C.P.A.
218 South 94th Street
Omaha, Nebraska 68114 U.S.A.
402-390-9932

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal (9/93)

Dear Mr. Tanenbaum:

I am a member of the AICPA and feel compelled to write about two significant objectionable aspects of the captioned matter:

1. Incidental costs (Paragraph 32) -- The exposure draft advocates bad accounting by requiring treatment of incidental program costs as fund-raising costs. This ignores the proper treatment of the direct cost of program material included in a fund-raising appeal in the event allocation of joint costs is not appropriate.

   Frankly, this is the accounting equivalent of a mugging and seems to contravene the requirements of FASB 117 (Paragraph #26) which requires functional classification of expenses.

   The proposed treatment of incidental program costs will overstate fund-raising costs and thus misleading readers of not-for-profit financial statements. This proposal should be dropped altogether.

63 cont'd

Edward W. Fitzgerald, M.S., C.P.A.
218 South 94th Street
Omaha, Nebraska 68114 U.S.A.
402-390-9932

2. The exposure draft would require not-for-profit managements to forgo good stewardship practices by effectively requiring duplicative mailings (at great expense) to pass the litmus tests of Paragraphs 25 ("similar scale") and 27-29 ("ability to contribute").

   This approach would encourage wasting money on special program-only mailings to substantiate their costs. This is not realistic and defeats the very purpose of the joint costing rules--to get more effectiveness out of all media dollars spent.

I urge you to make appropriate revisions in the exposure draft consistent with these comments.

Yours very truly,

E.W. Fitzgerald

E. W. Fitzgerald, CPA

EWF:kw

64

BETHANY CHILDREN'S HOME INC.

RD 2 Box 96B
Womelsdorf, Pennsylvania 19567-9726

Phone (215) 589-4501
Fax (215) 589-5771

THE REV. HAROLD A. HENNING, *Executive Director*

Affiliated with The United Church of Christ

SERVING CHILDREN, YOUTH AND FAMILIES THROUGH

Bethany Home, Inc.
Womelsdorf, PA 19567
(215) 589-4501

"Residential Treatment"

"Shelter Care"

Bethany Counseling Ministry Inc.

Office Locations:

St. John's U.C.C.
36 South 6th St.
Allentown, PA 18101
(215) 437-2466

Salem U.C.C.
231 Chestnut St.
Harrisburg, PA 17101
(717) 236-6083

First U.C.C.
611 Washington St.
Reading, PA 19601
(215) 375-9212

Bethany Planned Giving Ministry
(215) 374-7599

January 3, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if

64 cont'd

some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Rev. Harold A. Henning

Rev. Harold A. Henning
Executive Director

HAH/hr

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January 4, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605 J.A.
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

We are writing in response to the AICPA Exposure Draft "Accounting for Costs of Materials and Activities of Not for Profit Organizations and State and Local Governmental Entities that include a Fund Raising Appeal." We strongly agree with an analysis undertaken by the Nonprofit Mailers Federation which concludes that the exposure draft is biased, results in misleading financial statements, precludes comparability, is inconsistent with more authoritative guidance, and does not improve accounting practices. The exposure draft should be revised. A new draft needs to refine the criteria of purpose, audience, and content found in SOP 87-2. It should also limit permissible allocation methods to systematic and rational ones based on verifiable criteria.

Purpose Criteria

The purpose criteria should require verifiable evidence of a program purpose such as:

- Statements in the organization's mission, bylaws, or annual report.
- Documentation in minutes of board of directors, committees, or other meetings or in other memoranda.
- Documentation in job descriptions of internal parties conducting the activity.
- Documentation in written instructions to third party entities, such as script writers, consultants, or list brokers.

These conditions (note para. 26e of the exposure draft) need to become the primary tests to determine whether a material or activity that includes a fund-raising appeal serves program purposes.

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Absent this verifiable evidence, conditions such as the compensation, evaluation, and "with/without" tests, modified to clearly relate to program purposes, could be used to establish whether a program purpose is met by materials and activities that include a fund-raising appeal.

Audience Criteria

The point here needs to be whether a program appeal or call-to-action was made to the audience. The audience criteria should consider whether:

- The audience has a potential or demonstrated need for, or interest in, the program material or activity of the organization; and

- For a program purpose, the audience can respond to the program-related call-to-action contained in the program material or activity.

These conditions would create an action step for each purpose of the material or activity as called for by SOP 87-2. The program purpose is substantiated by the call-to-action and the fund-raising purpose is substantiated by the request for funds. The audience for management and general purposes would be established by its need for, or interest in, stewardship information.

Content Criteria

To determine whether the content of material or activity supports a program purpose, the exposure draft should incorporate conditions such as whether:

- The material or activity contains content that serves an organization's program purpose(s).

- The material or activity contains an action step or call-to-action that the audience can take to help accomplish the program purposes(s) of the organization to which the content relates.

Incidental Costs

To determine whether costs of fund-raising appeals are incidental to program or management and general purposes, the draft should provide an operational guideline such as a 5 percent rule. That is, if the direct costs of the fund-raising appeal are less than 5 percent of the total cost of the material or activity that includes a fund-raising appeal, then fund-raising costs are considered incidental and allocation is not required.

Allocation Methods

The use of subjective estimates of relative program and fund raising content rather than the physical units or direct costs methods is not systematic and rational, is not verifiable, and cannot be consistently applied. The use of this method should be specifically precluded.

Very truly yours,

Swart, Lalande & Associates PC

Swart, Lalande & Associates, P.C.

RICHARD BLUMENTHAL
ATTORNEY GENERAL

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January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605, JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

Thank you for the opportunity to comment on an exposure draft of a proposed statement of position (SOP), Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal. By separate letter, the National Association of State Charity Officials has commented on the proposed SOP. I concur with those comments and ask that you consider them to be incorporated herein by reference. I offer the following to supplement those comments.

I commend the Committee for taking on this difficult issue. There is no other single issue that has so negatively affected the credibility of nonprofit financial reporting. Unfortunately, however, the proposed SOP will not alleviate the problem; for it inadequately addresses two fundamental concerns.

First, there are few situations in which any of the joint costs associated with donor acquisition should be credited to the program function. Yet, with regard to satisfying the audience criterion, the proposed SOP establishes a very low threshold for acquisition activities. Paragraph 29 prescribes that some joint costs should be allocated to program if the audience is made up of existing donors who have participated in program activities in the past. If the existing donors have not participated in previous programs, the audience criterion would not be met. Implicit in that standard is the need for some evidence of affinity between the audience and the charity. However, with regard to donor acquisition, where there is inherently little or no affinity between the charity and the person being solicited, the last sentence requires the allocation of joint costs merely on the basis that the list is acquired from "organizations with similar or related programs." There is no requirement that the persons on the list have participated in the program activities

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of the charity from which the list was acquired, or even that the persons on the list have donated to the charity. Moreover, "similar or related programs" is far too amorphous a phrase to serve any useful purpose.

Indiscriminate donor acquisition activity, whether by mail, telephone, etc., is a major contributor to the problem you are ostensibly trying to correct. It pads the profits of professional fundraisers who get paid by the volume of mail/phone calls they generate. Charities try to hide/justify the activity by allocating a substantial portion of the costs to program. The audience criterion of the proposed SOP will only further encourage abusive conduct, not curtail it.

The second fundamental flaw of the proposed SOP is its failure to establish standardized allocation methodology once it is determined that allocation of joint costs is required. The lack of a prescribed methodology was a basic defect of SOPs 78-10 and 87-2. Once the purpose, audience and content criteria were satisfied (which were almost impossible not to satisfy), then the sky was the limit on how much could be allocated to program. The lack of control encouraged irrational allocation in the competitive market for contributions. If charity A allocated 80% to program, charity B, in order to make itself appear as "efficient" as charity A, would allocated a higher percentage to program than it otherwise would have. This proposed SOP will do nothing to change that, the methodology examples notwithstanding.

I had hoped that this new SOP would have set a higher threshold for the allocation of joint costs and, once that threshold is crossed, there would be firm control over how the allocation is made; even to the extent, if it had to come to that, of an arbitrary ceiling on how much could be allocated to program. This exposure draft does neither. I urge you to withdraw it.

Very truly yours,

D. E. Ormstedt

David E. Ormstedt
Assistant Attorney General

DEO/spr

YSU

(67)

Youngstown State University / Youngstown, Ohio 44555-0001

December 30, 1993

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

This letter is in reference to **File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal."** We at YSU are greatly concerned about this proposed new standard and its subsequent effects on our fund raising costs and reporting methods.

As a member of the Office of University Development, my goal is to raise money for scholarships as well as academic programs and needs for Youngstown State students and staff. With state funding cuts during the past several years, my job has become even more crucial. YSU did not concentrate much of its time or resources to the annual fund program in the past, but now the annual fund is a top priority of the University.

It is my understanding that the new AICPA accounting standard will skew the actual fund raising costs spent by the University. Some costs are clearly related to Programs, Management or General expenses; therefore, they should not be miscontrued as Fund Raising costs. Not only will this change interfere with our University budget procedures and financial statements, it will give our alumni constituency a very wrong impression on how we are using their donations.

In addition, I understand that the proposal can dictate the content of our Programs and Fund Raising appeals and the audiences we reach through them -- that is **unconstitutional**! What about the right to free speech? The Supreme Court has affirmed this in several rulings, namely Riley vs. National Federation of the Blind of North Carolina. Your proposal stands to rule above these decisions?!

Overall, I do believe it is important for not-for-profits to be accountable for their fund raising costs and procedures. Currently, organizations such as the National Society of Fund Raising Executives (NSFRE), American Association of Fund-Raising Counsel (AAFRC), Council for Advancement and Support of Education (CASE), and the Independent Sector are working to promote consistent ethical and financial standards. I would hope that AICPA would consult with the top leaders of

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these organizations, for those individuals are fund raising experts, the proverbial "cream of the crop" in non-profit experience. Their background would be extremely beneficial for assisting with your proposal, especially in choosing precise wording and methods for evaluating fund raising costs, processes and results.

For example, the proposal draft requires that a single reason, rather than multiple reasons, be used to determine the selection of an audience for an appeal. Most mailings, phonathons and fund raising events are not conducted for a single purpose. To "get more for your money," most institutions try to meet several purposes in one activity or event. Why do two or three mailings when you can get your goal accomplished in one?

Another topic in your proposal which is flawed is the difference in allocation of costs for when a public relations firm is used in a fund raising campaign compared to when a fund raising firm is used. This shows unfair bias toward certain firms which, in effect, are working to accomplish the same result -- more dollars raised for the organization's cause.

In conclusion, I would like to re-emphasize the need to refine the AICPA proposal. In theory, the idea is good; however, in reality, it seems it's just going to create more problems instead of solving them. ("Pandora's Box" comes to mind....)

Thank you for your consideration in this matter. I would appreciate your effort in keeping us informed of the status of the proposal.

Sincerely,

Cheryl M. Staib

Cheryl M. Staib
Director - Annual Fund

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Cheryl M. Staib
Director - Annual Fund
Office of University Development

YSU

Youngstown State University Youngstown, OH 44555-3119

MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA
601 White Horse Pike
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(609) 858-3211
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Date: January 4, 1994

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 3605.J.A.- "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities the Include a Fund Raising Appeal."

Dear Mr. Tanenbaum:

With regard to the above referenced File, I offer the following comments as to how this proposed new standard would effect the way our organization, the Multiple Sclerosis Association of America (MSAA) reports costs.

Founded in 1970, the Multiple Sclerosis Association of America is dedicated to enhancing the quality of life for those affected by Multiple Sclerosis; and to promoting, expanding and encouraging public knowledge and support as to the needs and day-to-day concerns of MS patients.

We loan out therapeutic equipment, offer a toll-free hotline, provide MS brochures, booklets, newsletters, have ongoing public awareness and advocacy campaigns for creating positive sentiments towards the physically challenged, provided approximately 60 MS research care clinics with microclimate cool suits, built a $2 million barrier-free housing complex, and opened several regional offices to offer more "localized" services.

We work hard at being good stewards of the public trust and use multi-purpose materials, including direct mail, telemarketing and special events as cost-effective means to accomplish our programs and to raise the funds to support them.

The proposed new standard in many instances, would necessitate that we report all costs as Fund raising costs, even when we can clearly indentify them as Program or Management and General. It also seems inconsistent that if we have an outside firm develop a program package and pay them a fee based on funds raised we categorize it differently than if the fee was based on the number of packages mailed. This arbitrary evaluation will result in unreliable

FACTS

- Multiple sclerosis strikes men and women most often between the ages of 20 and 40.
- MS is the most common neurological disease of young adults.
- There are over 500,000 individuals in the United States with MS or related neurological disorders.
- At present, there is no cause, cure or prevention for MS.
- Symptoms include blurred or double vision, slurred speech, impaired gait, fatigue, tremors, dizziness, loss of bowel and bladder control and partial or complete paralysis.

GOALS

The goals of the **MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA** are to enhance the quality of life for multiple sclerosis sufferers and their families; and to promote, expand and encourage public awareness and knowledge as to the needs and day-to-day concerns of MS patients.

BENEFITS

MSAA members and their families enjoy the following services free of charge.

- Toll-free 24-hour hotline • Patient educational information and referral
- Therapeutic equipment • Peer counseling • Barrier-free housing facilities
- Bi-monthly newsletter • Health resource panel • Social and group activities
- Public advocacy and support • Volunteer assistance • Support groups

HISTORY

Since 1970, MSAA's main thrust lies in the belief of handicaps helping handicaps. Co-founder Ruth Hodson, a MS patient, created this unique self-help organization with the goal of offering practical and knowledgeable advice and support to fellow MS'ers. Most of MSAA's board of directors are MS patients. Yet, they have battled this disease to develop a successful, national health care association dedicated to meeting the needs of others.

VOLUNTEERS

Volunteerism is an extremely vital aspect of MSAA. In many instances, the volunteers who help MS patients cope, are themselves sufferers of this devastating disease. Since MSAA does not regularly receive federal or state aid and is not a member of the United Way, it has to depend upon supporters and volunteers from all walks of life for much-needed time and financial assistance. MSAA needs you to join its team and support the efforts of volunteers who are now giving so much of themselves. This is your chance to join a team that never gives up.

Notice to Contributors: "A summary of the annual financial report and registration filed by this organization can be obtained by contacting: In New York, Secretary of State, Office of Charities Registration, 162 Washington Ave., Albany, NY 12231; documents and information under the Maryland charitable organizations law can be obtained from the Secretary of State, State House, Annapolis, MD 21401; West Virginia residents should contact the Secretary of State, State Capital, Charleston, WV 25305; Virginia residents should contact the State Division of Consumer Affairs, P.O. Box 1163, Richmond, VA 23209. A copy of the official registration and financial information may be obtained from the Pennsylvania Department of State by calling toll-free 1-800-732-0999. State of Washington residents can contact the Charities Division, Office of the Secretary of State, State of Washington by calling toll-free 1-800-332-4483. MSAA registration number in the state of Michigan is MICS9986. Copies of the filings with the authorities listed above can also be obtained by writing to this organization at 601 White Horse Pike, Oaklyn, NJ 08107. Registration with any of the above government agencies does not imply endorsement by the state."

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financial information, misleading financial statements and conflicts with FASB NO. 117 Financial Statements of Not-for-Profit Organizations. It would also make it meaningless to try and compare our financial statements with other Nonprofits.

While we believe that the Exposure Draft referenced above does retain the purpose, audience and content criteria of current SOP 87-2, the way it is written, using terms such as "substantially", "incidental," reasonable," and "skewed" make the guidelines more haphazard to apply consistently than the already difficult 87-2. It would penalize efficiency and cost-effective multipurpose methods of information dissemination and the raising of funds. It would also make it necessary for our auditor to second guess our fundraising counsel in the selection of lists, and disqualifies our asking for volunteers or donations of canes, wheelchairs, etc.

The tests proposed in the Exposure Draft should be significantly modified to specifically state how activities or materials serve a program purpose, and require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes.

In our opinion, the efforts of the AICPA should be directed to refining SOP 87-2 rather than creating arbitrary and inconsistent standards.

We would appreciate your keeping us informed of the status of this Exposure Draft.

Sincerely,

John F. Hodson

John Hodson, Sr.
Founder, MSAA

er/JH

Jackson Thornton & Co.

(69)

a professional corporation

Certified Public Accountants

January 4, 1994

Mr. Joel Tanenbaum
Technical Manger, Accounting
Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 3605 J.A. Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a "Fund Raising Appeal"

Dear Mr. Tanenbaum:

As a large local accounting firm, we provide audit and accounting services to more than forty not-for-profit organizations. We are concerned about the application of some of the provisions of the above referenced Exposure Draft.

The criteria of purpose, content and audience from SOP 87-2 are appropriate. The tests proposed in the Exposure Draft, however, do not appear to help in determining whether the organization meets program purposes with multi-purpose materials that include fund-raising appeals. Due to the arbitrary criteria, an organization could develop two multi-purpose packages, both of which serve program and fund-raising objectives, yet be required under these criteria to allocate the costs of one but not the other. Rather than improving accounting practices, these criteria inevitably will lead organizations to modify their activities solely to meet the criteria. As auditors, we would be going down a checklist of criteria rather than evaluating the substance of the activities.

SFAS No. 117, "Financial Statements of Not-for-Profit Organizations" states that "Program services are the activities that result in goods and services being distributed to

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beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exits." The Exposure Draft would require that costs otherwise clearly identified as program be reclassified as fund-raising cost, based on the arbitrary criteria unrelated to this definition. This inconsistency does not enhance the financial reporting of not-for-profit organizations.

The guidance provided by SOP 87-2 may need to be expanded; however, the criteria and tests in the Exposure Draft create inconsistencies rather than fairness in financial reporting.

Very truly yours,

L S Bollinger
Lucinda S. Bollinger

LSB/bks

MADD ®

Mothers Against Drunk Driving

471 East Broad Street, Suite 1304 • Columbus, Ohio 43215 • (614) 461-6233 • FAX: (614) 461-0208
OHIO STATE OFFICE

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January 5, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of Americas
New York, New York 10036-8775

Dear Mr. Tananbaum:

I am the state chairperson for Mothers Against Drunk Driving in Ohio. Recently, we learned that the AICPA is revising the standard for accounting for costs of materials and activities that include a fund raising appeal. MADD Ohio relies on telemarketing as a means to increase public awareness concerning drinking and driving, gain interest in our programs, and raise funds to operate our organization. We are concerned about the effects this proposal would have on our organization and its programs.

Since 1982, we have been actively involved with at the state and local levels to stop alcohol-related crashes. Through our telemarketing campaign, we can remind the public about the dangers of drinking and driving. These messages have drastically helped changed the public's attitude about drinking and driving.

The telemarketing and direct mail campaigns also provide our organization with volunteers who assist victims of drunk driving crimes, monitor the courts and coordinate public awareness programs. In addition, our operating funds have been provided by donors, large and small, as a result of these campaigns.

The arbitrary rules contained in the draft proposal threaten the very existence of our vital programs. We have substantial programs in place to support victims of drunk drivers. Many of these programs have been implemented through our telemarketing and direct mail campaigns. Drunk drivers have proved to be equal opportunity killers. Anyone, rich or poor, young and old, driver, passenger, or pedestrian, can be a victim. We do not believe that arbitrary rules about purposes, audiences, and contents of multipurpose activities are justifiable when they could result in program costs being called fund raising costs.

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MADD Ohio deals with extremely limited resources. We cannot afford to comply with arbitrary rules. We do not believe that these rules will properly reflect how our resources are used to anyone who is truly interested in the vital services we provide to our local communities. We also do not believe it is appropriate for the AICPA to establish rules that would require us to generate unfair and misleading financial reports for public distribution.

We urge the AICPA to reconsider the arbitrary rules in the proposal. Let the organizations that deliver services to the community decide what programs they wish to pursue and limit the accounting rules to reporting the costs of these services fairly and accurately.

Sincerely,

Mary Jo Cihlar

Mary Jo Cihlar
State Chairperson
MADD Ohio Organization

National Committee to
Preserve Social Security
and Medicare

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January 7, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

I am the Chief Financial Officer of the National Committee to Preserve Social Security and Medicare (the National Committee), a 501(c)(4) membership organization. The National Committee appreciates the opportunity to comment on the proposed revision of SOP 87-2.

<u>Description of the National Committee</u>

In order to place our comments in context, I would first like to briefly describe our organization. The purposes of the National Committee, as stated in our bylaws, are:

(A) ... to support the continuation of the American Social Security and Medicare systems, working to maintain the integrity of the Federal Old Age and Survivors Trust Fund, and promoting accessible, quality health care for all Americans.

(B) To *educate the National Committee's membership and the general public* on social security and health care issues. (emphasis added)

(C) To *advocate* the importance, continuation and improvement of the Social Security and Medicare systems and other health care programs by, inter alia, promoting the adoption or rejection of legislation, regulations and judicial decisions, and by *direct communications with, and urging the public to contact,* public officials concerning policy issues relating to the goals of the National Committee ...(emphasis added)

The National Committee provides a focus for those persons who are interested in Social Security and Medicare issues to learn about the issues and participate, as a member of a large group, in grassroots lobbying efforts directed at Congress. Currently the National Committee is comprised of between five million and six million individual members and supporters. A member is defined as an individual, or husband and wife, who has contributed at least $10 to the National Committee within the last twelve

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months. A supporter is defined as an individual, or husband and wife, who while not a dues paying member, has signed a petition of support within the last two years.

The National Committee carries out its purposes largely by communicating with its members and the general public via direct mail. Our communications with members include a number of joint purpose mailings. These mailings provide information on a timely Social Security or Medicare issue and urge the member to take some form of grassroots lobbying action, such as signing a petition and returning it to the National Committee for delivery to Congress or communicating directly with the member's own congressman. Many of these mailings also request a donation to the organization, although these mailings also include an insert stating that members do not need to contribute to each mailing. The National Committee recognizes that direct mail is a relatively expensive form of communication. However, we believe that it effectively serves our large membership since it provides clear, large print, and explicit information relating to our members' interests.

Periodically, the National Committee recruits new members from the general public. Recruitment of new members is also accomplished via direct mail. The form of this communication is similar to the format of communications with members. The recruitment mailing discusses relevant Social Security/Medicare issues, urges the prospective member to take some advocacy related action, and requests that the individual join the National Committee.

The National Committee regards both of the above types of mailings as joint purpose mailings since they contain educational and advocacy information. Accordingly, the costs of such mailings are allocated between programs, management and general, and fund-raising. Since our founding in 1982, we have received unqualified opinions from our independent auditors.

<u>National Committee Concerns</u>

Fund-raising is a necessary and legitimate activity of not-for-profit, tax exempt organizations. Many organizations, including ours, receive virtually all their funds from individual citizens. Therefore, it is imperative that such organizations conduct fund-raising in the most cost-effective manner possible.

While it is a necessary activity, fund-raising has been stigmatized. While it is important to not understate fund-raising costs so that the public has an accurate picture of the operations of the organization, it is equally important to not overstate fund-raising costs in order to avoid unnecessary harm to the organization's ability to carry out its tax exempt programs.

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The National Committee believes that several provisions of the proposed SOP would cause fund-raising costs to be overstated. In order to properly allocate costs to programs, organizations such as ours would have to make unsound economic decisions, and thereby neglect our fiduciary responsibility to our members.

In the remainder of this letter, we will document our concerns with the "Purpose" and "Audience" criteria as currently presented in the proposed SOP. We will then comment on several of the illustrations in the proposed SOP.

The "Purpose" Criterion

Paragraph 26.b. of the proposed SOP discusses how joint activities are evaluated by the organization. The paragraph states:

> "Whether evaluation of the effectiveness of the activity is skewed to the activity's effectiveness in raising funds or skewed to the accomplishment of program goals. The former may indicate that the purpose criterion is not met. The latter may indicate that it is met."

The National Committee is concerned that this language, and the relative ease with which financial results can be measured relative to the difficulty in measuring program results, may result in an organization's being penalized for responsible financial management.

As the National Committee's purposes include the influencing of legislation, it is difficult to measure the results of that influence. Some legislative initiatives take years to pass, and progress comes irregularly and often cannot be quantified. However, it is easy to measure the financial results of a joint purpose activity. Joint purpose activities (i.e., mailings) are included in the National Committee's annual budget. It is highly likely that other non-profit organizations also include joint purpose activities in their budgets. The funds raised from each such activity are measured against budget as part of the continual assessment of the organization's financial health. This is sound financial management. Indeed, the organization would not be fulfilling its responsibility to its members if it did not have a budget and track results against that budget.

We are concerned that when reviewing results of joint purpose activities, it is possible that auditors will place more emphasis on the quantitative financial evaluation of joint purpose activities than the qualitative program evaluation of the joint purpose activity, and thus conclude erroneously that the activity should be entirely fund-raising. In fact, by tracking the activity's financial results against budget, the organization is only fulfilling its fiduciary responsibility to its members.

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<u>The "Audience" Criterion</u>

The National Committee's concern with the "audience" criterion for determining if the costs of an activity can be allocated deals with the treatment of recruitments which use outside rented lists.

Paragraph 27 of the proposed SOP states:

> "If an audience for the materials or activities is selected principally on its ability *or likelihood* to contribute, the audience criterion is not met and all the costs of the activity should be charged to fund-raising." (emphasis added)

One of the main purposes of the use of rented lists in recruitments is to identify those persons most likely to become members, which is synonymous with making a $10 per year membership contribution. We believe that "likelihood to contribute" (i.e., to join the National Committee) is a legitimate criterion to use to determine a recruitment audience. In fact, not using "likelihood to contribute" as a criterion will certainly result in higher recruiting costs, and thus violates an organization's responsibility to use the funds contributed by its members in the most cost-effective manner possible. We would like to illustrate our point with our own organization.

As stated in the bylaws, the National Committee's audience is the general public. Within the general public, the persons who are most likely to assist the National Committee in its advocacy efforts (i.e., persons who are interested in the issues which the National Committee pursues) are the same persons who are most likely to join. From analyses of our membership, it is clear to us that most of the persons interested in the issues which the National Committee pursues are senior citizens.

The National Committee's recruitment efforts are designed to reach a broad audience while obtaining new members at the lowest possible cost. (As with many organizations which use direct mail and have low membership dues, the National Committee's cost of obtaining a new member exceeds that new member's original membership dues.) The National Committee has a duty to its members to recruit in this manner. First, the National Committee has a duty to its members to provide a viable grassroots educational and lobbying organization. Therefore, the National Committee owes it to its members to recruit to an extent which keeps the organization's membership large enough to have influence with Congress and the President. Second, the National Committee has a fiduciary duty to its members to use their dues and contributions in the most cost-effective manner possible. This means that the National Committee has a responsibility to obtain members (i.e., recruit) at the lowest possible cost.

The National Committee rents lists to use in recruitments based upon favorable past experience using the list or a similar list, and when possible, by age profile which approximates the age profile of the National Committee's membership. The National Committee does not use income or other variables which would indicate ability to contribute. (As an aside, we believe that these variables would not help the National Committee to recruit at a lower cost because the size of the contribution requested ($10) is so low that most individuals interested in the issues can afford to join.) This method of using rented lists in recruitments sometimes results in the renting of lists which have no obvious relationship to Social Security or Medicare issues. For example, we may find that a list of buyers from a certain direct mail catalog is a good source of members for the National Committee. The National Committee can speculate on why such a list is a good source, for example many senior citizens shop by direct mail, but it is very difficult to determine reasons with any certainty.

Paragraph 29 of the proposed SOP indicates that using a list with no obvious connection to the organization would require all costs of the recruitment activity to be charged to fund-raising. In the National Committee's case, we believe that requiring the organization to charge 100% of recruiting costs to fund-raising would inaccurately describe the purpose of the recruitment. Recruiting new members by educating the general public on Social Security and Medicare issues and urging them to participate in advocacy efforts on their behalf is the program of the National Committee as stated in the organization's bylaws. Allocating 100% of recruitment costs to fund-raising ignores these legitimate programs.

In order to properly allocate some recruiting costs to programs under the proposed SOP, the National Committee would have to make a conscious decision to recruit to lists which would not be very productive, thereby increasing the cost for each new member obtained. This would be a disservice to our members by not using their contributions in the most cost-effective manner possible. Further, by not using proven, tested lists, whether or not they have an obvious similarity to the National Committee, the National Committee is likely to bypass some persons who are interested in Social Security and Medicare issues.

Discussion of the Illustrations in the Proposed SOP

Several of the illustrations included in the proposed SOP highlight the National Committee's concerns, and therefore we would like to comment on them. We believe that our comments will help to further clarify our concerns.

Illustration 2

In this illustration, an organization must charge 100% of the costs of its renewal mailings to fund-raising because, in the words of the proposed SOP, "The audience criterion is not met, because Entity B selects individuals to be added to or deleted from the mailing list based upon

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their likelihood to contribute." The illustration states that, "Prior donors are deleted from the mailing list if they have not contributed to Entity B during the last three years."

While the National Committee currently charges 100% of the costs of its renewal mailings to fund-raising, we are very concerned that this illustration starts to build a "slippery slope".

Keeping a member list or a mailing list up-to-date by deleting persons who are no longer interested in the organization is a fundamental activity of any organization which uses such lists. When an organization deletes names from its list, it does not know why the individual is no longer interested. List maintenance activities delete deceased individuals and individuals who have moved as well as individuals who just wish to no longer participate in the organization. Not performing list maintenance would cause list maintenance costs to continually increase beyond what is necessary, and thus would represent irresponsible financial management.

We are concerned that this illustration will set a precedent whereby the costs of any joint purpose mailing which is sent to a list which is maintained by deleting persons who have not contributed or participated in the organization over a period of time must be charged 100% to fund-raising. This is penalizing an organization which practices a fiscally responsible policy of maintaining its member or mailing list.

<u>Illustration 3</u>

This illustration states that "Entity C's research indicates that its donors are twice as likely as nondonors to contact their elected officials..." The illustration goes on to say that the audience criterion is met because "... the audience's program involvement and ability to perform actions to help achieve the mission demonstrates that the audience was selected based upon its ability to assist Entity C in meeting its program goals."

This illustration points out the confusion that will occur between "likelihood to contribute" and "likelihood to perform actions to help achieve the mission". Contributing to a cause oriented organization is a key indicator that the contributor will take some other non-financial action to further the cause. For many causes, likelihood to support the cause via non-financial means is very often highly correlated with likelihood to contribute, and thus we see these two likelihoods as measuring the same thing. To attempt to distinguish between the two likelihoods invites hair splitting exercises.

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Illustration 6

This illustration uses the same facts as illustration 5 in the proposed SOP where all three of the purpose, audience, and content criteria were met. However, the organization in illustration 6 "...employs a fund-raising consultant to develop the brochure and pays that consultant 30 percent of funds raised." In this illustration, the purpose criterion is deemed to not have been met.

While the National Committee does not compensate any parties in this manner, we do not understand why such a method of compensation negates a criteria which is otherwise met. Suppose the organization determined that paying the fund-raising consultant based upon the amount of funds raised is the most cost effective method of raising funds?

We respectfully request that the AICPA clarify why the "percentage of funds raised" method of compensating a consultant would automatically require 100% of the costs of an activity to be charged to fund-raising. It seems to us that an activity's program versus fund-raising purpose is not necessarily affected by the method of compensation to an outside consultant.

Illustration 8

This illustration requires that the entire costs of soliciting funds in a well-to-do neighborhood be charged to fund-raising because the residents of this neighborhood are not likely to require the services of the organization, which are to send economically disadvantaged youths to summer camp.

This is a good illustration of penalizing an organization (the penalty being requiring the organization to show higher fund-raising costs) for soliciting in the most cost effective manner. It is clear that soliciting for this type of program in a well-to-do neighborhood will bring in more funds than soliciting in a poor neighborhood. By soliciting in a well-to-do neighborhood, the organization is maximizing the funds available for programs.

If the organization did not wish to charge 100% of solicitation costs to fund-raising, should the organization deliberately solicit in a poor neighborhood where it knows it will not raise as much?

An organization should not be required to act inefficiently in order to keep fund-raising costs, as a percentage of all costs, down.

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Thank you very much for considering the National Committee's views. Please feel free to contact me at (202)467-9090 if you have any further questions or if I can offer any further explanations on the National Committee's comments on the proposed SOP.

Sincerely,

Jeffrey Galginaitis

Jeffrey Galginaitis
Chief Financial Officer

The
Southern
**Poverty
Law
Center**

Edward Ashworth
Executive Director

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January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The Southern Poverty Law Center (the Center), a non-profit legal and education organization, feels that the proposed revisions to Statement of Position 87-2 contained in the Exposure Draft prepared by the American Institute of Certified Public Accountants regarding allocation of joint costs would result in misleading financial statements and lead to confusion on the part of donors who attempt to determine how a charitable organization spends money raised from the public.

First, the Exposure Draft's criteria for allocation of joint costs would lead to charitable institutions reporting what are obviously program expenditures as fund raising costs. This is obviously misleading and violates the basic tenet of the accounting profession, which is to fairly and accurately portray income and expenses.

Even though the primary purpose of a fund raising appeal is to raise money, that does not prohibit other, program purposes from also being served. The Center's fund raising appeals, like those of other charities that raise their operating funds primarily or exclusively through the mail, are multi-purpose. They are designed to educate the public about the problems of racism, intolerance, and hate crimes in America, to offer ways to help solve these problems, and to seek money for our programs. A number of those appeals contain materials that are prepared by the programmatic departments at the Center for distribution to schools, teachers, and law enforcement agencies throughout the United States. We ask our donors to

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pass on these materials after they have read them. Many of them do. We know this because they write and tell us.

Over the years, we have gotten literally thousands of letters from both donors and potential donors, including those who contributed and those who didn't, thanking us for enlightening them about the problems we seek to address. Many of these writers state that they did not know that such resources as we provide through our Teaching Tolerance and Klanwatch projects were available, but that they are desperately needed. Other writers indicate that they share our materials with their local schools, churches, and synagogues and with other family members and friends in order to "spread the word." This education of the public about the problems we seek to address and about the materials that we have available to address them is part of the core mission of the Center. To the extent that some portion of a fund raising appeal is designed to address this mission, then that portion should be allocated to programs and not fund raising. To do otherwise is to mislead the public about how the Center is spending the money it raises from public donations.

Second, to the extent the Exposure Draft makes allocation dependent on the method of compensation of the person preparing the materials, the AICPA has lost sight of its basic purpose, to ensure the fair reporting of income and expenses. Paragraph 27 of FASB 117, Financial Statements of Not-for-Profit Organizations, states: "Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs."

The Center prepares its fund raising materials in house. The character of those materials would not change, however, simply because we contracted with an outside supplier to prepare them. If materials provide program services, then who prepares those materials and the preparer's method of compensation are irrelevant, and the cost of the materials, to the extent those materials provide program services, are properly attributable to program services and not fund raising. To do otherwise is to misstate the financial affairs of the organization and mislead the public.

Third, the Exposure Draft establishes a "with and without appeal" test to determine whether the purpose of an appeal is fund raising or programmatic. In effect, if a particular activity of the organization is conducted without a fund raising appeal <u>on a similar or greater scale</u> using the same medium then the purpose criterium is met. There are two problems here. First, whether a particular activity is part of the mission of an organization has nothing to do with whether it is carried out as part of a fund raising activity or in some other way. More significantly, an activity not carried out as part of a fund raising appeal can just as easily be unrelated

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to the organization's mission. Therefore, this "with and without appeal" test established in the Exposure Draft is not designed to provide relevant information to the public about a charitable organization's use of donor contributions.

The second and more serious problem with the "with and without appeal" test is that it ignores the basic facts of direct mail fund raising. When seeking new donors through the mail, the response rates are so low that materials must be sent to large numbers of people in order to get an adequate number of new donors. The Center, for example, has a response rate of 0.7% in its recent donor acquisition mailings. Therefore, in order to bring in 30,000 new donors, the number of new donors needed to cover attrition in the Center's donor base each year, materials must be mailed to over 4.2 million people. Because our active donor base is only 250,000, there is no way the program component of new donor acquisition mailings could be carried on without a fund raising appeal. We simply don't have that many members to send the materials to. And the cost to send the materials to the public at large without a fund raising appeal would be prohibitive and, given the low response rate, a misuse of donor contributions. As the United States Supreme Court noted in *Schaumburg v. Citizens for a Better Environment*, "solicitation is characteristically intertwined with information and perhaps persuasive speech seeking support for particular causes or for particular views . . . and that without solicitation the flow of such information and advocacy would likely cease." The Court reinforced this point eight years later in *Riley v. National Federation of the Blind*, where Justice Brennan asserted that "where the solicitation is combined with the advocacy and dissemination of information, the charity reaps a substantial benefit from the act of solicitation itself." (Emphasis added.)

Finally, the AICPA, in giving in to pressure from state attorneys general and watchdog groups such as the National Charities Information Bureau, has lost sight of the purpose of financial account standards, which is the fair and accurate reporting of financial information.

All charities are not the same. Those that raise their funds through direct mail, perhaps the most expensive form of fund raising, necessarily have higher fund raising expenses than those that fund their programs through corporate, foundation, and government grants, which is the least costly means of raising money. A charity's dedication to mission cannot be determined by looking at how its raises money. An example that I recently read was enlightening. A grocery chain's profit-making motive is no less because its profit margin is only 1% compared to the drug company's 20% margin. The difference is in the nature of the two businesses, not the purpose of the companies, which in both cases is to make money for its shareholders.

The same is true in the non-profit arena. A charity is no less dedicated to its

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mission because its method of raising funds happens to be more expensive. New organizations that plan to raise money for their programs through direct mail must spend a higher percentage of their contributions on fund raising than established organizations if they are to survive and be successful. Likewise, organizations that are seeking to enlarge their donor base must spend a higher percentage of their contributions than organizations that are static or shrinking. To judge all these charities by the same standards such as percent of contributions spent on fund raising without taking into account the method of raising money and the nature of the organization is truly an apples to oranges comparison. Furthermore, it completely ignores the program services themselves. An organization that spends 50% of its contributions raising funds may be doing more worthwhile work than an organization that spends only 10% raising funds.

Very truly yours,

Edward Ashworth

EA/jb

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January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
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American Institute of Certified
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1211 Avenue of the Americas
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Re: File 3605.JA

Dear Mr. Tanenbaum:

This letter contains our comments on the Exposure Draft Proposed Statement of Position, *Accounting For Costs Of Materials And Activities Of Not-For-Profit Organizations And State And Local Governmental Entities That Include A Fund-Raising Appeal*. We concur in the need for improved guidance to eliminate the diversity in methodology followed by not-for-profit organizations to allocate the costs of materials and activities that include a fund-raising appeal. However, we believe that the guidance provided by the Exposure Draft fails to provide users with objective guidelines for allocating or evaluating the reasonableness of cost allocations.

Furthermore, we believe that the criterion concepts in the Exposure Draft are in conflict with Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. This conflict places an undue burden on not-for-profit organizations and will result in financial statements which are not comparable. Additionally, it places a burden upon the auditor to determine which guidance is appropriate FASB No. 117 or the Exposure Draft.

Conflict with FASB No. 117

Paragraph 19 of the Exposure Draft, requires that, unless it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, the costs of materials or activities which are clearly identifiable with a program or management and general function should be charged to fund-raising.

We believe that the above requirement is in direct conflict with the reporting principles and intent of paragraphs 26-28 of Statement of Financial Accounting Standards No. 117 which provide for functional reporting of program and management and general expenses. Additionally, we believe that the requirement is in conflict with generally accepted cost accounting principles. The requirement fails to allocate costs directly to the cost objectives with which they are associated. Instead arbitrary allocations of program costs are made to fund-raising costs, even though the program piece does not contain a fund-raising appeal.

Lack of comparability and objective standards

Based on our evaluation of the Exposure Draft, we believe that the proposed accounting standards are biased and will result in a lack of comparable financial reporting of similar organizations. We are concerned that the Exposure Draft:

1. Establishes arbitrary criteria which requires similar organizations to report similar transactions differently.

2. Violets the neutrality concept in Statement of Financial Accounting Concepts No. 2, *Objective Characteristics of Accounting Information* and is biased.

3. Precludes allocation under the evaluation test regardless of whether an activity meets a program purpose.

4. Establishes audience criteria which fails to consider that audiences may be selected for both program participation and fund-raising.

5. The illustrations provided in the Appendix are confusing and might result in misapplication.

6. Appears to disqualify program related calls-to-action which would require reporting of program costs as fund-raising.

The Purpose Criterion

Paragraph 19 of the Exposure Draft includes the requirement that costs clearly identifiable with either the program or management and general function should be charged to fund-raising, unless a bona fide program or management and general function can be demonstrated (emphasis added). This requirement will result in a lack of comparability of financial statements. For example, under this requirement, two separate organizations could incur costs for an identical pamphlet, but may be required to charge the cost to different functions, one being to program and the other to fund-raising.

The purpose criterion set forth in paragraphs 21 and 23 of the Exposure Draft states that "If substantially all compensation or fees for the performing the activity are based on amounts raised, the purpose criterion is not met and all costs of the activity should be charged to fund-raising".

We believe that this criterion is a political, rather than an accounting, reaction to criticism from state attorney generals about their perception of abuses of joint cost allocations. This criterion is not well-founded in generally accepted accounting principles. This requirement is easily subject to circumvention by not-for-profit organizations without having changed the substance of the transaction or the total compensation to be received. For example, if an organization has a risk free contract with a paid fund-raiser who receives a percentage of the funds raised and the fund-raiser is responsible for payment of suppliers of materials or activities, so that ultimately the amount the fund-raiser receives is dependent upon the success of the funds raised, the purpose criterion is not met. On the other hand, if the contract with the fund-raiser is structured so that the fund-raiser receives a fixed fee, but the payment to the suppliers of the materials or activities is contingent upon the funds raised, the purpose criterion presumably would be met.

Furthermore, the method of payment to an outside consultant does not establish the product or products which are being developed or delivered by the consultant. The consultant normally delivers a variety of products including creation of materials, printing, envelopes, postage, handling, caging, and list maintenance. Each of these items should be allocated based on what was produced for the particular activity rather than on the compensation method.

We do not see how the compensation test is related to a determination of program purpose and it clearly is biased against a particular method of compensation. We believe in the conceptual framework that financial information must be neutral to be reliable. Thus, either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, and not the effect that the new rule may have on a particular interest. Furthermore, we agree with the principle in Statement of Financial Accounting Concepts No. 2, *Objective Characteristics of Accounting Information*, that "it is not desirable to tack with every change in the political wind, for politically motivated standards quickly lose their credibility".

We believe that the Exposure Draft's evaluation test should be modified. The Exposure Draft provides an evaluation test whereby if the performance of the party conducting the activity is evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met and all the costs of the activity should be charged to fund-raising. Again, we believe that this provision is biased and would result in misleading financial statements, since it precludes allocation of costs regardless of whether an activity meets a program purpose. Also, the Exposure Draft does not provide guidance as to the meaning of the term "substantially".

The Audience Criterion

As part of the audience criterion, paragraphs 27-29 of the Exposure Draft require considerations of names, source and characteristics of the audience to find the principal reason for audience selection. This criterion does not allow for the possibility that the audience was selected for multiple purposes, i.e. appeals for both program participation and donations.

We believe that illustrations 2 and 3 in Appendix A of the Exposure Draft, are confusing and can only result in misapplication. It appears that in illustration 2, the mailing list maintenance disqualifies the organization from meeting the audience criterion yet, in illustration 3, the same condition exists and the audience criterion is met. Furthermore, no guidance is provided to assist the auditor to evaluate whether the audience in one instance or another was better able to assist the organization to meet its program goals.

Neither illustration 2 or 3, focuses on how the audience was selected. Instead it simply concludes in illustration 2 that the selection was for fund-raising purposes because of the organization's list maintenance procedure but concludes in illustration 3 that the list maintenance procedure does not matter. We believe that the audience selection criteria should consider those instances where the reasons for the audience selection are for both program and fund-raising.

The Content Criterion

Paragraph 30 of the Exposure Draft, requires that to meet the content criterion, the material or activity must call for specific action by the recipient that will help accomplish the entity's mission and is unrelated to providing financial or other support to the entity itself. It must either (1) benefit the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or (2) benefit society by addressing societal problems. Information must be provided explaining the need for, and benefits of, the action. Sufficient detail should be provided describing the action to be taken. Merely providing a slogan is not sufficient.

The criteria set-forth in paragraph 30 of the Exposure Draft, appear to disqualify program related calls-to-action that support the organization itself, such as volunteering time to the organization or donating materials. Such criteria would misclassify the reporting of program costs of such not-for-profit organizations and would also result in biased and misleading financial statements.

Undue burden to not-for-profit organizations

Under paragraphs 21 and 26 of the Exposure Draft, the purpose criterion is met "If a similar program or management and general component is conducted without the fund-raising appeal using the same medium...and on a scale that is similar to or greater than the scale on which it is conducted with the appeal". This criterion defeats the very purpose of a multi-purpose campaign, i.e. to cost effectively raise funds and conduct a program or management and general activity. This would impose additional costs upon the not-for-profit organization which would jeopardize and reduce an organization's ability to fulfill its stated mission.

Furthermore, paragraph 26 of the Exposure Draft imposes a criterion that the organization should have a process to identify and evaluate program results and accomplishments. This criterion might place an undue cost burden upon not-for-profit organizations to establish a process to measure service accomplishments. Service accomplishments cannot be reported upon in the financial statements because they cannot be measured in units of dollars, if they are capable of measurement in any terms. Many program service accomplishments cannot be effectively traced to a particular not-for-profit's program efforts e.g. the reduction of child abuse, the increase of recycling, the desire of choosing to stay in school, etc.

Focus of Exposure Draft

We believe the Committee should develop criteria which focuses on establishing tests which relate to program services, as defined in FASB No. 117. However, the Exposure Draft establishes a "compensation test," a "substantial evaluation" test, and a "with/without appeal" test; none of which establishes whether or not a program purpose was served by the materials or activity.

The Exposure Draft accepts the concept of joint costs. Consequently, we believe that the focus of the Exposure Draft should be upon the cost accounting methods used to allocate joint cost, the application of the methods, and the approach to evaluate when a particular measurement technique is preferable or not preferable, i.e. in what circumstances is a technique not appropriate.

The Exposure Draft seems to have been written with the principle in mind that if fund-raising is involved in any manner, all costs are charged to fund-raising. The draft appears to ignore the fact that the purpose of a multi-purpose campaign is designed to both appeal for funds and conduct a program or management and general activity. While improvements can be made to the guidance offered by Statement of Position 87-2, we believe those improvements should result in accounting standards which can be objectively measured rather than subjectively. We believe that if the current Exposure Draft is issued there will continue to be diversity of practice in how not-for-profit organizations allocate costs of materials or activities involving a fund-raising appeal and further erosion in the confidence resource providers have in not-for-profit financial reporting.

Yours very truly,

Frank & Company, p.c.

RHF/354/1a

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VETERANS OF FOREIGN WARS

OF THE UNITED STATES

406 West 34th Street, Kansas City, Missouri 64111

James D. Bowden, Quartermaster General

January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
File 3605.JA
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Response to Exposure Draft

Dear Mr. Tanenbaum:

We appreciate this opportunity to share our perspective on this important proposed change in generally accepted accounting principles as presented in the exposure draft issued by the American Institute of Certified Public Accountants (AICPA) which will supersede the AICPA's Statement of Position (SOP) 87-2. The Veterans of Foreign Wars is a national fraternal organization which operates through a network of local, county, and state organizations. While most people may think of the VFW for Memorial Day and the Buddy Poppies the VFW is involved in programs which reach millions of Americans.

Among these programs are our Citizen Education Programs for young people in grades 1 through 12; Loyalty Day, each May 1, which was officially established by the Congress in 1958; the Voice of Democracy program; safety programs; and community service programs, such as volunteerism, environmental clean-up and recycling, and community out reach projects. In addition, we sponsor youth activities programs, including sports, scouting, education, and recognition projects. As a national not-for-profit organization with many community based programs, we are concerned with the management of our programs throughout the nation. In an effort to improve our management and the cost-effectiveness of our programs, we develop and distribute policy and procedures manuals for officials at the various levels within our national organizational structure.

Consequently, we are interested in not-for-profit accounting and financial management and accounting issues which will reflect in our reporting for our accomplishments throughout the country. Our objective is to ensure fair and objective financial reporting by not-for-profit organizations and to ensure that new accounting standards meet that objective.

Contemporary accounting practice has evolved over the past thirty years to provide guidance to estimate the costs of these benefits in terms of public education and other program activities that include a fund-raising appeal. Current guidance provides for allocation of joint costs incurred by multiple purpose activities to the program, management and general, and fund-raising purposes served. Current guidance for joint cost allocation can be improved. We do not believe, however, that it should be reversed and replaced by a set of arbitrary criteria unrelated to an organization's programs to determine whether a program purpose was served by a multi-purpose activity.

We urge the AICPA to reconsider the focus of this exposure draft. Based upon our assessment of the exposure draft, we do not believe that this exposure draft will improve accounting and reporting by not-for-profit organizations. We believe its present content is a reaction to criticisms by some states' attorneys general of the manner in which some organizations allocate joint costs. The AICPA has stated that these criticisms are based on the belief that some organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public. This criticism appears to be directed at the issue of how allocation of joint costs is done rather than whether allocation of joint costs is appropriate. Therefore, we believe your efforts should be directed towards developing guidance for allocations of joint costs in SOP 87-2 rather than creating a new standard for cost allocations.

The exposure draft provides the following criteria to determine when allocation of joint costs is required:

- Purpose
- Audience
- Content

Each of the criterion is addressed separately below.

PURPOSE CRITERION

Paragraph 22 of the draft states that in determining whether a bona fide program or management and general function has been conducted, the purposes for conducting the activity must be considered. The decision tree provided in the draft and its major tests to determine whether a program purpose has been met are not consistent with more authoritative guidance found in FASB 117.

Rather than establishing tests which relate to the program definition of FASB 117, the exposure draft injects a "compensation" test, a "substantial evaluation" test, and a "with/without appeal" test. If they are not met, the compensation and evaluation tests preclude assignment and allocation of costs to programs. None of these tests, however, establishes whether or not a program purpose was served by a particular activity.

Compensation Test. The exposure draft states the purpose criterion is not met and allocation is prohibited if substantially all compensation or fees for performing the activity are based on amounts raised (par. 23). This provision does not relate to a program purpose. It is biased against a particular mode of compensation. This violates the basic accounting concept which holds that financial information must be neutral to be reliable. Biased information is unreliable information.

For example, suppose an organization uses one firm to develop a program package that includes a fund-raising appeal and compensates the firm based on packages mailed. It also uses another firm to develop the same type of package and compensates the firm based on the amounts raised. Even if both firms develop the same packages that meet all other criteria, the joint costs of the first package must be allocated and the joint costs of the second package cannot be allocated. Further, the direct program costs of the second package must be reported as fund-raising costs under the exposure draft guidance. This bias against particular types of firms and compensation methods results in distorted financial information. In addition, it precludes comparability between organizations.

Evaluation Test. The exposure draft states if the performance of the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met and all costs of the activity should be charged to fund-raising. This provision does not relate to a program purpose and also precludes allocation whether or not a program purpose was met by the activity.

This test would also result in biased financial information and lead to misleading financial statements. Further, the term "substantially" in both tests will prove very difficult to implement in practice. Because of the national community we and other not-for-profit organizations are serving, verifiable ways to measure program accomplishments may be costly to develop. Thus, organizations may have to incur significant costs to implement these provisions.

With/Without Appeal Test. The exposure draft indicates that the purpose criterion is met if the activity is also conducted without a fund-raising appeal on a similar or greater scale using the same medium, that is, a "with/without appeal" test (par. 25). This test fails to establish that the "without appeal" activity meets a program purpose. It also fails to establish if the "with appeal" test does not meet a program purpose. That is, an activity could just as easily fail to meet a program purpose without a fund-raising appeal as with an appeal. Similarly, an activity could meet a program purpose along with an appeal.

Furthermore, this test conflicts with FASB 117. That statement notes that it provides latitude for organizations to define their programs (par. 59). Meeting this test could require organizations to conduct an activity without the appeal. Such a requirement infringes on the latitude provided by FASB 117 for not-for-profit organizations to design their programs and take advantage of emerging opportunities. This requirement also imposes an economic burden on many organizations. Including a fund-raising appeal in a program activity is often a cost-effective way to fulfill both a program and fund-raising purpose.

Audience Criterion

The second criterion of the exposure draft is Audience. The exposure draft states that this criterion is not met if the audience is selected principally on ability or likelihood to contribute (par. 27). The audience criterion is met if the audience is selected principally on its need for the program or because it can assist the entity to further program goals other than by contributing (par. 28). The draft neither considers the situation where the principal reasons for the audience selection are both program and fund-raising nor provides any criteria to deal with this common practice.

The exposure draft also requires consideration of the source of audience names and audience characteristics to find the principal reason for selection. It cites as an example that lists acquired from others with similar or related programs are more likely to meet the audience criterion than are lists based on consumer profiles (par. 29). A consumer profile list is not less likely to be a valid indicator of a need for program information. For example, persons with outdoor leisure interests may well have needs for, or interests in, our information concerning the local environmental projects.

Exposure draft Illustration 2 suggests that the audience criterion is inconsistent with normal operations of not-for-profit organizations. This illustration describes an entity that maintains a list of its prior contributors and sends out donor renewal mailings and program material. Prior donors are deleted from the mailing list if they have not contributed to the entity during the last three years. The exposure draft states the audience criterion is not met in this situation because the entity selects individuals to be added to or deleted from the mailing list based on their likelihood to contribute (2.A.10).

This illustration does not show how the audience was selected. Rather, it concludes the audience was selected principally for fund-raising because of the procedure the entity uses to maintain its donor mailing list. Thus, the illustration indicates that consideration of the list selection is not based on whether donor interest in, or need for, the program material existed at the time of the mailing, but rather what was done with donor names subsequent to the activity. This is clearly a look back provision which cannot be implemented for a new organization until many years after the mailing. Moreover, it is unrelated to a program purpose. The example indicates that even though program purpose and content criteria are met (2A.9), all costs, including those of the program piece, are fund-raising (2A.11). Therefore, biased and misleading financial information results.

Content Criterion

The third criterion of the exposure draft is content. The draft indicates that to meet the content criterion, the material or activity must call for specific action by the recipient that will help accomplish the organization's mission. That action must be unrelated to providing financial or other support to the organization itself. The action must benefit the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or benefit society by addressing societal problems. Information must be provided explaining the need for and benefits of the action. Sufficient detail should be provided describing the action to be taken. Merely providing a slogan is not sufficient (par.30).

This criterion appears to disqualify program related calls to action that support the organization itself such as volunteering time to the organization. As we discussed above, volunteerism is essential to many of our community-based projects. Hence, such a criterion could be devastating to many of our community programs.

Paragraphs 30 and 31 of the exposure draft appear to provide conflicting guidance. Paragraph 30 requires that information must be provided to explain the need for and benefits of that action to support a program purpose. Paragraph 31, on the other hand, establishes that information stating the needs to be met is considered to be in support of the fund-raising appeal. Furthermore, educational materials are fund-raising unless audience is motivated to action other than donating funds. This provision takes the draft well beyond the original intent of the "primary purpose" rule.

We believe the exposure draft should require that the multi-purpose material or activity contain content that serves an organization's program purposes. Such materials or activities contain action steps or calls to action that audiences can take to help accomplish the program purposes of the organization to which the content relates.

We believe the draft in its current form would result in misleading financial statements. It requires all costs of materials and activities to be reported as fund-raising, including costs otherwise clearly identifiable with programs, if its criteria are not met. As discussed above, many of these criteria are unrelated to determining whether program purposes are actually served. Thus, we do not believe

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the proposal would improve accounting practice. Its arbitrary and biased cirteria will require our auditors to second guess our management and our board. Further, organizations will inevitably take steps to counteract the bias created by these arbitrary criteria.

Incidental Costs

The exposure draft indicates that many organizations conduct fund-raising activities in conjunction with program or management and general activities that are incidental to such program or management and general activities. This provision does not define the term "incidental". Therefore, determination of incidental materials and activities may prove difficult in practice.

To determine whether costs of fund-raising appeals are incidental to program or management and general purposes, the draft should provide and operational guideline. Perhaps a five percent (5%) rule would be appropriate. That is, if the direct costs of the fund-raising appeal are less than five percent of the total cost of the material or activity that includes a fund-raising appeal, then fund-raising costs are considered incidental and allocation is not required.

Allocation Methods

The exposure draft provides that the allocation of costs should be based on the degree to which the cost element was incurred for the benefit of the activity or activities undertaken. It further indicates that the cost allocation method used should be rational and systematic, should results in an allocation of joint costs that is reasonable and not misleading, and should be applied consistently, given similar facts and circumstances. It also indicates the reasonableness of the joint cost allocation should be evaluated based on whether it reflects the degree to which costs have been incurred for the benefit of fund-raising, bona fide program, or management and general activities. (par. 33).

Seeking to evaluate the "reasonableness" of joint cost allocations (i.e. does it look good) reflects a lack of understanding of true joint cost behavior. The physical units method and the direct costs method of joint cost allocation both attempt to estimate on a systematic, rational, and verifiable basis the degree to which costs have been incurred for the purposes served by the materials and activities that include a fund-raising appeal. The nature of joint costs make the allocation of them extremely difficult and not readily susceptible to evaluation of "reasonableness". If the degree to which costs were incurred for various purposes could be established then the costs would not be joint costs but direct costs.

We believe the exposure draft should be revised to refine the existing criteria of reasons or purpose, audience, and content found in SOP 87-2.

The exposure draft should limit permissible allocation methods to systematic and rational ones based on verifiable criteria. The tests for each of these criteria presented in the exposure draft should be eliminated or modified significantly.

Again, we appreciate this opportunity to provide our prospective to the American Institute of Certified Public Accountants. We trust our comments will be considered in your deliberations on this exposure draft.

Yours very truly,

James D. Bowden

James D. Bowden
Quartermaster General

JDB:jd

WORLD EMERGENCY RELIEF

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January 3, 1994

75

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, N.Y. 10036

RE: File 3605 J.A.

Dear Mr. Tanenbaum:

We are commenting on AICPA's proposed revisions of SOP 87-2. The Exposure Draft, as issued, could exert direct and adverse effects on our program services.

Our mission bridges humanitarian services and religious programming: disaster aid, evangelism and church planting, community development and orphanages. We work in nine countries, as well as with the Navajo and here in San Diego County.

We use multi-purpose media in our program, including (1) electronic media for Bible study to 120 countries, and (2) printing for Christian education, public awareness of societal problems we address, and disaster preparedness. We use print media exclusively for fund-raising.

Given this background, I will comment briefly on the proposed AICPA revisions, using my extensive regulatory interface in the past three years on accounting issues, including GIK policies when we spearheaded the AERDO Standards now used by over 600 charities.

1. I have studied the various analyses prepared by the Non-Profit Mailers' Federation and concur with their premise that some changes are needed in 87-2, and their recommendations for improvements in the Exposure Draft.

2. Certain regulators and monitoring groups are assaulting the integrity of the religious community by claiming that a call to prayer, because it may be difficult to evaluate, is not a sufficient "call to action".

However, our appeals and other publications, which include a spiritual "call to action", meet your criteria for both audience and content.

We hope that AICPA will not degrade either the sincerity or the fervor of the religious community, as well as the reality we firmly believe it evokes, by declaring prayer as an insufficient call to action -- as NCIB has done.

4. The Exposure Draft has too many undefined terms. Considering the current confusion in the regulatory community toward many charities and their auditors, everyone will be greatly helped by more precise terminology.

5. Other than the "prayer issue", our greatest concern is the burden the Exposure Draft, as presented, will put on smaller charities ... especially those for whom access to the resources of a "Big 6" firm or similar sophisticated auditors, are either unavailable or unaffordable.

Charities with less sophisticated auditors (i.e., those without substantive research, legal and tax departments) will not easily implement these new standards without heavy management overhead, which is another way of forcing up non-program expenses out of the charity's control. Larger charities will, of course, more readily absorb similar costs by amortizing them over a larger donor base.

Over the past two years, we have seen a concerted regulatory effort to close smaller charities ... whether through legal actions grounded on unclear regulations or alleged consumer fraud, heavy restrictions on fund-raising counsel, an inability to conform to ECFA, PAS or NCIB standards (all of which we meet), or other means.

We hope that AICPA doesn't become a partner to such trends. We believe the accounting profession should adopt a positive role for itself, charities and the public (both donor and beneficiary), without furthering public confusion or putting a new and costly burden on the charity industry and smaller charities in particular.

In conclusion, we've had no more than 80 requests for our Annual Report in the past two years and none for our Form 990 (with over 27,000 active donors and a 1.5 million/annum acquisition program). I question whether the public really cares about such issues to the point that AICPA, the regulators or watchdogs perhaps would hope.

Thank you for your consideration.

Sincerely,

Rev. Joel MacCollam

Rev. Joel MacCollam
President

P.S. My recent monograph on "Myths of Percentages" is enclosed. Reaction has been strongly positive from the charity community, especially umbrella groups.

SPECIAL REPORT

THE MYTHS OF PERCENTAGES

by
Joel MacCollam
President of World Emergency Relief

Do you remember Perry Como's old TV show? When it came time for Perry to sing special requests, his "choir" sang a jingle that started with "Letters, we get letters. We get lots and lots of letters ...".

It's not that different for World Emergency Relief and other charities, whether religious or secular. We get "lots and lots of letters" asking about the percentages of our revenue assigned to management, fund-raising and program.

And no wonder people raise this question. Most donors are rightly concerned about where their resources are given, and how those resources (cash or otherwise) are used.

But the donating public has been bombarded for years by financial columnists, talk show hosts, advice distributors, state regulators and watchdog groups into believing that this question will, in itself, produce meaningful donating discernment.

Of course administrative and fund-raising costs are part of the puzzle of good charity management. But one dangerous fallacy underlies the assumption that higher administrative and fund-raising costs automatically implies charitable inefficiency ....

> *.... the unacknowledged fact that charities often have little or no control over circumstances which have a direct impact on their ratios of fund-raising and management expenses relative to program expenses.*

Some people will criticize what I'm about to say as "sour grapes". But I disagree. Responsible managers ("stewards" is the biblical word) are accountable to the donating public, federal and state regulators, self-anointed media critics and accountability groups for factors which impact a charity's programs and financial statements, but over which those managers have absolutely no control.

Is such unyielding public emphasis to the concept of "percentages" fair?

Certainly not to the charity managers who constantly (and often at considerable costs) must adjust their program efforts to conform to these outside forces which represent only a part of reality. Small and large charities all struggle to control expenses to conform with artificial standards calling for no more than 50, 60, 25 percent or other amounts deemed by someone to be "suitable for administrative and fund-raising purposes".

Why does this "percentage myth" exist and even persist? Because state regulators react to occasional fund-raising problems by punishing all charities? Is this a "plot" (intentional or otherwise) to force smaller groups out of business and to block competing charities from starting? Is it because the public demands a quick-and-easy way to evaluate charities before they will give?

(Back in the 1950s, the Rockefeller Foundation established the "Hamlin Committee" to investigate whether the U.S. needed 10,000 charities (at that time) or only the 150 largest. The group, made up of foundation leaders and executives from major charities, ruled that only charities with acceptable fund-raising limits should exist .... a judgment directly favoring larger, more established groups with profitable donor bases — and definitely outside the American norms of free enterprise, competition and entrepreneurship. Are 1990's events an outgrowth of this Eisenhower era study group?)

The forces behind the myth of percentages probably include a mixture of all these factors.

* * * * *

Why are fund-raising and administrative costs hard for most charities to control?

I'll answer that question from one perspective: World Emergency Relief's. We are a relatively small non-profit organization operating as a Christian ministry. Sometimes, being a "ministry" eases the regulatory morass. But because much of our work is overseas, we face unique challenges which impact our finances and our non-program percentages. Other charities, regardless of size or program, are also affected by most of these factors.

1. New charities: New charities can't be expected to meet regulatory percentage expectations because of intense start-up costs, including attracting new donors (often the most expensive part of fund-raising). Without a strong "house list" of committed donors (or some low-cost source of dollars such as a major benefactor), start-up fund-raising and management costs will usually — and unfairly — suggest an inefficient charity.

2. Smaller organizations: Smaller organizations usually pay higher costs for services. Higher postal rates and printing costs are only two major problem areas — because significant quantity discounts are not available. And other costs (salaries, rent, etc. must be amortized over fewer donors, thus increasing their costs expressed as percentages.

3. Unpopular causes: After ten years raising funds, I've learned many times over which causes

raise the most funds — and produce the lowest fund-raising costs. Asking people to feed hungry children always raises more money than feeding the elderly. Right now, feeding American children raises more money than feeding youngsters in foreign countries. And hungry famine victims in Africa generate greater American generosity than hungry youngsters in India.

Most charities face a painful reality: some program services are more popular or better understood than others. If a charity's programs focus on a relatively unpopular cause, its fund-raising percentages will probably be higher. But this certainly does not automatically mean charitable inefficiency!

Donor generosity is always a factor in figuring percentages. If a charity spends $2,000 to raise $20,000, its fund-raising expenses would hover around 10 percent. But if the group spent the same $2,000 to promote a more popular need, it might raise $40,000 instead (a 5 percent cost). In both cases the same number of dollars were expended for the appeal. The percentage cost of fund-raising, in this instance, actually becomes a barometer of the donors' interest and ability to give at one point in time.

4. Use of graphics: Most charities rely on printed materials to inform and educate the public of both needs and successes. Direct mail, annual reports, newsletters and brochures are primary examples of such materials.

Apart from quantity printing and postage discounts (Number 2), other factors in the art and printing processes impact both costs and results.

+ Pictures tell a story, and they can also manipulate results. Whether we use a picture of a child we've helped, or someone who needs our help, is a tough decision. We want our donors to know how their gifts produce success, but we also know that showing needs often is more meaningful to our donors in their decisions to give. Thus, this kind of "photo decision" affects our percentages.

+ Even envelopes affect how much money is raised through direct mail — and thus the "percentages". Postal authorities do not approve of envelopes resembling official government communications or the "express" letters delivered by private companies such as United Parcel Service. Yet both these styles of envelopes are proven fund-raising "winners" because they immediately attract the recipient's attention.

What about a plain white envelope when compared to one with bright colors or even pictures? Our experience shows that these bolder envelopes usually generate more income, if only because we have a better chance of getting our letter opened by our donors.

+ Responsible fund-raising includes "testing" to see what presentation of an appeal works best with the public. Does an extra brochure help or hurt the appeal? Should the charity send a short letter or a longer version? Testing is expensive, especially in the early phases of a fund-raising campaign when short-term results may appear "poor". But viewed over the long-term, good testing produces more efficient fund-raising.

5. The words you read...: Charities face legal and ethical limits about what they say in their printed materials, telemarketing outreaches and electronic media. Several years ago, for example, the Post Office ordered that fund-raisers avoid implying that any one person's gift would solve a problem — the "we can't save the birds unless you give" letter.

Likewise, a dynamic writing style will usually raise more money (and help keep cost ratios lower). But producing this livelier copy will cost a charity to hire a copywriting specialist, unless the group is lucky enough to have someone with those skills on their staff or in their circle of friends. (I write all of our copy for our publications.) Unfortunately, "lively" copy can spill over into exaggeration or even gross and deliberate distortion .... a horrifying and immoral, but sadly effective way to raise more funds.

Do letters need to be dynamic and truthful? Are pictures as powerful as I've suggested? Yes, because competition between charities for donations is extremely competitive. We may be a country of 250 million generous people, but with over 500,000 charities seeking contributions every day, the "ethics of fund-raising" are much more important than just achieving low percentages for fund-raising and administration.

6. Postal concerns: Thousands of diligent U.S. Postal Service workers can't overcome some of the adversities which create undelivered charitable mailings. Undelivered mail means that fund-raising costs for lost mail can never be recovered with donations ... because the appeals were never received.

Postal regulations call for Third Class Mail to be delivered last, after First Class and Second Class (periodicals) Mail. If your local post office is slowed down by carrier vacations, the flu or even high volumes of mail, local officials must respond. If enough overtime money isn't available, charitable mail could wait weeks for delivery. But postmasters also have the authority to destroy charitable mailings which seem to be outdated. The effect is simple: the charity's mail is not delivered, donations are not made, but fund-raising costs must be paid .... all because of postal regulations.

And every year Congress struggles with postal rates for non-profit organizations. Over the first part of the Clinton Administration, charities face increases of up to 30 percent for Third Class Mail, after enduring a ~~55 percent hike over the previous three~~ years. If donations don't rise proportionally to offset these rate hikes, fund-raising percentages will increase even though the basic fund-raising program has not changed.

Does the charity have direct control over this postal phenomenon? Only by using more sophisticated data management to keep mailing sizes down ... a technique neither available or affordable to groups who lack the required computer capacities or who can't afford (or find) a decent consultant.

Of course, charities which are not heavy users of mail appeals find their percentages unaffected by postal costs and the related actions of Congress.

7. <u>Media tie-ins</u>: When Hurricane Andrew hit Florida in 1992, our donors were incredibly generous, and we delivered much more help to storm victims than we originally projected. The same has proven true in other great disasters — famines in Africa, earthquakes in Armenia and Mexico City, and other crises.

Donor giving — and therefore success in fund-raising — is often directly linked to the level of corroborating reporting in both electronic and print media. When floods made thousands homeless during the Winter of 1993 in northern Mexico and southern California, our fund-raising results were less than expected. And other charities we contacted didn't even know that the floods had hit — because the disaster wasn't reported with headlines, pictures and dramatic video footage over several days on the national media. News editors made a decision not to report this disaster — and our fund-raising results were directly impacted.

Conversely, accurate reporting can adversely affect percentages. Three months after U.S. Marines joined the fight against Somalia's tragic famine, U.S. television showed babies starting to recover from hunger and disease .... while the overall needs continued in Somalia, and Africa's famines rage unabated in other regions. But many charities reported a distinct drop in their African fund-raising efforts (and their ability to help) because of this reporting.

8. <u>Creative cost controls</u>: One particular charity is extremely successful in telephone fund-raising. The group produces astonishing results by making its own calls using employees who are paid with job-training funds given the charity by local officials. In short, potential fund-raising costs are tremendously offset by program money, enabling telemarketing costs to be charged to "program" because its solicitors are charitable beneficiaries of a job-training program.

A call which might cost another charity $5.00 to ~~solicit a donation could cost this particular group~~ well under $1.00 in fund-raising costs.

9. <u>Mailing list usage</u>: As a smaller charity, World Emergency Relief doesn't own mailing lists of 100,000, 500,000 or more people; our donor file is about 23,000 people. This means that we usually rent mailing lists to locate new donors. If we had more donors, we would be in a stronger position to exchange donor lists with similar charities, thus eliminating a major expense of donor acquisition. Erase that list rental expense, and the cost of fund-raising, in both dollars and percents, plunges!

10. <u>Scandals and unfair reporting</u>: We can't control scandals hitting other groups. But whenever the public loses confidence in charities as a whole, all groups suffer. Some fund-raising campaigns will inevitably produce wretched results because they are unfairly impacted by the scandals. A charity can be totally guiltless but suffer irreparable harm because its name or program is close to the offending group's, at least in the public's eye.

Likewise, the media is often quick to expose alleged charity problems, without carefully checking facts or understanding the complex legal and accounting issues affecting charities which do not impact other kinds of businesses. Too often, TV, radio and newspapers assign business or general news investigators to report on charity activities. As good as these individuals may be in their fields, they usually lack the expertise to accurately report how — and why — charities work. One Canadian group suffered serious harm in 1991 because a reporter "rushed to judgment" with a grossly inaccurate story far from the truth because the writer did not know the applicable laws for charities.

11. <u>Distractions</u>: All fund-raising can fall prey to disasters which can destroy the best plans of charities to effectively raise funds. Try to raise funds on local cable TV (a time the charity has reserved and probably paid for weeks in advance) at the same time President Clinton gives an emergency speech on the networks. Or how many special charity events were canceled, at considerable loss to the charities, because of the March 1993 blizzard — the worst storm to batter the eastern U.S. in 100 years?

12. <u>Economic distractions</u>: The 1992 presidential campaign posed an economic quandary ... was the U.S. in a recession or was our economy in recovery? Economists and editors studied the same financial data and reached contrasting conclusions. I recall one East Coast newspaper declaring a set of economic indicators as "signs of recovery", while its West Coast ideological counterpart branded the same figures as "economic disaster" — in editions published 2,500 miles apart on the same day!

Such headlines affect donor generosity far beyond the control of charities. When donors feel confident about the economy and their own financial welfare, they are more generous. In good times, a typical donor might contribute $25.00 a month. But if hard times loom and economic headlines are negative, that same donor might give $10.00 instead.

What's the result? The charity expended the same fund-raising cost but received only 40 percent of the income. Should the charity be accountable for these economic variables by monitoring agencies and regulators? I think not.

13. Allocation of expenses: IRS regulations and accounting rules call for certain charitable costs to be "allocated", or shared, between management, fund-raising and program. One reason World Emergency Relief's fund-raising percentages are kept low is that a portion of my salary is charged to "fund-raising"; that dollar amount is considerably lower than what we would pay to hire outside consultants or an advertising agency.

Most charities use fund allocations, which IRS regulations and accounting rules provide guidelines for. The revised Form 990 (the annual report required by the IRS from all charities except those directly related to churches) contains data on how charities allocate funds, and usually this information is presented in the "Notes" section of Audited Financial Statements.

14. Rapidly changing state requirements: More and more states (and municipalities) are imposing fund-raising regulations which do little to protect the public but certainly do inflate administrative costs for charities (especially in the accounting and legal realms), while also promoting the political careers of certain politicians.

One state has been pushing for registration and reporting changes which would require the charity to present a legal opinion that its accounting conforms with current tax law — a move requiring a tax attorney to carefully review an audit before it is finished. Is the public served by this expensive burden placed on thousands of charities? Not likely, but the state's charity administrator wants to be Governor, and he covets the headlines his efforts generate.

Costs for registering to solicit in certain states are going up as much as 1000 percent because the states, hard pressed to meet their own budgets, now expect charities to pay the states' financial burden of generating regulations.

Many states also use archaic thresholds for registration requirements, expecting local charities which raise $25,000 in a single community to meet the same reporting standards as national groups which may raise $1 million in the state. This obviously puts an unfair burden on the smaller groups.

And with over 40 states now requiring registration by charities, the legal costs of trying to comply with these complex (and sometimes contradictory) laws is an ever-increasing administrative burden far beyond the control of any charity, unless an attorney donates time to help wade through the morass. The problem will only increase as cities and counties join this growing bandwagon to impose their own reporting requirements and other regulations.

15. Regional economic factors: Administrative costs will probably be higher for a 50-person staff in New York City than for 50 people doing similar charitable functions in Kansas City, only because the cost-of-living is lower in Kansas City. This does not make the Kansas City charity more efficient in its program delivery, even though its administrative costs are lower.

This regional expense factor is usually ignored by anyone talking about allegedly "high" salaries. And what constitutes a "high salary"? One state still requires each charity to issue a public report disclosing the identity and salaries of all employees making $12,000 a year or more ... a direct invasion of privacy for those employees.

17. Audit requirements: Certain accounting requirements could force World Emergency Relief's administrative percentages up, just because we work internationally as well as in the United States. "Domestic charities" don't face these additional costs.

+ If we get over $25,000 a year in U.S. Government grants or contracts, we must implement the more stringent "A-133" audit standards required by Washington. This can push up our audit costs by as much as 50 percent.

+ For overseas programs, we often engage correspondent auditors to review transactions in overseas projects and report back to the U.S. auditors. While this actually is good stewardship of donated resources, it does hike administrative expenses in a way which could make us appear less productive.

18. Gifts-in-Kind: In 1992, World Emergency Relief, along with four other national charities, developed the first-ever uniform accounting standards for non-cash gifts. While many charities continue to value donated commodities (such as vegetable seeds or food) at retail levels, World Emergency Relief and about 160 other groups have voluntarily agreed to value these products at no more than wholesale levels, and often less than that.

The results are more accurate and uniform reporting to donors, an effective voluntary effort at self-regulating by charities, and shifting percentages for program and non-program costs. With lower wholesale values used for audit purposes, the percentages of ~~fund-raising and administrative costs will~~ rise ... even though charities using the lower values have only changed their accounting rules.

At this time, donors face a "mixed bag" while these "AERDO Standards" are being adopted by other groups — and debated by regulators and the accounting industry. The 160 adopting agencies must now compete with groups which still value products at retail, while they currently must also comply with the often archaic, unchanged standards of monitoring agencies and regulators developed when "retail" was more commonly used.

19. "Public education": Accounting regulations allow charities to evaluate assigning a portion of each appeal to "public education". This carries different meanings for different charities. One charity might write a fund-raising letter and enclose an informational brochure about its services. Another group might write a letter which describes a need (education) and then asks you to give.

All this is totally legal. But the subjective nature of such sharing of funds means that not all charities are on an equal footing when donors compare them.

20. Donated services: A charity's use of volunteers may (or may not) appear on financial statements. Some non-profits hesitate to report donated services, lest that value make the non-profits appear too financially successful (and therefore perhaps less able to raise funds). Conversely, other groups choose to report the value of donated services because these service are both important to their efforts and may lower overall non-program costs.

Child care center "A" has been in business 20 years and is highly successful in its fund-raising; it's staff are paid professionals. Child center "B", is only one year old, has a weak cash flow, and uses volunteers extensively. Unless "B" reports the value of donated services, its fund-raising costs will appear much higher — even though both "A" and "B" deliver identical client services. In this case, as others. "percentages" are hardly a measure of efficiency.

At World Emergency Relief, we do not report donated services, in part because regulations are unclear about how to value those services. If a doctor performs a brain surgery as our volunteer, is that worth $20,000 (his fee in the U.S.), $275 (the perdiem fee many agencies pay professionals for overseas work), or some other amount?

21. Changing accounting regulations: Charities must conform with accounting regulations developed by the Financial Standards Accounting Board (FASB, pronounced "fas-bee"), seven accountants who wrestle with esoteric rules which can change the economic shape of America.

Charities are currently confronted with major ~~pending changes in accounting rules, including how~~ pledges are recorded. Many proposed changes will directly impact the ratios of program vs. non-program expenses. For example, most charities report the proceeds of special events (banquets, sports events, etc.) as net income on their financial statements. But the IRS Form 990 requires that gross income be reported, with expenses also listed. FASB wants audit standards to comply with the IRS form. The "end result" is the same net income to the charity, but the ratio of program and fund-raising expenses are quite different.

If we hosted a banquet (costing $50,000) which profited $25,000, under current auditing standards we could show $25,000 income and no expenses. Under the proposed regulation change, We would show a $75,000 in income and $50,000 for fund-raising expenses (a 66 percent fund-raising expense).

For groups which do not depend on special events or pledges, these proposed changes are perhaps insignificant. But for agencies which rely on these sources for a major portion of their income, the results — from an accounting perspective — could be disastrous, without the charity doing one thing different to hinder its "efficiency".

22. The audit burden ... Certified public accountants are highly trained to understand their professional field. Yet most of their training is focused on auditing procedures for massive corporations with hundreds, even thousands of employees.

This creates another expensive burden for smaller charities. Under current audit standards, a charity with three employees and a $100,000 annual income faces the same rigorous audit and regulatory requirements as a group bringing in $20 million a year. That "$20 million" group can probably afford a staff CPA and two bookkeepers to operate a sophisticated accounting system. But the smaller group might only have a part-time bookkeeper .... because they can't afford the overhead of additional staff sophistication. Yet regulators expect this sophistication, and so do many auditors!

Smaller groups should be relieved of this unfair burden, with the accounting industry and regulators agreeing to different audit standards for groups of vastly differing size and resources.

* * * * *

What's a donor to do, especially when the tried and familiar questions, "what percentage of income goes to program" and "what percent goes to fund-raising", are relatively meaningless, at least in isolation.

I suggest three things, all of which are relatively easy:

1. Ask the charities you support for a copy of their most recent Audited Financial Statements. (You may soon also be able to ask for the most recent IRS Form 990, although charities are not yet required to provide this outside of their offices.)

Examine some key indicators:

a. Percentages of income spent on program, fund-raising and management (Remember, these may be significant, even though they usually are meaningless in isolation.)

b. Study salaries, especially when they are reported on Form 990. But don't be quick to judge, because of the hidden factors charities face in attracting highly qualified and motivated individuals. A $100,000 powerhouse president is a much better "buy" than a $60,000 ineffective weakling. Remember, "you get what you pay for"; some things which are virtually free are also virtually worthless.

c. Read the "Notes" to see how funds are allocated, what standards are used for valuating donated commodities and services, what unusual circumstances may have affected income or expenses, and how much "retained earnings" [i.e., excess of income over expenses] the charity has. These "rainy day" funds are absolutely necessary, as long as they are not outlandishly high. One group raised $6 million in 1991 and had $6.6 million in accumulated "savings" at the end of the year. But they weren't selfishly hoarding money; their audit explained they were saving for a building program by collecting pledges prior to the start of construction expenses.

d. The "Notes" should also disclose whether key employees or Board members have independent business dealings with the charity (activities not illegal or immoral in themselves), whether the charity has any long-term debts or possible legal problems, and similar matters which donors deserve to know.

2. Ask the charities you support about their program effectiveness. Each charity's annual report should, at a minimum, list significant program accomplishments during the previous year.

Program effectiveness is hard to quantify; even similar charities may function quite differently. Some groups are able to secure donated food, while others spend more on purchasing food. Does this make the second charity less effective? At first glance "yes", because they are shipping smaller quantities. But they may also distribute more effectively, perhaps because of better inventory control. Which then is the "more effective group"?

3. And third, view each charity you'd like to support through at least one, and preferably two, monitoring groups.

Different monitoring groups have different standards, both objective and subjective, for declaring whether a charity meets or misses their standards. Three groups which come to mind are the Council of Better Business Bureaus, the National Charities Information Bureau (NCIB), and the Evangelical Council for Financial Accountability.

How do these groups differ? For example, NCIB alone requires a Board-approved "inclusiveness" policy that a charity will not discriminate in Board membership or employment because of religion, even though the 1964 Civil Rights Act preserves this right to religious organizations. So NCIB now has a more flexible standard for "inclusiveness" by religious groups .... a fact that most of the donating public and many religious groups are not aware of.

Other differing standards include varying percentages of income acceptable for non-program expenses, accounting procedures, ethical standards for fund-raising, and (for religious groups) statements of faith.

For more information about monitoring groups, contact:

Philanthropic Advisory Service
Council of Better Business Bureaus
4200 Wilson Blvd.
Arlington, Virginia 22203

National Charities Information Bureau
19 Union Square West
New York, N.Y. 10003

Evangelical Council for Financial Accountability
P.O. Box 17456
Washington, D.C. 20041

Conclusions

Giving money is never easy, if it is done properly. For more information on how to donate effectively and how to recognize charity scams, write us for a free copy of "How To Protect Your Charity Donations From Fraud".

WORLD EMERGENCY RELIEF

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ECFA

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January 5, 1994

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036

Dear Mr. Tannenbaum:

I have reviewed the exposure draft concerning a revision of SOP 87-2, and although it contains some positive features, it also needs some changes and clarifications in order to accurately describe allocations.

The following recommendations are based on my employment with 501(c)3 and 501(c)4 organizations involved in public policy advocacy, and relate only to the exposure draft's effect on those organizations. Other types of organizations will, of course, have additional valid concerns not dealt with here.

The exposure draft suffers from a conceptual flaw, in that it presumes an activity to be guilty (i.e. fundraising) until proven innocent. A more even-handed approach is needed, especially when dealing with advocacy groups.

1. <u>The most objectionable feature, and one that should be dropped, is the conclusion in paragraphs 21b and 23</u> that no program content can be present in an activity if "substantially all compensation or fees for performing the activity are based on amounts raised . . . ." Consistency and accuracy demand that if two activities meet the same standards of purpose, audience, and content, differences in the method of compensation should not be a disqualifying factor. <u>Paragraph 26a could be modified slightly to include 23 as one factor to consider.</u>

A real-life example will show the inequity of paragraphs 21b and 23. A 501(c)3, dealing with foreign policy questions, sponsors an annual trip to one or more foreign countries. The primary purpose of the trip is clearly program rather than fundraising, since the fee charged the travellers does little more than pay the costs incurred by the organization. The trip itself consists of a series of lectures each day from government officials, political activists, and public policy experts. The lectures are taped, and made available to the general public. However, the project manager is compensated entirely by a fee equal to a certain amount per traveller signed up for the trip. Although the purpose is to maximize the number of people travelling, he is undeniably being compensated according to the amount of money raised for the trip. Therefore, paragraph 23 would require reporting the entire cost of the trip as fundraising.

(In this particular case, paragraph 43 might allow the net income to be counted as incidental fundraising, and avoid the whole question. However, if the organization were to increase the fee so as to make fundraising a more important part of the activity, it would still not justify paragraph 23's death sentence for program allocation.)

An organization may also hire someone with fundraising experience, compensated solely on the basis of his success in that function, and yet instill a program component in the event. I recently met with a fundraiser and discussed the possibility of a series of fundraising dinners around the country. During our conversation, it become clear that we might be able to take advantage of the fundraiser's work and expand the event to include program components that would involve publicity for the cause, establishing new local organizations, and motivating our members and other supporters. It would probably not be possible to neatly divide each expense for the event into either fundraising or program. There would be joint costs, and even some of the fundraiser's preparations would assist our program-oriented efforts. Once again, paragraph 23 gives a false impression of these costs.

Illustrations 5 and 6 provide further examples. If the activities are exactly the same, the mere fact that a fundraising consultant was used to design the brochure does not change the benefits received by those who obtain the brochure. In fact, if the brochure is written by a professional copywriter, it is more likely to be read, and may benefit more people than one written by a staff member who knows about health, but not writing techniques.

Illustration 12 correctly finds that program content is present. Suppose, however, that the organization is trying to collect petitions in favor of a bill, but find that few people are sending in the petitions. They hire a direct mail consultant, who writes a new letter, and that letter brings in both more money and more petitions. (My experience has been that the two usually go together. If a mailing does not bring in money, it also does not bring in petitions.) The consultant is paid according to his normal practice, which is a percentage of net income. Even though the organization was motivated by program concerns, and was able to obtain program benefits, the exposure draft would require that all program costs be eliminated.

To take a more a extreme example, suppose the organization in Illustration 12 is satisfied with the number of petitions, but wishes to increase its income from the mailings. Even then, if it continues to seek both money and petitions, the mere hiring of a fundraiser compensated on the basis of income does not prove that the program activity has been abandoned. By discussing their goals beforehand, and using their power of copy approval, the organization can guarantee that the mailing still carries out their program. Having participated in such discussions, I can assure you that they do occur. Copywriters may object to the changes needed for program purposes, but the client has the final word.

Finally, the exposure draft overlooks the fact that the production staff of a direct mail agency may enhance the firm's value to an organization. The direct mail agency may be able to turn out a more professional-looking package, at a lower cost. The agency's staff will also devote full time to working on the mailing, while the organization's staff may sometimes be diverted to other assignments, causing serious delays. My own experience tells me that this can be a strong reason to hire a direct mail agency, regardless of the method of compensation.

Similarly, an organization might hire a telemarketing agency because it believes that the agency can provide more and better callers, compared to reliance on staff or volunteers. The fact that the agency may, as a standard matter, require compensation based on financial results does not mean that the organization is not pursuing program accomplishments. That can only be determined by looking at other factors.

2. Paragraph 26 is to be commended for recognizing that an activity may have a program component even if the organization does not carry out exactly the same activity independently of fundraising. In fact, it may be financially impossible for an organization to initiate an expensive activity that fails to provide much or all of its own financing. Other facts must be examined to determine the proper allocation, but the need for allocation is certain.

However, much of what follows is inconsistent with this principle, and seems intended to unreasonably minimize a finding that a program activity is present. This is especially evident in paragraph 27, which assumes that no program activity is taking place if the selected audience is chosen "principally on its ability or likelihood to contribute . . . ." Paragraph 28 then deals with audiences selected principally for program reasons.

In the case of issue advocacy, this dichotomy usually does not exist. It is normally true that those most likely to participate in the activity (such as contacting an elected official) are the same people most likely to make a donation. These lists are chosen because they are expected to accomplish both program and fundraising goals. There is no principal cause for the selection.

Furthermore, financial reality may force an organization to focus on those who can be expected to both donate and participate, excluding those who might participate but would probably not donate. For example, only a well-funded organization could afford to mail to a list of people who signed a petition for a similar cause. Such a list would result in some petitions, but almost no income. The mailing could be carried out only if the organization could afford to lose nearly the total cost of the mailing. This selectivity says nothing about the organization's intentions, only its financial ability.

Illustration 4 is an example of how paragraphs 27-29 can bring about a misleading result. The $45,000 minimum may itself have a program function, since upper income households are more likely to support trendy environmental programs than are working class families. However, even if the selection was made purely to improve fundraising, it may still have a program justification. If the purpose of the mailing is to change individual habits, or to affect public officials through grass roots activity, the organization may have found that it can only sustain the mailing program by going to those with higher incomes. A broader select will result in loss of funds and no further mailings. It is better to carry out a program to some people, than to none.

<u>Paragraph 27 should be eliminated, and paragraph 28 modified to consider whether a factor in selecting the audience was program-related usefulness, or if ability to donate was the sole (not principal) factor in the selection. If the activity involved doing something which is customarily done for program purposes (e.g. petitions), and the organization followed through as necessary (i.e. delivered the petitions), it should be determined that program content is present.</u> The false assumption that a principal reason can be determined in every case should be dropped.

3. Footnote 5 for paragraph 30 needs improvement. In order for protesting to be a valid program activity, the exposure draft requires that the communication include not only a specific object of protest, but also a specific method of protest. However, a letter sent to hundreds of thousands of people in all 50 states (and perhaps even to other countries) cannot fit everyone into the same mold. It must leave it up to each

recipient to use his own imagination, and determine how to effectively protest in his own area. The communication may give a few examples, but the fact that these examples are inapplicable to many (perhaps most) of the recipients should not count against the programmatic nature of it.

It is good to see specific recognition of the fact that prayer can be a legitimate program activity. Contrary to the opinion of certain self-designated judges, prayer is cherished by many of us as the most powerful weapon for change. Accounting standards should accept that belief, and not try to pass theological judgment.

However, the requirement that prayer recommendations be specific, rather than a general call to prayer, is too restrictive. Some organizations may wish to encourage a daily prayer routine, for the well-being of both society and the individual who is praying. This would be comparable to recommending daily exercise for physical health, which has been recognized as a genuine program.

I hope that the AICPA will give these concerns serious consideration before proceeding further with the exposure draft.

Sincerely,

Charles Orndorff
Administrative Vice Chairman

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IT SHOULDN'T HURT TO BE A CHILD

Robert W. Hughes
President

Federation on Child Abuse & Neglect

JAMES S. CAMERON, M.S.W.
EXECUTIVE DIRECTOR

A chapter of the National Committee
to Prevent Child Abuse
(518) 445-1273

January 6, 1994

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Technical Manager
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American Institute of Certified
Public Accountants
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New York, New York 10036-8775

Re: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal"

Dear Mr. Tanenbaum:

We are taking this opportunity to respond to the exposure draft issued by the American Institute of Certified Public Accountants (AICPA) which will supersede the AICPA's Statement of Position (SOP) 87-2. Our response is based upon a research study, copy enclosed, which we sponsored assessing the performance of the New York State Federation on Child Abuse and Neglect's (Federation) multi-purpose activities.

Background

The Foundation was formed during 1980 and operated under the umbrella of the State Communities Aid Association. In 1981, the Federation was designated as the New York State Chapter of the National Committee for the Prevention of Child Abuse. The Federation separated from the State Communities Aid Association in 1990 and incorporated in its present form. The Federation is exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported organization.

The Federation is the only statewide not-for-profit organization in New York whose primary mission is the prevention of child abuse and neglect. As an indication of the magnitude of the problems that the Federation is designed to address, more than 200,000 children, or one out of every twenty two (22) children in New York State, were reported as abused or neglected in 1992. The Federation advocates, promotes, and initiates efforts to develop, improve, and expand quality services and effective policies to prevent child abuse and neglect.

A major program of the Federation is the *Prevention Information Resource Center* (PIRC) or the Parent-Child Helpline. PIRC is accessible to all New York State parents, professionals, and other concerned citizens through a twenty four (24) hour per day toll-free telephone number. Telephone calls to PIRC result in service deliveries of assistance, referrals, and information concerning the prevention of child abuse and neglect. Thus, PIRC responds to specific family situations and to the broader area of community prevention strategies.

Problem

Not-for-profit organizations lack the profit measure. Consequently, performance indicators commonly used for business organizations do not exist for not-for-profit organizations. The accounting profession has long been searching for methods to evaluate the performance of not-for-profit organizations. In 1980, for example, a study developed the Service Efforts and Accomplishments (SEA) framework to accomplish this purpose. SOP 87-2 sets the current accounting standards for joint costs of informational materials and activities that include a fund-raising appeal. Therefore, SOP 87-2 establishes the principles for assigning costs and, from this cost assignment and measuring the performance of a not-for-profit organization.

We believe the purpose of the exposure draft should be to provide performance measures for not-for-profit organizations. In its present format, however, it appears to be a reaction to criticisms by some states' attorneys general and other "watch dog" agencies, many of whom are self-appointed, to the manner in which some organizations allocate joint costs. We agree that the profession should constantly seek to establish financial management standards for not-for-profit organizations. That is the reason we sponsored the research study to assess the effectiveness of a multi-purpose campaign by the Federation.

The AICPA has stated that the current criticisms of regulatory and watch dog agencies are based on the belief that some organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public. This criticism appears to be directed at the issue of how allocation of joint costs is done rather than whether allocation of joint costs is appropriate. The exposure draft, however, retains the purpose, audience, and content criteria of SOP 87-2.

While we believe these criteria are appropriate, the guidance for implementing these criteria should be refined. Therefore, we believe your efforts should be directed toward developing guidance for allocations of joint costs in SOP 87-2 rather than creating a new standard for employing allocations of joint costs. The tests for each of these criteria presented in the exposure draft should be eliminated or modified significantly. We urge the AICPA to reconsider the focus of this exposure draft.

Our Research Study

We believe the circumstances encountered and the findings of our research study have a direct bearing on the background for the exposure draft and the direction which this and future efforts of the AICPA should take regarding the allocation of costs. Our research study of the Federation was designed to assess the effects of a multi-purpose telemarketing campaign on the service efforts and accomplishments (SEA) of the Federation. The Federation used a multi-purpose telemarketing campaign to (1) increase public awareness of the Federation and its child abuse and neglect prevention programs; (2) increase utilization of its services as a means of addressing these issues; and (3) raise funds to support the Federation's operations.

Our research study was designed to identify the effect of the telemarketing campaign on the awareness of and demand for the services of the Federation. The research study used the SEA framework to evaluate, over comparable periods of time before and after the telemarketing campaign, the efforts and accomplishments of the Federation. Our research study found that the number of telephone calls to the Federation's toll-free help line increased by twenty two percent (22%) after the initiation of the multi-purpose telemarketing campaign. The number of cases of assistance provided by the Federation increased from eight (8) cases per month before the campaign to fifteen (15) cases per month after initiating the campaign. In addition, our research study found an increase in the ratio of telephone calls received to actual cases of assistance provided.

These findings demonstrate that the Federation, through its multi-purpose telemarketing campaign, was successful in its program efforts to (1) increase public awareness of the Federation and its child abuse and neglect prevention programs, (2) increase utilization of its services as a means of addressing these issues, and (3) accomplish these efforts in a cost effective manner. Based on the findings from our research study, it is clear that the Federation conducted a bona fide program effort.

With our research study as a foundation, I wish to consider the effect which the criteria in the exposure draft might have in determining the methodology for cost allocation of the telemarketing campaign in various situations.

Purpose Criterion

The exposure draft states that the purposes for conducting an activity must be considered when determining whether a bona fide program or management and general function has been conducted. For the purpose criterion, a compensation, evaluation, and "with/without" appeal tests are required.

What if substantially all of the compensation or fees for performing the Federation's telemarketing activity were based on amounts raised? Under the compensation test, the purpose criterion would not be met and all costs would be required to be allocated to fund-raising. The research study, however, clearly demonstrates that a program effort has been accomplished. On the other hand, if substantially all of the compensation or fees were not based on amounts raised, the compensation criteria would be met. Our research study shows the compensation method does not determine whether a program was met in conjunction with a fund-raising appeal. Consequently, this test does not achieve the desired results of determining whether a program purpose has been serve in a multi-purpose campaign.

Assuming the compensation test were met, unless the Federation also met the "with/without" appeal and evaluation tests, all of the costs of the telemarketing campaign would be allocated to fund-raising. This accounting treatment would be required even though the Federation's program efforts were accomplished. We do not believe that any of these tests determine whether a program purpose was met. We believe that the exposure draft should retain the guidance in SOP 87-2, and use verifiable documentation as the primary test to determine whether a material or activity that includes a fund-raising appeal serves a program purpose.

The suggested test of conducting a similar activity without an appeal does not tell whether a program purpose was accomplished. Furthermore, such a test contradicts economic efficiency. Most friends and supporters of not-for-profit organizations want activities conducted in the most cost-effective manner possible not as duplicate activities. This belief directly leads to multi-purpose materials and activities.

Audience Criterion

The exposure draft tests for the audience criterion are defective. The tests require determination of a principal reason, rather than multiple reasons, for audience selection. Among the reasons given in the draft are (1) affinity, i.e. participation in programs of similar organizations; (2) consumer profile, i.e. interests related to the organization's program component of the activity; and (3) ability to participate, i.e. can respond to program related calls for action contained in the activity. The draft, then, might preclude an organization such as the Federation from qualifying under the audience criterion. How does one select an audience of actual or potential child abusers or neglecters?

Rather than trying to change the focus of the audience criterion, the exposure draft should require that the audience have a potential or demonstrated need for, or interest in, the program material or activity of the organization. For a program purpose, the audience must be one which can respond to a program-related call for action contained in the material or activity. For the Federation, for example, this would include parents, other relatives, friends, or any individuals with child caring responsibilities rather than some undefined group of "child abusers". These conditions would retain the action step for each purpose of the material or activity as found in SOP 87-2. The program purpose is substantiated by the call to action and the fund-raising purpose is substantiated by the request for funds.

Summary

While our research study demonstrates the program success of the Federation's telemarketing campaign, under different situations, the exposure draft may or may not require allocation of all of the campaign costs to fund-raising. Thus, you could have similar organizations having similar campaigns, but the allocation of the costs would be different. As a result, the financial reporting of organizations would not result in comparable information and would drastically distort the financial reporting for the organization required to report the costs as fund-raising, even when it is clear that program efforts have been accomplished. Reporting all of the costs as fund-raising would not only distort the financial statements but, it would cause organizations such as the Better Business Bureau and funding sources such as the United Way or contributors to be critical of the organization's financial ratios and exclude their participation in giving programs.

We believe the draft in its current form would result in misleading financial statements. It requires all costs of materials and activities to be reported as fund-raising, including costs otherwise clearly identifiable with programs, if its criteria are not met. As discussed above, many of these criteria are unrelated to determining whether program purposes are actually served. Thus, we do not believe the proposal would improve accounting practice.

Yours very truly,

James S. Cameron
Executive Director

JSC/420/la

SACRED HEART LEAGUE

Walls, Mississippi 38686

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07 January 1994

Mr. Joel Tanenbaum
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1211 Avenue of the Americas
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Comments on Exposure Draft Revision of SOP 87-2

Dear Mr. Tanenbaum:

The Sacred Heart League, a religious association of the Catholic Church, takes strongest exception to the Exposure Draft offered as a revision of SOP 87-2.

In the first place, we contend that absolutely no evidence has been presented that demonstrates widespread or significant abuse of SOP 87-2.

A rumor in the nonprofit community that has had a rather continuous circulation since the publishing of the Exposure Draft is that it was inspired by the dissatisfaction of the Executive Director of NCIB and several attorneys general. We cannot comprehend that their dissatisfaction would warrant such a sweeping overhaul of an SOP which serves many organizations (that are applying it diligently and sincerely) quite well.

It is said that there are over 1 million tax-exempt organizations in the United States, plus an additional, estimated 340,000 churches. And we know that 489,000 of those organizations filed annual information returns for 1992 with the IRS. The NCIB evaluates, perhaps, 500 charities and can supply less than 300 current reports to the public. This means that the NCIB (based on the 300 figure) is reporting on a mere six-ten-thousandth of one percent of the organizations that filed reports last year. That figure is a microcosmic portion of US charities and, even if viewed as a sampling, has no validity. It does not follow, then, that pronouncements by the NCIB should be taken by the AICPA as marching orders.

We are amazed that members of the AICPA Committee that produced the draft have variously said that there is not a huge amount of difference between the Exposure Draft and SOP 87-2. Our contention is that the Exposure Draft represents a vast and substantial departure from the principles of 87-2. However, purely technical comments are best left to professionals, and we subscribe to the extensive and detailed comments

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supplied to the AICPA by the Nonprofit Mailers Federation, Washington, DC, of which we are a member.

We contend that *purpose, audience*, and *content* criteria proposed in the Exposure Draft violate the First Amendment guarantee of separation of church and state. There is no exception provided in the Exposure Draft for bona fide religious organizations, and so we are compelled to draw this conclusion.

In the application of Exposure Draft criteria, it is of no consequence that:

- an organization has a Charter, By-Laws, a set of historically accurate minutes of the proceedings of an active, governing board of directors;
- that the organization is part and parcel of a legitimately established church;
- that the organization is meticulously and faithfully carrying out the mission and ministry prescribed by all of the above.

The Exposure Draft takes the heretofore inconceivable and unthinkable position that it can empower auditors to be the final arbiter of what is ministry (synonymous with "program" in the Draft) and what is not.

The Church -- and by this term I refer to all bodies of worship -- will doubtless be interested in knowing of the specific qualifications of the members of the AICPA committee which prepare them for the heady task of discerning degrees or levels of sincerity in prayer that elevate otherwise meaningless slogans to the lofty accounting realm of a "call to action" -- a qualifier for prayer if it is to be considered "program," i.e., in our term, ministry.

There exists no possibility whatever that the Church can stand still for any outside, secular group to dictate to it what is and what is not legitimate prayer and what can, therefore, or cannot be allocated to program, i.e. ministry.

There are two unmistakable biases in the Exposure Draft:

(1) disdain and scorn for the allocation of Joint Costs in a Multi-Purpose mailing, and

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(2) a basic and inescapable suspicion of organizations that claim to combine another function with fundraising appeals and a concomitant distrust of the idea that such a thing is possible.

The "audience criterion" is taken to a further and illogical extreme in the Draft. "If the audience is selected principally on its ability or likelihood to contribute," then the joint activity is judged not a joint activity and all costs are fundraising is implausible and extreme. Clearly, this is a "principle" that was devised to accomplish a particular end: to preclude the allocation of joint costs by forcing the determination that a mailing is purely fundraising

Do the framers of the draft not understand that in direct mail, donor-members communicate loudly and clearly in a multipurpose mailing through the fact of a gift or by the absence of one?

Donations themselves are not simply monetary transactions between a donor-member and an organization. Each one is a message of affirmation to the organization: *I like what you're doing; I approve of you; keep doing what you're doing; send me more of the same.*

To be instructed to ignore this important data is the equivalent of being told: don't think; don't use your head; don't utilize modern technology; don't employ statistical analysis to become more efficient; do broadsides; use shotgun approaches.

On one hand nonprofit organizations are being harped at continually: adopt modern business practice; come into the present age; be smart; be lean; be efficient. On the other hand this SOP is mandating that we not be efficient, that we waste resource, that we bother people by not giving any regard to their preference of program or ministry to support.

Is there any other business context in which this could be judged "good advice?" And, in the field of direct mail, it can only serve to drive into a dramatic, upward spiral the cost of fundraising in a multipurpose mailing. That is, I am convinced, the purpose of the test.

Moreover, how can any auditor make the judgment of whether an "audience" has been selected primarily on the basis of its ability or the likelihood that it will contribute?

Why would it be wrong for a religious organization to send a particular "program mailing" to its wealthiest donors? Holy Scripture abounds in warnings to the wealthy that they must be generous and sharing with their wealth. Why could not a religious organization claim that it had selected its wealthy donors "principally" because they, most of all, needed to hear the Gospel message? How could an auditor dispute that claim?

The late C. Wright Mills characterized the function of religion as "**explaining life in ultimate terms.**" There are scores of other explanations of the function of religion in our society, but this one holds up well, even under intense scrutiny. Is there even one person on any religious organization's file who does not need to understand "life in ultimate terms?"

If a religious organization is operating in a manner that is consistent with its parent church, its Charter, its By-Laws, and the directives of its Board and it states that a particular mailing is "program" (i.e., ministry), how can any auditor dispute that position?

This Draft seems both doubtful and dubious of the validity of any program or ministry conducted through Direct Mail, if there is any hint of fundraising.

In the Judaeo-Christian tradition, giving is not discretionary. It is obligatory. No sincere adherent can escape the necessity of giving: the Hebrew Scriptures and the New Testament are full of commands to give and to give generously without thought of self gain.

The Founder of Christianity himself speaks most forcefully of all about the requirement that his followers share their material possessions with those in need.

Giving money is at the heart of the scriptures. All Christian organizations are instructed to "Go into the whole world and preach the Gospel to every creature."

That one command calls into being a vast array of institutions and organizations and the absolute requirement for funds; otherwise carrying out that mission -- often called

"The Great Commission" has no possibility of success. So, like it or not--and a great many people don't--the raising of money will always be intimately connected with religion. The collection of money therefore looms larger than the mere act itself: religious groups are required to teach and encourage their constituencies in stewardship, and our co-religionists (as do we) have a strict obligation to be generous in giving.

This undeniable theological principle casts a very special slant on the whole matter of religious fundraising. Providing co-religionists with the scriptural and theological foundations for giving is an inherent part of the mission and ministry of every church or religious organization. This fact has specific implications for accounting practice in the field of religion; these implications need to be fully considered and accommodated in any accounting principles proffered to religious organizations.

Paragraph 27 instructs us that "If the audience for the materials or activities is selected principally on its ability or likelihood to contribute, the audience criterion is not met and all the costs of the activity should be charged to fund-raising." Paragraph 29 states that: "Many entities use list rentals and exchanges to reach new audiences. The source of such lists may indicate the purpose for which they are selected. For example, lists acquired from organizations with similar or related programs are more likely to meet the audience criterion than are lists based on consumer profiles."

But, wouldn't it also be true that "lists acquired from organizations with similar or related programs" would be "selected principally on its ability or likelihood to contribute"? Previously, this factor would cause us to fail the audience test. But, in the case of development of new donors, it would likely " . . . meet the audience criterion . . ." This is an example of the circular instructions that, in any case, would render this Draft impossible to discern and, therefore, to implement.

Our dismay and consternation concerning this Draft is double-barreled:

(1) The insensitivity of the committee that wrote the Draft to the special considerations that must attend any dealings with religious organizations;

(2) The responsibility the Draft places on accountants in the field for the implementation of the proposed principles.

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The latter is judged by an absolutely impossible task. Accountants are not trained as theologians nor professional church workers; they cannot and should not be either expected or allowed to make the myriad judgments about religious ministry and mission called for by this Draft.

Churches and religious organizations enjoy certain privileges and immunities in our society that perennially arouse envy and create suspicion in those less favored. Nevertheless and notwithstanding, the First Amendment puts religious freedom at the head of the list:

> *Congress shall make no law respecting an establishment of religion or prohibiting the free exercise thereof.*

The Reverend Dean Kelly, of the National Council of Churches, writes eloquently on the consequence of religion in our society:

"The reason that religion is entitled to special treatment is that it performs a special function in society--one that is of secular importance to everyone--and its special treatment is the best way to ensure that its special function is performed. The reason that religion is of secular importance to everyone, whether they happen to be current consumers of its themselves or not, is that its function is essential to the very survival of society, in which everyone has a stake.

"Having a survival-stake in the effective performance of the religious function, our society makes special provisions for the organizations undertaking to perform that function -- generally provisions that seek to avoid even the appearance of sponsorship, favoritism, entanglement, or duress. . .

"The best thing government can do to foster the fulfillment of the religious function, then, is to leave it alone--which is precisely the arrangement mandated by the First Amendment!

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"Under the First Amendment, they will enjoy a kind of extra territoriality that guarantees them the maximum chance of remaining as the last island of citizen initiative to countervail the powers and pretensions of government.

"We are fortunate to live in a society whose fundamental law has such a felicitous provision for the optimum condition for the flourishing of religion. Religious leaders should be less apologetic and defensive about this arrangement as though it were designed solely for their benefit.

"Instead, it is for the benefit of everyone, even of those who do not at the moment feel a need for organized religion themselves."

We strongly urge the Committee to devote its time and attention, with the input from experts and those organizations who fall within the purview of the SOP, to a thoughtful and reasoned revision of SOP 87-2 which will address legitimate, documented concerns about its efficaciousness and which will respect the special, Constitutionally-protected status of religion in our society.

Sincerely,

Roger Courts

Roger Courts
Director

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January 6, 1994

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Re: File 3605.JA (Accounting for Cost and Materials and Activities of Not for Profit Organizations and State and Local Government Entities that Include a Fund-raising Appeal)

Dear Mr. Tanenbaum:

Our CPA firm has been directly involved with several audits of not-for-profit organizations for over 35 years. Our firm would like to comment on the above referenced exposure draft since it affects clients that we deal with on a daily basis in trying to interpret SOP 87-2 and the proposed exposure draft amending SOP 87-2.

SOP 87-2 requires an auditor to make various judgmental estimates of an organization's ability to segregate joint cost allocations between fundraising, program, and management and general. I applaud the committee for trying to narrow that judgmental gap in SOP 87-2, but would caution the committee to take further time to study, and refine the judgmental estimating that an auditor must do in these circumstances.

My comments deal with joint allocation of materials and activities.

The first area I would like to discuss is the "purpose" issue. I believe the exposure draft should set acceptable guidelines for what the board of directors, its committees, and/or management's policies are in regard to the purpose that the organization is trying to accomplish through a bona fide public education program. It is my opinion, that it is the auditor's responsibility to monitor if management has complied with those board of directors' policies. The auditor should not be placed in the judgmental position of second guessing what the board of directors' purposes are in issuing joint materials and activities. The management should disclose what the board's policy on joint allocation is in the footnotes. Auditors are not in a qualified position to determine if the organization's purpose and programs meet the AICPA's committee's proposed standards as outlined. The First Amendment of the Constitution still protects freedom of speech and press.

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The second area I would like to address is the "audience". If the board of directors sets the audience it wants to target to accomplish its bona fide programs and/or the management and general component of any activity, it should have the ability to do so. An auditor should not necessarily be more informed of who the audience should be, than the organization's board of directors. The exposure draft should list more examples of what it considers appropriate audience examples. The exposure draft should use examples in T.V., direct mail, and telecommunications.

The last issue among the three tests I would like to address is the "content area". In the content area as the SOP is presently stated, you are putting an auditor in the position to judgmentally assess that he agrees with the stated purpose of the organization and the content of the materials that are mailed out. In some cases, this involves an auditor making his or her personal judgmental convictions if he or she agrees with the purpose of the organization to begin with. It would be very difficult for a devout Jew to audit a devout group of Catholics. The Jew would have to say he agrees with the Catholics' purpose and belief in Christ when he obviously doesn't. In my opinion, the content area of the exposure draft is extremely weak.

The examples given insinuate that volunteering is not a call to action because it supports the organization itself. Volunteering to me is the highest call of action since it involves human sacrifice, not just monetary action. If a person volunteers, he or she believes in the organization's purpose and content of its programs. If we were to follow your present position through as it stands currently in exposure draft, you are insinuating that volunteerism is like barter in exchange for a contribution and/or program expense. I do not believe that to be the case at all. SFAS #116 and SFAS #117 conflict with the accounting position as it refers to the call to action. Again, the committee is trying to define in broad general terms what is acceptable content.

The exposure draft will not solve the abuses in reporting that are in the non-profit community. The AICPA must exercise due diligence and sound judgment in trying to narrow the wide gap on the joint allocation issues. As a CPA for many years, I am disturbed that the organization that represents me and my fellow CPAs is listening more to self-serving organizations such as the NCIB and the American Institute of Philanthropy, whose small and insignificant organizations are trying to dictate policy and abuses to our national organization. Both of these institutions ignore and blatantly disregard generally accepted accounting rules. They say their standards are more precise than ours. I think it is time that the committee evaluates who it is listening to and what interests are served by those who are speaking loudly. I would be personally willing to attend committee hearings and give any direct communication with regard to my views on this subject.

Sincerely,

Thomas A. Christopher by C. Sims

Thomas A. Christopher, CPA

TAC/ka

C#75;taclet22.1 - .2

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AFRICAN WILDLIFE FOUNDATION
1717 Massachusetts Avenue, NW, Washington, DC 20036
Telephone: (202) 265-8394 Facsimile (202) 265-2361

January 7, 1994

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036

Ref: File 3605.J.A.
"Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund Raising Appeal"

Dear Mr. Tanenbaum:

I am writing to comment on the exposure draft referenced above. As the Controller of a not-for-profit organization that would be affected by a revision of the current accounting guidance on this topic, I wish to share the impact of the AICPA's proposals on my organization.

The African Wildlife Foundation's mission is to assist African Governments in conserving their natural resources through programs designed to provide aid to parks and reserves, maintain biological diversity and to educate the public on related issues. One method we employ in furthering our goals of educating the public on issues concerning Africa's natural resources is through informational mailings, the costs of which we allocate to program and fund-raising activities per SOP 87-2. Given that a recent survey conducted by an independent consultant found that a majority (77%) of AWF's members read AWF's mailings and that this is their <u>main</u> source of information on African wildlife issues, we have found informational mailings to be a powerful, cost-effective means of educating the public while concurrently raising funds.

My concerns regarding this exposure draft relate primarily to the content criteria outlined in paragraph 30. SOP 87-2 has been subject to fairly broad interpretation which has allowed consistent applications of the SOP to be applied to a variety of not-for-profits with varied agendas. I view the criteria in the exposure draft which requires that materials or activity call for specific action by the recipient to be extremely unfair to international organizations such as AWF.

This criteria insinuates that public education alone is not a valid programmatic function and thereby handicaps those entities who use informational mailings to educate the public but for which "calls to action" are inappropriate. For example, in the case of organizations such as AWF, "calls to action" could be interpreted as political intervention by the organization's host country and thereby impede that organization's ability to function in that country. Thus, in AWF's case, the costs of informational mailings would necessarily be classified as fund-raising according to the AICPA's proposed revision to SOP 87-2, though valid program activities were being conducted. Additionally, AWF's overhead rate would not be competitive with other not-for-profit's whose activities are more conducive to the "call to action" criteria.

In my opinion, this exposure draft does not give sufficient credit to the role of informational mailing in educating the public about important issues. It will therefore result in inconsistent financial statement presentation of programmatic and overhead costs among organizations based on the nature of their mission and the types of activities appropriate to carry out these missions. As the purpose of accounting guidance is to ensure accurate and consistent presentation of financial information, I would encourage the AICPA to reconsider their proposed guidelines on this aspect of the Exposure Draft.

I fully support the AICPA's efforts to ensure the fair presentation of the costs of materials and activities that include a fund-raising appeal. However, I do not believe the proposed criteria will result in a fair and consistent application among a diverse range of organizations.

I hope that you will consider these comments as you finalize the SOP and would appreciate information on its progression.

Sincerely yours,

Barbara DiPietro

Barbara DiPietro
Controller

COUNCIL OF BETTER BUSINESS BUREAUS, INC.
THE INTERNATIONAL ASSEMBLY OF BETTER BUSINESS BUREAUS

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VIA FACSIMILE AND EXPRESS MAIL
January 10, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft: Proposed Statement of Position
Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

The controversies surrounding "joint costs" have plagued charities and other not-for-profit organizations for decades but have reached a fever-pitch since the release and implementation of AICPA Statement of Position (SOP) 87-2. We applaud AICPA's efforts to address these concerns and appreciate the opportunity to comment on the Exposure Draft of this revision of the previous SOP on this matter.

Committee members are probably familiar with CBBB's Philanthropic Advisory Service (PAS) which reports on national charitable organizations that are the subject of recent inquiries to this office. Based on a review of materials provided by national charities including, but not limited to, audited financial statements, PAS determines if charities meet the 22 voluntary CBBB Standards for Charitable Solicitations (copy attached for your reference). The following reflects PAS' views in relation to our experience with charity audit reports.

Nature of Existing Concerns

Although there are many perspectives on the different types of concerns involving the allocation of joint costs, PAS views two major problems on this issue:

1. There are charitable organizations that allocate portions of their direct mail, telephone or other fund raising campaign expenses as "education" and/or "management and general" when, in fact, no education or management and general expenses should have been recognized.

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2. There are charitable organizations that have educational programs (as defined in SOP 87-2) carried out in conjunction with direct mail, telephone or other fund raising appeals. However, some exaggerate the portion that is claimed as "educational expenses" and/or "management and general" when these costs are recognized in their audit reports.

In our view, most of the other controversies over how to interpret or implement SOP 87-2 involve either one of the two issues listed above.

To a large extent this is the result of attempting to create an objective measure for a subjective question: when does an "educational" program activity take place?

The Extent of the Problem

Some have claimed that the concerns regarding joint-cost allocation are exaggerated or that no objective evidence has been provided to demonstrate the extent of the problems that exist.

During 1993, PAS completed a study of a sample of national charity audit reports in relation to the joint-cost issue. This was completed for purposes of PAS' own analysis and as part of a presentation at the AICPA's first Not-for-Profit Industry Conference.

A sample of 166 national charity audit reports were chosen. (They were the first 166 charities that responded to a survey PAS had distributed earlier in 1993.) The total income of this group ranged from $100,000 to over $100 million, with a median of about $10 million.

Forty-five percent (45%) of these charities (75 organizations) had a joint-cost note in their audit reports for the most recent fiscal year. About 12% of the 75 charities that had a joint-cost note reported the joint-cost program comprised more than half of their total program efforts in terms of expenses.

The bottom line is this: a significant portion of major national charities report "education" activities in conjunction with their fund-raising efforts. While some will disagree with monitoring organizations over whether these allocations were made appropriately, there does appear to be a larger portion of reported "education" activities that exist today as opposed to ten years ago. Given the variety of charities involved in joint-cost allocations, it is difficult to believe this is solely the result of an increased interest in educating the public in the past ten years.

In our view, the concern to reduce the perceived amount of charity resources that are devoted to fund raising has resulted in motivating some charities to manipulate the content of their financial statements.

Exposure Draft: Paragraph 28, Audience

Paragraph 28 states, "If the audience is selected principally based on its need for the program or because it can assist the entity in meeting its program goals other than by financial support provided to the entity, the audience criterion is met." In this instance, does the "financial support" include requests for donated goods or services to the charity? If so, this should be clearly indicated.

Exposure Draft: Paragraph 30, Content

This section certainly provides more specific definitions and examples than appeared in SOP 87-2 and should help clear up some of the confusion over what is acceptable content for purposes of allocation.

Given past experience, it would be beneficial for the AICPA to review the content of this section every few years to ensure that the educational definitions are in step with current accepted practice. For example, over time "action steps" can become accepted as "slogans" as they become part of common knowledge and cease to have their educational impact.

Exposure Draft: Sections 33-37, Allocation Methods

PAS believes that the "physical units" method of cost allocation be the required (or recommended) mechanism to allocate costs. This method allows users of the financial statements to compare appeal contents with the allocations claimed in the audit reports. As a result, the financial statements become more useful and relevant by confirming donor expectations. As noted in FASB Concepts Statement No. 2, the "usefulness of decision making" and "relevance" are primary factors in the "hierarchy of accounting qualities." As stated in section 47, Concepts No. 2:

> "To be relevant...accounting information must be capable of making a difference in a decision by helping users ...to confirm or correct expectations."

If the Committee decides to permit various allocation methods, it should restrict methods solely to those specified. Inviting alternatives will result in opening the door to further manipulation of the figures reported in the functional breakdown of expenses.

At a minimum, a charity should be required to use the same allocation method for similar joint costs and should justify frequent changes of allocation methods from one year to the next. This is similar to questions that would take place if a charity frequently changed its inventory valuation from LIFO to FIFO in an attempt to control the perceived financial position of the organization.

Also, the SOP should require the information called for in paragraph 36. If anything, more disclosure will help clear up some of the controversies and help users of the financial statements gain a better understanding of how these educational activities are carried out. The amount of joint costs for each activity should be disclosed.

Exposure Draft: Flow Chart, Appendix B

For clarity, we recommend that "yes" and "no" indications appear on each of the arrows to facilitate use and avoid confusion.

Again, we appreciate the opportunity to comment on this important issue. We hope the above is helpful.

Sincerely,

Bennett M. Weiner

Bennett M. Weiner
Vice President and Director
Philanthropic Advisory Service

Enclosure

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The COUNCIL of
BETTER BUSINESS
BUREAUS'

STANDARDS FOR CHARITABLE SOLICITATIONS

Published by
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Revised
Standards for Charitable Solicitations
January, 1982

Introduction

The Council of Better Business Bureaus promulgates these standards to promote ethical practices by philanthropic organizations. The Council of Better Business Bureaus believes that adherence to these standards by soliciting organizations will inspire public confidence, further the growth of public participation in philanthropy, and advance the objectives of responsible private initiative and self-regulation.

Both the public and soliciting organizations will benefit from voluntary disclosure of an organization's activities, finances, fund raising practices, and governance—information that donors and prospective donors will reasonably wish to consider.

These standards apply to publicly soliciting organizations that are tax exempt under section 501(c)(3) of the Internal Revenue Code, and to other organizations conducting charitable solicitations.

While the Council of Better Business Bureaus and its member Better Business Bureaus generally do not report on schools, colleges, or churches soliciting within their congregations, they encourage all soliciting organizations to adhere to these standards.

These standards were developed with professional and technical assistance from representatives of soliciting organizations, professional fund raising firms and associations, the accounting profession, corporate contributions officers, regulatory agencies, and the Better Business Bureau system. The Council of Better Business Bureaus is solely responsible for the contents of these standards.

For the Purposes of These Standards:

1. "Charitable solicitation" (or "solicitation") is any direct or indirect request for money, property, credit, volunteer service or other thing of value, to be given now or on a deferred basis, on the representation that it will be used for charitable, educational, religious, benevolent, patriotic, civic, or other philanthropic purposes. Solicitations include invitations to voting membership and appeals to voting members when a contribution is a principal requirement for membership.

2. "Soliciting organization" (or "organization") is any corporation, trust, group, partnership or individual engaged in a charitable solicitation; a "solicitor" is anyone engaged in a charitable solicitation.

3. The "public" includes individuals, groups, associations, corporations, foundations, institutions, and/or government agencies.

4. "Fund raising" includes a charitable solicitation; the activities, representations and materials which are an integral part of the planning, creation, production and communication of the solicitation; and the collection of the money, property, or other thing of value requested. Fund raising includes but is not limited to donor acquisition and renewal, development, fund or resource development, member or membership development, and contract or grant procurement.

Public Accountability

1. Soliciting organizations shall provide on request an annual report.

The annual report, an annually-updated written account, shall present the organization's purposes; descriptions of overall programs, activities and accomplishments; eligibility to receive deductible contributions; information about the governing body and structure; and information about financial activities and financial position.

2. Soliciting organizations shall provide on request complete annual financial statements.

The financial statements shall present the overall financial activities and financial position of the organization, shall be prepared in accordance with generally accepted accounting principles and reporting practices, and shall include the auditor's or treasurer's report, notes, and any supplementary schedules. When total annual income exceeds $100,000, the financial statements shall be audited in accordance with generally accepted auditing standards.

3. Soliciting organizations' financial statements shall present adequate information to serve as a basis for informed decisions.

Information needed as a basis for informed decisions generally includes but is not limited to: a) significant categories of contributions and other income; b) expenses reported in categories corresponding to the descriptions of major programs and activities contained in the annual report, solicitations, and other informational materials; c) a detailed schedule of expenses by natural classification (e.g., salaries, employee benefits, occupancy, postage, etc.), presenting the natural expenses incurred for each major program and supporting activity; d) accurate presentation of all fund raising and administrative costs; and e) when a significant activity combines fund raising and one or more other purposes (e.g., door-to-door canvassing combining fund raising and social advocacy, or television broadcasts combining fund raising and religious ministry, or a direct mail campaign combining fund raising and public education), the financial statements shall specify the total cost of the multi-purpose activity and the basis for allocating its costs.

4. Organizations receiving a substantial portion of their income through the fund raising activities of controlled or affiliated entities shall provide on request an accounting of all income received by and fund raising costs incurred by such entities.

Such entities include committees, branches or chapters which are controlled by or affiliated with the benefiting organization, and for which a primary activity is raising funds to support the programs of the benefiting organization.

Use of Funds

1. A reasonable percentage of total income from all sources shall be applied to programs and activities directly related to the purposes for which the organization exists.

2. A reasonable percentage of public contributions shall be applied to the programs and activities described in solicitations, in accordance with donor expectations.

3. Fund raising costs shall be reasonable.

4. Total fund raising and administrative costs shall be reasonable.

Reasonable use of funds requires that a) at least 50% of total income from all sources be spent on programs and activities directly related to the organization's purposes; b) at least 50% of public contributions be spent on the programs and activities described in solicitations, in accordance with donor expectations; c) fund raising costs not exceed 35% of related contributions; and d) total fund raising and administrative costs not exceed 50% of total income.

An organization which does not meet one or more of these percentage limitations may provide evidence to demonstrate that its use of funds is reasonable. The higher fund raising and administrative costs of a newly created organization, donor restrictions on the use of funds, exceptional bequests, a stigma associated with a cause, and environmental or political events beyond an organization's control are among the factors which may result in costs that are reasonable although they do not meet these percentage limitations.

5. Soliciting organizations shall substantiate on request their application of funds, in accordance with donor expectations, to the programs and activities described in solicitations.

6. Soliciting organizations shall establish and exercise adequate controls over disbursements.

Solicitations and Informational Materials

1. Solicitations and informational materials, distributed by any means, shall be accurate, truthful and not misleading, both in whole and in part.

2. Soliciting organizations shall substantiate on request that solicitations and informational materials, distributed by any means, are accurate, truthful and not misleading, in whole and in part.

3. Solicitations shall include a clear description of the programs and activities for which funds are requested.

Solicitations which describe an issue, problem, need or event, but which do not clearly describe the programs or activities for which funds are requested will not meet this standard. Solicitations in which time or space restrictions apply shall identify a source from which written information is available.

4. Direct contact solicitations, including personal and telephone appeals, shall identify a) the solicitor and his/her relationship to the benefiting organization, b) the benefiting organization or cause and c) the programs and activities for which funds are requested.

5. Solicitations in conjunction with the sale of goods, services or admissions shall identify at the point of solicitation a) the benefiting organization, b) a source from which written information is available and c) the actual or anticipated portion of the sales or admission price to benefit the charitable organization or cause.

(Over)

Fund Raising Practices

1. Soliciting organizations shall establish and exercise controls over fund raising activities conducted for their benefit by staff, volunteers, consultants, contractors, and controlled or affiliated entities, including commitment to writing of all fund raising contracts and agreements.

2. Soliciting organizations shall establish and exercise adequate controls over contributions.

3. Soliciting organizations shall honor donor requests for confidentiality and shall not publicize the identity of donors without prior written permission.

Donor requests for confidentiality include but are not limited to requests that one's name not be used, exchanged, rented or sold.

4. Fund raising shall be conducted without excessive pressure.

Excessive pressure in fund raising includes but is not limited to solicitations in the guise of invoices; harassment; intimidation or coercion, such as threats of public disclosure or economic retaliation; failure to inform recipients of unordered items that they are under no obligation to pay for or return them; and strongly emotional appeals which distort the organization's activities or beneficiaries.

Governance

1. Soliciting organizations shall have an adequate governing structure.

Soliciting organizations shall have and operate in accordance with governing instruments (charter, articles of incorporation, bylaws, etc.) which set forth the organization's basic goals and purposes, and which define the organizational structure. The governing instruments shall define the body having final responsibility for and authority over the organization's policies and programs (including authority to amend the governing instruments), as well as any subordinate bodies to which specific responsibilities may be delegated.

An organization's governing structure shall be inadequate if any policy-making decisions of the governing body (board) or committee of board members having interim policy-making authority (executive committee) are made by fewer than three persons.

2. Soliciting organizations shall have an active governing body.

An active governing body (board) exercises responsibility in establishing policies, retaining qualified executive leadership, and overseeing that leadership.

An active board meets formally at least three times annually, with meetings evenly spaced over the course of the year, and with a majority of the members in attendance (in person or by proxy) on average.

Because the public reasonably expects board members to participate personally in policy decisions, the governing body is not active, and a roster of board members may be misleading, if a majority of the board members attend no formal board meetings in person over the course of a year.

If the full board meets only once annually, there shall be at least two additional, evenly spaced meetings during the year of an executive committee of board members having interim policy-making authority, with a majority of its members present in person, on average.

3. Soliciting organizations shall have an independent governing body.

Organizations whose directly and/or indirectly compensated board members constitute more than one-fifth (20%) of the total voting membership of the board or of the executive committee will not meet this standard. (The ordained clergy of a publicly soliciting church, who serve as members of the church's policy-making governing body, are excepted from this 20% limitation, although they may be salaried by or receive support or sustenance from the church.)

Organizations engaged in transactions in which board members have material conflicting interests resulting from any relationship or business affiliation will not meet this standard.

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MASSACHUSETTS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS, Inc.
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January 10, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of CPA's
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Exposure Draft of Proposed Statement of Position "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund - Raising Appeal"

Dear Mr. Tanenbaum:

The Grantee and Not-for-Profit Committee of the Massachusetts Society of Certified Public Accountants consists of over forty members who are affiliated with public accounting firms of various sizes from the sole proprietor to the international "big six" firms, as well as members in both industry and academia. The Committee has reviewed and discussed the Exposure Draft of the Proposed Statement of Position " Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal". Below is a summary of the comments and suggestions of the Committee.

The Committee understands, and in many cases agrees with the underlying logic behind this Statement of Position. We understand the desire to increase confidence by users of financial statements and to prevent the abuses that have led the AICPA to reconsider Statement of Position 87-2. Nevertheless, it is the consensus of the Committee that the Exposure Draft is flawed and not only goes beyond SOP 87-2, but also the discredited "primary purpose" rule, which that SOP superseded. We further believe that the proposed Statement of Position is arbitrary and would lead to biased and misleading financial statements by requiring the misclassification of costs. It appears the Statement of Position was prepared in response to criticism by a few state attorneys general. It is critical that the AICPA, like the FASB, "...continue to strive for accounting that is evenhanded and, therefore, a faithful representation of the economic facts of a situation. To abandon neutrality would be unfair to those who use and depend on financial statements and would thrust the Board into a public policy making role, a role which we are not chartered or equipped to perform." (From FASB Status Report, October 18, 1993). In our view, not-for-profit organizations and users of their financial statements deserve the same neutrality from the AICPA concerning this Exposure Draft.

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With this in mind, we have addressed the following issues raised by your Committee:

1. Purpose criteria: Paragraph 22 of the Exposure Draft states that in determining whether a bona fide program or management and general function has been conducted, the purposes for conducting the activity must be considered.; However, the decision tree provided in the draft and its major tests to determine whether a program purpose has been met are not consistent with the guidance recently promulgated by FASB Statement No. 117. FASB No. 117, Financial Statements of Not-For-Profit Organizations, states: "program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes of the mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs." (par.27) The Exposure Draft doesn't establish tests which relate to this program definition. Instead, it injects a "compensation" test, a "substantial evaluation" test, and a "with/without" test. If the compensation and evaluation tests are not met, costs cannot be assigned and allocated to programs. Neither of these tests established whether or not a program purpose was served by a particular activity.

   In addition, FASB 117 provides latitude for organizations to define their programs. (par. 59) Organizations would be required to conduct an activity without a fund raising appeal, in order to conform to these arbitrary tests. The unintended result would be an economic burden on many organizations. Including a fund raising appeal in a program activity is often the most cost-effective way to fulfill both a program and a fund raising purpose.

2. Audience Criteria: The draft does not consider the situation where the principal reasons for the audience selection are both program and fund raising. Nor does it provide any criteria to deal with this common practice. Further, in an emerging field, the audience may not be clearly identifiable, and the program activity is to determine the extent of interest, or create awareness of a need for a particular program. Additionally, it seems the Committee wants to apply a "GAAP" test to management issues. If the audience isn't appropriate, (in the auditor's eyes), then the activity is not a bona fide program?

3. Content Criteria: This criteria of the Exposure Draft is unduly narrow. There are many instances when an activity will help accomplish an entity's mission, in addition to providing financial or other support to the organization itself. For example, an organization recruiting volunteers to perform a program activity should be able to classify "volunteer recruitment" as a program activity, not a fund raising cost. Classification as fund raising would result in biased and misleading financial statements.

In conclusion, we believe the Exposure Draft needs revision because it is biased. For example, the draft makes distinctions between how a consultant would be

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compensated for services rendered to the organization, and imposes a form over function test.

Application of the draft will result in misleading financial statements and further confuse users of financial statements by requiring all costs of materials and activities to be reported as fund raising, if its arbitrary criteria are not met. In some cases, use of the criteria is unrelated in determining whether programs or management and general purposes are actually served. For example, "pray for something" rather than "just pray" imposes an arbitrary standard of what is a program activity.

Imposition of a "form over function" standard will preclude comparability. The arbitrary nature of the tests will cause similar organizations to report similar transactions differently.

The Exposure Draft is inconsistent with FASB No. 117 as noted above. This draft will reclassify costs otherwise clearly identifiable as programs or management and general based on arbitrary criteria that are unrelated to program purposes as defined in FASB No. 117 definition of program purposes..

Our Committee appreciates the opportunity to have our views considered. We hope that our responses are helpful.

Very truly yours,

Toni A. Mansfield

Toni A. Mansfield, Chair
Grantee and Not-for-Profit Committee
of the Massachusetts Society of Certified
Public Accountants

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(83)

barat human services

WORKING TO END THE HURT 5250 John R • Detroit, MI 48202 • (313) 833-1525

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 J.A.
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum.

As a member of the National Association of Homes and Services for children, we are writing to express our concern over the above Statement of Position.

We are concerned that the AICPA proposal could have the effect of overstating fund-raising costs and understating program costs. This could have the effect of misleading potential donors of much-needed funds for child care.

We would like to outline the perceived flaws that the proposed statement of position has that need to be corrected:

1. Treating incidental program-related materials as fund raising costs is improper accounting. These costs should be allocated to program costs.

2. The purpose criteria would require seperate mailings to validate the purpose. This is not cost effective.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. If a statistically valid percentage of a population is selected as an audience, a multi-purpose should be validated.

4. The content criteria excludes slogans of any kind. Such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Dianne Bostic Robinson

Dianne Bostic Robinson
Executive Director

PLEASE NOTE:

An Annual Report was included with comment letter #84, Habitat for Humanity International, but it is not included in this mailing. Copies are available upon request.

Habitat for Humanity International

Building houses in partnership with God's people in need

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January 7, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Exposure Draft for a Revision of SOP 87-2

Dear Mr. Tanenbaum:

I am writing on behalf of Habitat for Humanity International ("Habitat"), an ecumenical Christian housing organization which builds low cost houses with those in need. Habitat is a publicly supported charity which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Habitat has affiliated chapters in approximately 1000 locations in the United States. I have enclosed a copy of our annual report which will give you more information about Habitat and its work.

The purpose of this letter is to respond to the Exposure Draft for the revision of SOP 87-2 (the "Exposure Draft"). Habitat applauds the AICPA's efforts to lend clarity to what has been an otherwise unclear area of non-profit accounting. We understand the need to correct abuses in this area. However, for the reasons set forth in this letter we believe that the proposed changes in the Exposure Draft should be modified because the proposed changes would not accurately allocate between administrative costs and program expenses the costs of materials which include a fundraising appeal.

SOP 87-2 provides that when a non-profit organization distributes informational material which also contains a fund-raising appeal, a portion of that material may be allocated to program costs and a portion to fundraising costs. The criteria used in determining whether the allocation shall be made include: (a) the purpose of the material, determined by the reason for its distribution; (b) the audience to whom it is addressed; and (c) its content. In making this determination, the principal focus has always been on the content of the materials being distributed and how it impacts the audience for the materials.

The Exposure Draft, however, seems to take a different approach. Instead of focusing on the material itself and its contribution to the success of the non-profit organization's work, the Exposure Draft tries to ascertain the motive of the organization in sending out the material. If the motive is deemed to be predominantly financial (i.e., fund raising), none of the costs of the material can be allocated to program services, even if legitimate program objectives are served by the materials.

The Exposure Draft also makes certain assumptions about motive. For example, if the non-profit organization uses a fund raising consultant who is compensated based on the

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amount raised to prepare its materials, the costs associated with such materials are more likely to be considered fundraising expenses than if they were prepared by a public relations firm. Apparently this applies even if the contents of the materials are the same in all respects. The Exposure Draft assumes that if the fund raising consultant prepares the materials, then the desire to raise funds has to be the controlling motive, regardless of the content of the materials. This point has no direct impact on Habitat, since we do not compensate our fund raising consultants based on the amount raised. However, this point indicates to us that the AICPA's approach fails to take into account how costly it is to do a purely program related mailing without including a fund raising appeal, which could require the involvement of a fund raising consultant.

In reality, organizations frequently have multiple motives in distributing informational material. Habitat is a good case in point. Habitat has a two part mission. The first is to build low cost housing with those in need. For this we need money. The second is to put shelter on the hearts and minds of the public. Our goal is to make inadequate shelter politically, socially, morally and religiously unacceptable. Habitat believes that, only by doing so, can the problems of homelessness and inadequate shelter be solved.

Therefore, our program is designed to raise people's awareness of the problems of inadequate shelter. We ask people to give more than their money. Habitat houses are built by volunteer labor, and we ask the public to volunteer at their local Habitat projects. We also have work camps whereby individuals can volunteer their time at Habitat projects around the country and in 40 countries overseas.

We also ask for prayer support. As a Christian organization, we disagree with the Exposure Draft's position that a general call for prayer support is not sufficiently program related. Habitat believes that this position comes from a failure to take into account the importance of religious principles in the work of many non-profit organizations. We believe that prayer is always at the heart of our mission and is fundamental to changing peoples' attitudes about those in need. Effecting incremental changes in attitude is more directly related to the second part of our mission than calls to pray for specific actions.

The Exposure Draft does not give fair credit to organizations, such as ourselves, that are trying to effect a change in grass roots opinions. Our work is long term and not easily quantified. However, we also know that we cannot solve the problem of inadequate housing without changing these attitudes. Any information that we put before the public serves our program goals. News articles, television stories, speeches at churches and before civic organizations, Habitat publications, mailings to the public and word of mouth are all means by which we accomplish our mission.

Obviously, our mailings have the additional purpose of raising funds for our work. However, just because the materials serve this additional purpose does not mean that there is no program related purpose and that none is intended. Because we are trying to change attitudes, Habitat takes very seriously the programmatic content of our direct mail materials. We do not view them as window dressing for our fund raising appeals. We strongly believe that the SOP must recognize the costs of the programmatic content of these types of mailings in the organization's financial statements.

Moreover, the fact that we use different media without fund raising appeals to further our mission should not obviate this result. Some media can accommodate dual messages better than others, and an organization should not be penalized for maximizing its resources.

We understand that the current SOP is subject to abuse. However, we believe that, in the alternative, the AICPA should consider using a percentage test to determine the amount properly allocated to program services. For example, the SOP could provide that only if more than 50% of a mailing is dedicated to programs would it be eligible for joint allocation. Alternatively, the SOP could provide that no more than a stated percentage (such as 25% or 33%) of a joint mailing's cost could be allocated to programming. For example, Habitat regularly allocates no more than 20% of the cost of its joint mailings to program services, and the amount so allocated is clearly identified in its financial statements. We support full disclosure of joint costs, the methodology used, and the resulting allocation percentages.

Additionally, the Exposure Draft's assumption that because we delete individuals from our mailing list because of a lack of response indicates that the program content of our materials is incidental. The Exposure Draft makes clear that a non-profit organization is entitled to send materials to sympathetic audiences and still have the material be considered program related.

The Exposure Draft uses the example of an animal rights group which mails to individuals who are already active in environmental issues. In effect the group can buy the donor list of another, related organization and still meet the audience test. However, the group could not cull its own list for potential donors and still meet the test. It seems inconsistent to allow a group to use lists which have been screened for potential donors by another organization, but it is not acceptable to mail to those who, by their response, have already indicated an interest in the organization's work. The Exposure Draft would have the unintended effect of requiring Habitat and other organizations to mail materials to people who have no interest in them, and diminishing the amount of funds available for other program activities.

I would like to add in closing that Habitat appreciates the AICPA's desire to provide more effective disclosure to the public and to provide guidance to non-profit organizations in this area. However, we view the Exposure Draft as too harsh an approach to the problem. It overcorrects. It is just as misleading to understate program expenditures than to overstate them. We ask that the SOP be modified to allow non-profit organizations to take into account the genuine program content of these mailings.

Very truly yours,

Regina M. Hopkins
General Counsel

Free Speech Coalition, Inc.

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McLean, Virginia 22102-3823
703/356-6912 (phone); 703/356-5085 (fax)

William J. Olson, Legal Counsel
Mark B. Weinberg, Legal Counsel

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January 7, 1994
FEDERAL EXPRESS

Mr. Joel Tannenbaum, Technical Manager
Accounting Standards Division (File 3605.JA)
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Division File 3605.JA; Comments of the Free Speech Coalition, Inc. in opposition to the Exposure Draft propounded by the Not-for-Profit Organizations Committee, Accounting Standards Division, American Institute of Certified Public Accountants

Dear Mr. Tannenbaum:

Enclosed are the Comments of the Free Speech Coalition, Inc., addressing the Exposure Draft circulated by the AICPA proposing modifications in accounting standards governing the allocation of joint costs of materials and activities of not-for-profit organizations that include a fund-raising appeal.

As you will see from the enclosed Comments, the Free Speech Coalition, Inc. and its members are unalterably opposed to the AICPA proposal and respectfully request that the Exposure Draft be withdrawn.

Please contact us if you need any further information or have any questions about the enclosed Comments. We would appreciate notice from you regarding any action that the AICPA plans to take regarding this subject.

Sincerely yours,

Mark B. Weinberg
Mark B. Weinberg
Counsel

William J. Olson
William J. Olson
Counsel

WJO:mm
Enclosure

Free Speech Coalition, Inc.

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William J. Olson, Legal Counsel
Mark B. Weinberg, Legal Counsel

COMMENTS OF THE FREE SPEECH COALITION, INC.
IN OPPOSITION TO THE EXPOSURE DRAFT
RELATING TO REVISION OF SOP 87-2
PROPOUNDED BY THE NOT-FOR-PROFIT
ORGANIZATIONS COMMITTEE, ACCOUNTING STANDARDS DIVISION,
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INTRODUCTION

The Free Speech Coalition, Inc. (FSC) is an alliance of liberal, conservative and non-ideological issue-activists who are particularly concerned with the preservation of the rights of nonprofit advocacy organizations. This diverse group, which came together in 1993, ranging ideologically from Gun Owners of America, Inc., to the Fund For A Feminist Majority, has felt compelled to band together to defend the interests of Americans who want to participate fully in the formation of public policy in this country without undue governmental interference and restriction.

The nonprofit organizations which are members of FSC obviously have a very strong interest in the Exposure Draft promulgated by the American Institute of Certified Public Accountants (AICPA). The Exposure Draft was apparently developed and written by the AICPA Not-for-Profit Organizations Committee, and was submitted for public comment. It is understood that all comments received by the AICPA on or before January 10, 1994, will be reviewed by the drafting committee to determine whether any revisions should be made to the draft before it is sent to the AICPA's Accounting Standards Executive Committee (AcSEC) for approval to issue a final Statement of Position (SOP).

Particularly because of the reliance by government at all levels on accounting principles in the administration of laws affecting nonprofit organizations, formal positions adopted by the leadership of the accounting profession have the secondary effect of changing government policy. Accordingly, any such changes must be made with great care and with a view to the constitutional rights of advocacy groups and other organizations to operate unimpeded by excessive governmental regulation.

At a briefing of the Free Speech Coalition, Inc. membership held on December 14, 1993, there was unanimous opposition to the Exposure Draft and it was agreed that the FSC would file these comments objecting to the proposed approach of the AICPA in the strongest possible terms.

For the reasons set out herein, FSC is very strongly opposed to the ideas and language of the Exposure Draft and respectfully requests that the Exposure Draft be withdrawn. If the AICPA believes that revisions can be made which would eliminate the objections advanced in these Comments, we would ask for an opportunity for FSC and others to review such revisions and to produce further comments before referral to any other committee for approval.

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The Exposure Draft, which is an effort to revolutionize the accounting rules relative to joint costs of nonprofit organizations involved in fundraising, arose from unknown origins. The result, however, is a set of proposed procedures which are inconsistent with the realities of accounting for nonprofit organizations, and particularly advocacy organizations. The procedures in the Exposure Draft would not allow accountants to accurately reflect the relative proportions of various activities for such organizations. The Exposure Draft purports to have been proposed because of an unknown number of complaints about, or some undemonstrated degree of dissatisfaction with, the current standards governing allocation of joint costs, which standards were adopted by the AICPA in 1987, and which are set forth in the AICPA's current SOP 87-2. Such reasons are not shared by the vast majority of nonprofit organizations, and do not justify the changes proposed in the Exposure Draft.

COMPARISON OF SOP 87-2 AND THE EXPOSURE DRAFT; THE PURPOSE OF THE EXPOSURE DRAFT

It is not clear from the Exposure Draft that a substantial change in the procedure dealing with accounting for joint costs is necessary or called for. As a justification for the change, the Exposure Draft states the following:

> 11. Some believe that the guidance in SOP 87-2 is inadequate to determine whether fund-raising appeals, such as those that also list the warning signs of a disease, are designed to motivate their audiences to action other than to provide support to the organization and whether appeals that merely repeat slogans are designed to help the entity attain its

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mission by educating the public in a meaningful manner. It is unclear what attributes the targeted audience should possess in order to conclude that an educational program function is being conducted.

12. SOP 87-2 has been difficult to implement and inconsistently applied in practice because of the following:

- The second sentence of paragraph 1 of SOP 87-2 states that "some of the costs incurred by such organizations are clearly identifiable with fund-raising, such as the cost of fund-raising consulting services." It is unclear whether activities that would otherwise be considered program activities may continue to be characterized as program activities if they are performed or overseen by professional fund-raisers. It is unclear whether activities would be reported differently (for example, program versus fund-raising) depending on whether the fund-raising consultant is compensated by a predetermined fee or by some other method, such as a percentage of funds raised.

- SOP 87-2 is unclear about whether allocation of costs to program expense is permitted if the activity for which the costs were incurred would not have been undertaken were the activity not intended to raise funds.

- SOP 87-2 defines joint costs through examples, and it is unclear what kinds of costs are covered by SOP 87-2.

- SOP 87-2 is unclear concerning whether salaries and indirect costs can be joint costs.

13. SOP 87-2 does not address the issue of how to allocate joint costs. Some believe that guidance should be provided on the subject, possibly through illustrations of the use of acceptable allocation methods. (Emphasis supplied in paragraphs 11 through 13 above, and not in original.)

The above-quoted paragraphs contain the entire explanation of the articulated reasons for advancing the Exposure Draft. There is no discussion about whether such beliefs and alleged lack of clarity are based upon fact, or who shares them, and there is no discussion about possible alternatives to the approach taken in the Exposure Draft.

If there were inadequacies in SOP 87-2 which warrant changes, these have not been identified clearly nor dealt with in a proper manner by the Exposure Draft. Indeed, the Exposure Draft in some ways would revolutionize the ~~procedures for~~ allocating joint costs, and would subvert the intent of SOP 87-2 and its predecessor guidelines. Currently, these joint costs of nonprofits are allocated to three categories: (1) program; (2) management and general; and (3) fund-raising. The basis for the allocation is the use made of the material for which the expenditure is made. The criteria for determining such use are: (1) content; (2) audience; and (3) reasons.

Essentially, SOP 87-2 properly relies on the judgment of the certified public accountant to apply the criteria in a professional manner and determine whether the criteria have been met, and the extent to which costs should have been allocated to one function or another. This vital element of professional judgment is completely missing from the standards laid out in the Exposure Draft. Indeed, one could say that the primary difference between SOP 87-2 and the Exposure Draft is the abandonment of professional judgment in the latter, to be substituted by the laying down of very arbitrary rules which effectively define away the existence of joint costs by determining almost all of them to be fund-raising costs. In effect, the Exposure Draft would eliminate allocation of joint costs as a viable accounting practice regarding most realistic activities of nonprofit organizations in which fund-raising plays any role. Rather than providing clarity, the proposed rules would create enormous inaccuracies in the proper allocation of costs.

Why such a dramatic -- indeed, revolutionary -- change? Although the Exposure Draft makes no mention of any factors other than the generalities already mentioned above (e.g., "some believe...") there are reports of criticisms that certain accountants for nonprofit organizations have too liberally allocated joint costs to program expenses (as opposed to fund-raising), particularly with respect to joint costs incurred for public education and fund-raising. Even if true, however, SOP 87-2 must not be blamed for alleged professional errors of judgment in misapplying the standards it establishes. By proposing to virtually abandon allocation of joint costs where fund-raising is one of the functions, the Exposure Draft abandons precedent and common sense. In the guise of providing better guidance with respect to the allocation of joint costs, the Exposure Draft effectively abandons the very principle of allocation.

It is not the function of these comments to suggest how SOP 87-2 possibly could be improved. It is important to note, however, that the Exposure Draft does not provide for improvement. We believe that there is a serious question about whether, or the extent to which, SOP 87-2 needs improvement, but what is certain is that it is not in need of the wholesale revision embodied in the Exposure Draft. By virtually eliminating joint allocation of costs where the fund-raising function is served along with some other function, the Exposure Draft truly threatens to throw the baby out with the bath water.

Instead of focusing on constructive ways of clarifying the principles embodied in SOP 87-2 and providing additional guidance to those involved in the allocation of joint costs, the Exposure Draft essentially rules out the possibility of allocation in most instances of joint activities where fundraising has a role, and, by so doing, would work against the accuracy of financial statements and would lead to distortions in such statements. Such an approach seems contrary to the very principles for which the AICPA purportedly stands.

SPECIFIC PROBLEMS WITH THE EXPOSURE DRAFT

In General

There are several serious problems with various specific statements contained in the Exposure Draft, and these Comments attempt to highlight them briefly below. Before delving into each specific area of concern, however, we would like to underscore the basic fallacy of the Exposure Draft. That fundamental mistake can be described as a stance that the important accounting principle of allocation embodied in SOP 87-2 (toward which lip service only is paid in the Exposure Draft) can best be served by establishing a system of absolutes, whereby legitimate accounting allocations are arbitrarily prohibited under certain conditions. For example, under the proposed Exposure Draft, there can be no allocation to any function other than fund-raising if "substantially all compensation or fees for performing the activity are based on amounts raised." Similarly, all costs of a joint activity must be charged to fund-raising if the audience is selected principally on its ability or likelihood to contribute. This system of absolutes would cause gross distortions in the financial statements of many nonprofit organizations. This simplistic approach is not related to the reality of how nonprofits operate, and is an inappropriate way of bringing about improvement.

Structurally, and perhaps upon superficial review, the Exposure Draft may appear to be more sound than it really is. First of all, it is based upon a debatable and disputed presumption ("all costs of materials and activities that include a fund-raising appeal should be reported as fund-raising costs, including costs that are otherwise clearly identifiable with program or management and general functions ...," ED para. 19), which seems directly contradictory to the general premise of SOP 87-2. This presumption was apparently adopted for "practical reasons" (ED, para. 41), which translates into a suspicion that proper rules of allocation will not be followed by some organizations. This, in our opinion, is an unsound basis upon which to build important guidelines. It invites distortion. Nevertheless, both SOP 87-2 and the Exposure Draft require a showing that the program (or management and general) function has been conducted in conjunction with the fund-raising appeal. The primary difference is that SOP 87-2 establishes guidelines to help determine how joint costs should be allocated; the Exposure Draft announces arbitrary and inflexible rules eliminating most cases where costs may be allocated.

Internal Inconsistency

The Exposure Draft begins by setting forth principles that are later abandoned. For example, in paragraph 19, it is stated that, if a bona fide program (or management and general) activity has been conducted in conjunction with an appeal for funds, costs "clearly identifiable with a particular cost objective should be charged to that cost objective and joint costs should be allocated between fund-raising and the appropriate program or management and general function."

That general "clearly identifiable" rule is later rescinded, however, for there are a number of other, more specific rules that render the general "clearly identifiable" principle meaningless.

It is not enough to say that an activity cannot be considered a bona fide program (or management and general) function unless three criteria are met (ED, para. 20), if the criteria, as applied, essentially negative the normal, as well as the historical, meaning of the phrase "bona fide program function." That is precisely what the Exposure Draft does by insisting upon a rigid application of all three performance criteria -- purpose, audience, and content -- and prohibiting any allocation of costs (other than to fund-raising) if any one of the three criteria is not satisfied in full.

Specific Criteria

As mentioned above, the Exposure Draft would establish three rigid categories of tests, labeled "criteria," that establish whether or not a particular activity is a "bona fide" program (or management and general) function. In addition to the general, overriding problem regarding the application of these criteria, as already discussed above, several of the criteria themselves appear to be invalid measures for determining whether a particular activity is a "bona fide" program (or management and general) function. We would point out the following comments and difficulties with some of the tests established by the Exposure Draft.

- Purpose Criteria

1. We would agree that, in determining whether a bona fide program (or management and general) function has been conducted, the purpose for conducting the activity must be considered (ED, para. 22).

2. We would not agree that the purpose criterion should be considered as automatically not met "if substantially all compensation or fees for performing the activity are based on amounts raised," or "if the performance of the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds." (ED, para. 22). Assuming that

such considerations are even relevant in determining whether the activity is designed to promote the organization's "purpose" -- and we would submit that they are not relevant -- they should be, at most, mere considerations in making a determination of whether the "purpose" criterion has been met.

The compensation test and the evaluation test embodied in paragraph 23 of the Exposure Draft would prohibit proper allocation of joint costs, and would compel charging all costs to fund-raising, without regard to whether an activity meets a program purpose.

3. We would agree that other considerations, some of which are listed in paragraphs 24 through 26 of the Exposure Draft, may be relevant in arriving at a determination that the purpose criterion has been met, but these paragraphs are inadequate and are difficult to evaluate because of their interface with paragraph 23, discussed above. For example, although paragraph 25 is intended to indicate certain positive conditions under which the purpose criterion will be deemed to have been met, we would not agree that this "similar program without an appeal" test should be a valid measure of the purpose criterion. Suffice it to say that several statements in these paragraphs, by suggesting that the purpose criterion may be met upon due consideration of a number of factors relevant to the organization's purpose (e.g., the organization's mission, minutes of meetings, long-range plans), are on the right track.

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Nevertheless, in their present form, paragraphs 24-26 are deficient.

- <u>Audience Criteria</u>

1. We would disagree with the language, intent, and concept of paragraph 27, for the reasons already stated above. Although audience selection may be a valid consideration in determining whether an activity is a bona fide program function, it is not logical or valid to rule out partial cost allocation to program simply because the ability of the audience to contribute was a significant factor in selecting the audience. In addition to problems inherent in applying a bright line test based upon a determination of "principal purpose," the audience test proposed in paragraph 27 of the Exposure Draft is deficient because the test by itself is not a proper measure of whether the activity serves a bona fide program function. Obviously, an audience can be selected for both its likelihood to contribute and for its need for the program (and/or its ability to assist the entity in meeting its program goals other than by providing financial support). To disqualify costs from being otherwise properly allocated solely because the audience is considered likely to contribute to the entity would be illogical and, it is submitted, would result in gross distortions of the financial statements of many nonprofit organizations. Indeed, some messages are more relevant to higher-income donors than lower-income donors.

2. We would disagree, of course, with paragraphs 28 and 29 of the Exposure Draft, which simply promote the fallacious

approach embodied in paragraph 27. Clearly, each of the examples of "targeted audiences" listed in paragraph 28, in illustrating what would not meet the audience criterion as espoused in the Exposure Draft, underscores the fundamental error in the Exposure Draft's approach. We could postulate situations which would render the final sentence of each example (indicating that an appeal to a particular segment of the population would not meet the audience criterion) absurd. A joint program/fundraising activity can be directed to a particular segment of the population which is not normally affected by the nonprofit organization's activities, but which, because of the particular purpose or call to action embodied in that program activity, would indeed be directly affected. These are not situations given to absolute rules or prohibitions. Surely, for example, the costs of appealing to a broad segment of the population regarding a condition -- such as a health condition -- <u>directly</u> affecting only a small segment of the population, but <u>indirectly</u> affecting large segments (<u>e.g.</u>, families, friends, employers, health care providers, taxpayers) of the population should not be disqualified. The Exposure Draft's approach is clearly misguided.

3. For similar reasons, some of the conclusions in paragraph 29 cannot withstand logical scrutiny, but at least paragraph 29 uses less absolute terms (<u>e.g.</u>, "likely," "likely not," "may indicate," "more likely to meet the audience criterion").

- <u>Content Criteria</u>

1. The content criteria appear to be the least objectionable of the "criteria rules" announced in the Exposure Draft, but they are nevertheless objectionable for the reasons stated. They are part of a system of absolutes that is not appropriate for the determinations involved in the allocation of joint costs.

2. Although paragraphs 30 and 31 of the Exposure Draft would impose absolute conditions, the standards for measuring bona fide program (or management and general) activity are relatively broad. The general language purporting to lay down broad standards appears to be reasonable, but when those guidelines depart from general rules and set out absolutes (<u>e.g.</u>, "merely providing a slogan is not sufficient"; "a general call to protest against something is too vague to satisfy the criterion of <u>action</u>"; "a general call to prayer is too vague to satisfy the criterion of <u>action</u>") they reveal themselves to be unworkable, misdirected standards. We would agree, for example, with the observation (ED, para. 31, footnote 6) that some educational messages "have an implied message to motivate the audience to action other than by providing financial support to the organization." Nevertheless, the message contained in that observation seems at odds with the attitude permeating the Exposure Draft, including several specific statements, which clearly would eliminate the power to make the judgment that footnote 6 implies could be made.

- <u>Incidental Costs</u>

At paragraph 32 of the Exposure Draft, it is observed that, in situations where fund-raising activities are held in conjunction with program (or management and general) activities, and the latter are incidental to the fund-raising activities, "it is unlikely that the conditions required by this SOP to permit allocation of joint costs would be met." It appears that this actually would be the result under the Exposure Draft, and, we believe, that fact underscores a fundamental defect in the Exposure Draft. This illustrates an internal inconsistency within the Exposure Draft itself, where it is stated, for example, that the "allocation of joint costs should be based on the degree to which the cost element was incurred for the benefit of the activity" undertaken (ED, para. 33). Again, some of the general principles espoused in the Exposure Draft (<u>e.g.</u>, para. 33) seem to fall by the wayside when contrasted with the specifics of the proposal, and these inconsistencies themselves militate against adopting such an approach.

- <u>Illustrations</u>

In general, the illustrations set forth in the Exposure Draft comport with the announced guidelines and, of course, consistent with the comments set forth above, some of those illustrations should reveal some to the weaknesses and fundamental flaws of the Exposure Draft. For example, Illustration 2 rejects the notion that there can be more than one significant reason for adding names to or deleting names from a mailing list. Such an arbitrary position cannot help but result in error and misleading statements. Similarly, despite the ambiguity of its conclusion ("criterion of audience would generally not be met"), Illustration 4 puts too much emphasis on a single factor in rejecting the notion of allocation where fund-raising is clearly a purpose of the appeal. Perhaps Illustration 6, by rejecting the possibility of allocation where a fund-raising consultant (who is paid based upon a percentage of funds raised) is used, demonstrates best the arbitrary nature of the methodology set forth in the Exposure Draft. What is the purpose of such a rule? In what way should accounting standards be dictating such decisions by nonprofits? Why would such a rule better reflect truly allocable costs? These questions have an obvious answer, and such arbitrary rules seemingly designed to achieve the non-accounting, policy objectives of its authors, have no place in the AICPA's standards for allocation of joint costs.

CONCLUSION

The Free Speech Coalition, Inc. respectfully submits that the approach taken by the Exposure Draft to clarify the principles set forth in SOP 87-2 and to give further needed guidance in the area of allocation of joint costs is misguided, and that the Exposure Draft should be withdrawn in full. If necessary, the task of providing further guidance in that area should be started afresh, with due consideration for an approach that, like the present system, does not embody an "all or nothing" attitude in making a determination of whether a particular activity is a "bona fide" program (or management and general) function. Any such new approach must not manipulate the rules of accounting so as to make organizations which incur substantial joint costs (such as through which make significant use of multi-purpose direct mail) artificially appear to be expending more on fund-raising than they actually are.

Respectfully submitted,

Mark B Weinberg WJO
Mark B. Weinberg
Counsel

William J. Olson
William J. Olson
Counsel

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January 6, 1994

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: File 3605 J.A. "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal."

Dear Mr. Tanenbaum:

This letter is in response to the above referenced Exposure Draft. Citizens United is a grassroots organization. We communicate with the public through a variety of media, including but not limited to a daily radio talk show, two monthly newsletters, petition drives and educational mailings. To minimize our expenses, we use multipurpose mailings as a cost effective means to accomplish our mission statement, educate the public, conduct our programs, and raise the necessary funds to support them. The proposed standard would require that we report all costs related to these multipurpose mailings as fundraising costs, even though they clearly contain program expenses.

I would like to address each of the three criteria of the Exposure Draft by applying the proposed standard to one of the many media used by our organization --direct mail. I will illustrate how applying the proposed standard would negatively impact the reader's perception of our grassroots organization when reviewing our financial statements.

In 1990, Citizens United initiated a campaign against DC Statehood by launching a nationwide petition drive. Since the inception of the campaign, we have collected and delivered over 1,000,000 signed petitions against DC Statehood from citizens across the nation. The most recent delivery was made directly to Representative Dana Rohrabacher on the week the vote on D.C. Statehood came before the United States House of Representatives. Another facet of our effort was a "Letter to the Editor" campaign. We

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sent sample letters opposing statehood to our members, encouraging them to send the letters to their local papers. This program was successful in the printing of thousands of anti-D.C. Statehood letters in papers across the country. Efforts of this magnitude, such as the petition drive and "Letters to the Editor" campaign are accomplishments within the realm of our mission statement, and most of the expenses related to them should be classified as program expenses.

However, had we applied the rigid criteria of the proposed standard to the costs associated with these campaigns, we would have been required to classify all of the costs as fundraising rather than program-related expenses because the multi-purpose mailings have also contained a fundraising element.

Further, the audience criteria would mandate that the entire cost of this petition drive be allocated as a fundraising expense because it was sent to donors as well as non donors.

As a not-for-profit grassroots organization, it is essential for us to use the most cost effective method for all of our projects. It is not feasible for an organization of our size, without the large contributions that many other organizations receive, to afford the luxury of directing our mailings and programs to every United States Citizen. It is for this reason that we would not meet the with/without appeal test under the purpose criteria.

Our organization also has two monthly newsletters. Both newsletters contain important information and enable us to carry out our program. But again, due to the fact that we are a grassroots organization, we must be sure that we are cost efficient. Therefore, we provide our supporters with an opportunity to send additional financial support in every newsletter. According to your standards, because of the nature of the people to whom we send these newsletters, and because they contain a fundraising appeal, their entire cost would be considered a fundraising expense. These newsletters and the petition drive perhaps best illustrate cases in which your criteria precludes program expenses from being classified as program.

Even though the petition drives and newsletters would meet the content criteria because they are educational and are a call to action, the first two criteria discussed above would preclude it from being considered a project with any expenses allocable to program.

Although the intent of the Exposure Draft may be to avoid inconsistency in allocation of program expenses, in reality it would almost eliminate program expenses for many grassroots organizations who must communicate their mission through the mail, while at the same time, asking for assistance in order to continue fulfilling their mission.

The Exposure Draft also asks accountants to make subjective guesses about management's intentions in making decisions. Instead, efforts should be directed toward a more objective evaluation of the content and purpose of particular programs.

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One of the goals of the AICPA is to avoid the presentation of misleading financial information. This Exposure Draft would force grassroots organizations like ours to classify the majority of their program expenses as fundraising. This would mislead the reader of the financial statements by giving him/her the impression that a particular organization spends the majority of its efforts on fundraising when, in fact, this is quite possibly not the case.

The AICPA has stated that the content of the Exposure Draft is a reaction to criticism of current practices. The AICPA should direct its efforts toward refining SOP 87-2 rather than creating arbitrary and subjective standards which would ultimately result in misleading financial information.

We would appreciate your keeping us informed of the status of this Exposure Draft. Thank you for your time and attention.

Sincerely,

Vicki L. Abbott

Vicki L. Abbott
Controller

cc: Bill Olson, Free Speech Coalition
Mr. Lee Cassidy, Non Profit Mailers Federation
NonProfit Times

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MADD®

Mothers Against Drunk Driving

511 E. John Carpenter Frwy., Suite 700 • Irving, Texas 75062-8187 • Telephone (214) 744-MADD • FAX (214) 869-2206/2207
NATIONAL OFFICE

January 7, 1994

Mr. Joel Tanenbaum, Technical Manager
AICPA - Accounting Standards Division
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605 J.A.

Dear Mr. Tanenbaum:

As the National Executive Director of Mothers Against Drunk Driving (MADD), I have an obligation to our organization, to the millions of people who have been victimized by drunk driving, and to the thousands of volunteers and contributors who have helped us implement our programs, to comment on the AICPA exposure draft to revise Statement of Position (SOP) 87-2. We appreciate the efforts of the AICPA to develop accounting principles that will ensure full and fair financial reporting. We also appreciate the opportunity to comment on the exposure draft.

MADD is a national, not-for-profit organization whose mission is to stop drunk driving and to aid and support the victims of this violent crime. Chapters and state organizations throughout the country operate under the auspices of MADD, which provides national programs and technical and administrative support to these community based groups.

We believe that SOP 87-2, the current guidance to help us account for our telemarketing and direct mail materials and activities that include a fund-raising appeal, can be improved. Indeed, our accounting staff has spent many hours working with our independent auditors to ensure that our financial statements fairly present the expenses of community service programs, management and general activities, and fund raising efforts of direct mail and telemarketing campaigns utilizing SOP 87-2. However, our review of the proposed revision to SOP 87-2 found some very troubling issues. Therefore, we do not believe that the exposure draft, in its present form, represents an improvement to SOP 87-2.

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The exposure draft indicates that the costs of all materials and activities that include a fund raising appeal should be reported as fund raising costs, including costs that are otherwise clearly identifiable with program or management and general functions, unless a bona fide program or management and general function has been conducted. In order to conclude that one of these functions has been conducted, the purpose, audience, and content criteria in the draft must be met.

We have the following major concerns with the exposure draft.

- The purpose criterion cannot tell us how we would pass, only how we would fail.

- The audience criterion requires us to determine the principal reason for selecting the audiences for our campaigns. However, we disseminate our multiple purpose materials to people who are potential victims, violators, voters, volunteers and donors. The exposure draft does not provide guidance for us to determine which is the principal reason.

- The draft statement that a slogan is not a sufficient call to action is unjustified. The proposed guidance to tell us what does qualify as a call to action is inadequate, conflicting and confusing.

- The content criterion provides us inadequate and conflicting guidance to distinguish between program and fund raising content.

- The draft criteria do not establish whether program purposes are met. Therefore, requiring all costs of materials and activities, including program costs, to be reported as fund raising if the criteria are not met would be false and misleading financial reporting.

- Because we use multi-purpose telemarketing and direct mail campaigns, the exposure draft would impose significant costs on us to determine compliance with its provisions. The proposal could also damage the credibility of all not-for-profit organizations.

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MADD's Mission and Program Structure

To provide a basis to understand our concern with the exposure draft, it is important to understand our mission and how we meet that mission through our program structure. Our mission is to put a halt to impaired driving and to assist victims of this senseless crime and their families.

MADD relies on its local community structure as the most effective means to deliver many of our programs to assist victims and change drunk driving laws. To support this structure, MADD utilizes third parties to conduct multi-purpose telemarketing and direct mail activities to deliver educational materials to the public regarding the problems of drunk driving, to request participation and involvement in our community programs, and to request contributions.

Our community programs consist of a variety of activities to promote greater awareness among youth and the general public of the problems of drunk driving, to mobilize the community to eliminate this problem through legislation and increased law enforcement, and to provide emotional support to victims and their families.

MADD utilizes professionally conducted multi-purpose telemarketing and direct mail campaigns because they are effective in delivering many of our educational materials and obtaining audience participation and involvement to achieve our mission. Research has shown that these multi-faceted campaigns are much more effective than are single purpose campaigns to increase public awareness. Further, increasing awareness alone is not sufficient. Campaigns must combine awareness with specific actions that individuals can take.

Research has also found that donated campaigns and public service announcements are not as effective in increasing public awareness as are targeted, professionally conducted campaigns. One-time campaigns are not effective; ongoing, repetitive campaigns are necessary. Finally, interpersonal communications in these campaigns are more effective than a strictly mass-media approach. We believe that the exposure draft fails to recognize both the operational aspects of informational materials and activities and their effectiveness in changing public attitudes and behavior.

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Over the past several years, MADD has seen the positive effects of telemarketing and direct mail campaigns across its program structure. In addition to generating contributions to support our operations, these campaigns have led to public awareness and education results such as the following:

- Thousands of people contacted in our Project Red Ribbon campaign have responded with display of ribbons on their vehicles to increase awareness of drunk driving problems during the holiday season and throughout the year.

- Our Poster Essay contest has seen an increase from 150 entries in 1985 to over 75,000 entries in 1992.

- Thousands of people contacted have requested and received copies of our *Let Them Live* book about the problems of underage drinking.

- In response to requests generated by telemarketing and direct mail contacts, we distributed over 30,000 Operation Project Prom/Graduation Guides last year and a similar number of parent guides.

In response to our efforts to mobilize the community to support legislation and increased law enforcement through telemarketing and direct mail campaigns, we have seen an increase from 4 to 10 states with legislation establishing .08 blood alcohol content as the legal limit and 23 other states introducing such legislation. We have seen increased public support for sobriety checkpoints.

In response to our calls to individuals urging support of legislation concerning underage drinking problems, 7 states have lowered the blood alcohol content for persons under 21 and 9 other states have introduced such legislation. Eight states have passed "use and lose" laws for minors convicted of drunk driving.

MADD is the organization most frequently recognized as working to stop drunk driving. A Gallup poll conducted in 1991 found MADD cited by 71 percent of all respondents as an organization working to stop drunk driving. Of these respondents, over 96 percent said MADD was effective in trying to curb drunk driving.

In response to increased awareness about victims of drunk driving through our telemarketing and direct mail campaigns, we filled nearly 100,000 requests for our victim rights and assistance brochures. Our calls for volunteers to aid our chapters through our direct mail and telemarketing campaigns have resulted in nearly 200,000 inquiries about volunteering. These inquiries are forwarded to the appropriate states and chapters for action to reach these individuals.

Purpose Criterion

Our concern with the program purpose criterion is that the draft would not have us initially consider our programs. Instead we would first have to consider a compensation condition. The draft states the purpose criterion is not met and allocation is prohibited if substantially all compensation or fees for performing the activity are based on amounts raised. MADD does not compensate anyone on this basis and does not endorse this compensation method. However, the method utilized by a not-for-profit organization to compensate a party, internal or external to the organization, for conducting an activity does not establish whether a program purpose was met.

Next, under the draft we would have to consider an evaluation condition, but not of our programs. The draft states if the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met. MADD, and every other not-for-profit organization that takes its stewardship responsibility seriously, would evaluate a party performing fund raising on fund raising effectiveness. MADD evaluates the party performing a multi-purpose activity on the effectiveness in meeting all the objectives of the activity. We do not understand why only the fund raising effectiveness is considered.

As the results above indicate, we evaluate the effectiveness of our materials and activities in meeting our program purposes. However, the draft has no provision that indicates we have definitely met the purpose criterion as a result. According to the draft, our evaluation of our programs would indicate at best that a program purpose may be met.

We also do not understand how we are to determine whether we have "substantially" evaluated the activity. Would this require a quantitative or qualitative approach or both?

The only way we can definitely establish that we meet the draft program purpose criterion is to conduct the same activities in the same media without fund raising appeals on a scale greater than or equal to the activities that include a fund raising appeal. Frankly, we cannot afford to do this. What organizations can?

MADD's direct mail and telecommunications campaigns have played, and will continue to play, a major role in changing society's attitudes and behavior concerning drinking and driving. These campaigns have not only provided funding to support our operation, but they also have clearly initiated many actions that aid us in achieving our mission to stop drunk driving.

MADD urges people contacted to take specific actions such as designate a driver, participate in our red ribbon awareness campaign, interact with public officials, and help us by volunteering as a court monitor or chapter activist. Each of these actions can be taken whether the individual contacted provides a donation or not. Reaching people by phone and by mail has enabled MADD to communicate one-to-one to implement its programs on a number of fronts to attack drunk driving. However, the proposed guidance can not tell us for sure if our programs meet the rules - only if they do not.

Therefore, we do not believe the draft guidance concerning the purpose criterion improves SOP 87-2. None of the conditions of this criterion actually establishes that a program purpose is met by an activity or a direct mail package. We believe the purpose criterion should establish that the organization designed the activity to meet a program purpose and has evidence to substantiate it.

Audience Criterion

The draft audience criterion indicates that if the reason we selected the audience for our direct mail and telemarketing activities was principally on its ability or likelihood to contribute, then we fail the audience criterion. However, if we selected the audience principally based on its need for the program or because it can assist us in meeting our program goals other than by providing financial support to us, then we meet the audience criterion.

We are concerned because this criterion does not provide us guidance to determine the principal or leading reason for a particular telemarketing or direct mail effort. As our program descriptions above indicate, we contact individuals and provide

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information to people with potential needs for, or interests in, our programs. As our program descriptions indicate, these people have at least five potential needs or interests:

- Any person we contact is a potential victim of a drunk driver.
- Any person we contact is a potential violator or knows someone who is a potential violator of drunk driving laws.
- Any person we contact is a potential voter who can support legislators and legislation to deal with the drunk driving problem and aid its victims.
- Any person we contact is a potential volunteer, for example, to assist in operating a local chapter or to act as an observer of drunk driving court cases.
- Any person we contact is a potential donor.

As indicated by these multiple attributes of the individuals we contact, selection of an audience based principally (that is, only) on its ability or likelihood to contribute is inconsistent with our multi-purpose direct mail and telemarketing campaigns. Any of our campaigns that include a fund raising appeal will be logically addressed to individuals with the ability or likelihood to contribute. However, if that were the principal reason for selection, then only a fund raising appeal would be conducted. MADD never directs its multi-purpose direct mail and telemarketing campaigns to a single attribute of an audience.

We are concerned that the proposed guidance in effect forces a choice concerning the principal reason why we select our audiences for our direct mail and telemarketing campaigns. This is because there is no discussion or provision concerning the multiple attributes our audiences possess.

Any individual that we contact is, at the same time, a potential victim of a drunk driver, a potential participant in our community service programs, and a potential contributor of financial or other support.

Drunk drivers do not discriminate among a broad segment of the population. MADD receives letters every day from people who have lost fathers, mothers, children, cousins, and other relatives. We receive letters and work daily with victims from different ethnic backgrounds, with diverse religious beliefs, and with different income classifications. It is impossible for us to determine what specific geographic area or defined group needs to be called or receive a letter. While statistics indicate certain areas that currently have less frequent occurrences of drunk driving, there is no guarantee that the decline in alcohol-related incidents will continue. Our mission is to continually remind people to drive sober. Less frequent communication will most likely cause an increase in the incidence of drunk driving and a tragic reversal in the favorable trends achieved in the last thirteen years.

We do not believe the draft audience criterion provides us sufficient guidance to help determine whether the criterion is met for the materials and activities that include a fund raising appeal. We believe the draft should provide guidance for organizations to establish verifiable evidence that the audience has a potential need for, or interest in, the material or activity. Further, the audience should have the ability to respond to, or participate in, those actions that can assist the organization in meeting the program purpose served by the material or activity.

Slogans

As part of the content criterion, the draft indicates that the material or activity must call for specific action by the recipient that will help accomplish the entity's mission. Sufficient detail should be provided describing the action to be taken. The draft states that merely providing a slogan is not sufficient. With regard to the admonition to "Stop Smoking" a footnote indicates that specific methods, instructions, references, and available resources should be suggested; a simple admonition to stop smoking is too vague to be considered a motivating factor. We are unclear as to why it is appropriate for accounting guidance to determine whether certain phrases are sufficiently motivational. The draft fails to provide an example of what information in connection with "stop smoking" would qualify as an action step. We are very concerned about how this provision would relate to our organization.

"Don't drink and drive" has been the rallying cry of MADD for over 12 years. Calls to action like "don't drink and drive", "designate a driver", and "tie a red ribbon on your vehicle" as a visible sign of your commitment to drive sober have dramatically changed public attitudes and behavior toward drinking and driving. As part of the resolution by the Congress designating December 1993 as "National Drunk and Drugged Driving Prevention Month", MADD's efforts to increase public awareness and success in aiding the reduction of deaths due to drunk driving were specifically noted in the Congressional Record (November 18, 1993).

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It is our understanding that some have called our action statements "slogans." One definition of slogan is a "catchword or motto adopted by a group." In this context, i.e., calling "don't drink and drive" a motto implies that MADD's mission is for appearance sake only. Nothing could be further from the truth.

Our mission is to change behavior -- specifically, to get people not to drink and drive. Our direct mail and telemarketing campaigns provide information concerning the problems of drunk driving and admonish our audience, "don't drink and drive". This is a direct request which benefits society. If people do not commit this crime, they are protecting themselves as well as every other pedestrian, driver or passenger on the road. We are greatly troubled that the proposal questions whether such calls to action are sufficiently motivational. We cannot think of what other specific methods, instructions, references, and available resources should be suggested. When is it appropriate to commit the crime of drinking and driving?

We believe the section concerning slogans in the draft should be revised. The references to slogans should be eliminated and specific guidance should be provided as to what calls to action qualify as part of the program content. This is discussed further as part of our next concern.

Action Step

As discussed above, the draft indicates that the material or activity must call for specific action by the recipient that will help accomplish the entity's mission. This action must be unrelated to providing financial or other support to the entity itself by (1) benefiting the recipient or (2) benefiting society by addressing societal problems. We do not believe this guidance is clear concerning our educational program materials and activities. That is, we do not think the action step requirement for educational program is adequately specified. Further, we are greatly concerned by the "other support" aspect of this provision.

To reiterate a point discussed earlier, the draft audience criterion states that if the audience is selected based on its need for the program or because it can assist the entity in meeting its program goals other than by financial support provided to the entity, the audience criterion is met. The action step provision requires the content to call for specific action by the recipient that will help accomplish the entity's mission. However, it does not specifically provide for a call to action if the material or activity provide specific information or service to the audience in need of the program. Specifically, what type of call to action is needed when the program purpose is public education and behavior modification?

For our organization, the Congressional resolution designating December 1993 as "National Drunk and Drugged Driving Prevention Month", clearly indicates that drunk driving continues to be a major societal problem. Consequently, the population of the country is in need of public education concerning the problem of drunk driving. An individual not drinking and driving clearly supports the accomplishment of MADD's mission, but he or she may be inclined to drink and drive in the future or to ride with a drunken driver. What is not clear to us is what, if any, and how specific, a call to action is required by recipients of educational materials in this type of situation.

We do not believe the draft provides any guidance concerning the specific action required by the recipient. The problem is further illustrated by footnote 6 to paragraph 31 which states that some educational messages have an implied message to motivate the audience. Therefore we believe the exposure draft should clarify the nature of the action required for different target audiences, that is, those specifically in need of the programs of the organization and those that can assist the entity in accomplishing the entity's mission. In MADD's case, these audiences are the same.

We also believe the draft should eliminate the phrase "that is unrelated to providing financial or other support to the entity itself". We believe the "other support to the entity itself" would be interpreted by some to require us to consider our calls for volunteers to aid in our chapter operations or as court monitors as fund raising calls to action rather than program calls to action.

We are concerned because the example in footnote 5 to paragraph 30 cites volunteering as an action step. This call to action is not to volunteer for the organization conducting the activity. Rather the example action step seeks volunteers for an unrelated organization. We believe that a call to action such as volunteering for our chapters both benefits society and aids us in the accomplishment of our program goals. Therefore, this type of call to action should be appropriate for the audience criterion.

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Content Criterion

We note that the exposure draft indicates in paragraph 30.a. that information must be provided explaining "the need for and the benefits of the action" as part of the program content.
However, in paragraph 31 the draft indicates that statements identifying and describing the entity or "stating the needs or concerns to be met" or "how the funds provided will be used should be treated in support of the fund-raising appeal". Information explaining the need for the action cannot be both program related in paragraph 30 and fund-raising related in paragraph 31. The draft should clarify the nature of this information and its classification. We believe that such information is related to programs.

We also note that the draft specifies that educational materials and activities should be treated as support of fund-raising unless they motivate the audience to action other than providing financial support to the organization. As discussed under the action step concern above, the draft provides conflicting guidance concerning how specific the action step needs to be. This provision also fails to consider that the educational materials may in and of themselves (that is, without an action step), fulfill a program purpose of an organization. Thus, this guidance would lead to erroneous reporting of program costs as fund raising costs.

Scope of Guidance

Because of the inadequate and conflicting guidance in the draft and because the purpose criterion does not establish whether a program purpose is met, we believe requiring the costs of all materials and activities that include a fund raising appeal to be reported as fund raising costs, including costs that are otherwise clearly identifiable with program or management and general functions, is inappropriate. It is clear to us that an organization could have a well documented program consistent with its mission and yet fail the draft criteria. Reporting the costs of this program as fund raising would result in misleading financial statements.

We believe the scope of the proposed guidance should be restricted to joint costs as covered by SOP 87-2 and the criteria for determining when allocation is required should be refined as discussed above.

Implementation Cost

We believe that the current standard dealing with costs of materials and activities that include a fund raising appeal can be improved. Areas for improvement are clarification of conditions when allocation of joint costs is appropriate and providing guidance on how joint costs should be allocated. The exposure draft provides needed guidance for how to allocate joint costs. However, in our view, for the reasons discussed above, the draft does not achieve improvements in other areas.

The expansion of the criteria to determine when allocation is appropriate and the increase in scope to all costs of materials and activities that include a fund raising appeal will not reduce the difficulty and inconsistency in practice associated with SOP 87-2. Rather, expanding this guidance to unknown areas such as compensation and evaluation and introduction of terms such as "substantially" and "principally" will increase the difficulty and will likely create greater inconsistency in practice. We are concerned with this prospect for two major reasons.

First, the implementation of this exposure draft in its present form will impose very real and substantial costs on MADD. Because we rely on direct mail and telemarketing campaigns, this burden will fall disproportionately on us and organizations similar to us. Other organizations who derive the bulk of their support from federated fund raising and similar campaigns are not likely to be as adversely affected.

Secondly, because of the implementation and ongoing costs of compliance associated with this proposal, we question what benefits we, our resource providers, the philanthropic community, or even society at large can expect. Frankly, we do not see much in the way of tangible or intangible benefits. In fact, we see potentially great harm from this proposal.

The conclusions to the exposure draft state that, for practical reasons, costs of activities that include a fund-raising appeal should be presumed to be fund-raising costs unless there is a bona fide program or management and general function. This belief is considered necessary to prevent potential abuses in financial reporting. This is presumably one of the benefits of this proposal which must be balanced against the costs that will be incurred. However, the exposure draft does not identify the potential abuses to be avoided by this proposal.

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Since the potential abuses are not identified, there is no basis to conclude whether this proposal will likely prevent them. We are concerned that the lack of specific guidance discussed above coupled with the expanded scope of the draft will create greater rather than less inconsistency between organizations in accounting for multiple-purpose materials and activities. Consequently, not-for-profit organizations will likely be accused of even more abuse after implementation of this proposal. Therefore, we see this proposal, if implemented, causing not only increased dollar costs but also very real harm to not-for-profit organizations and increased confusion to the public with no corresponding benefits.

In conclusion, we urge the AICPA to revise the exposure draft to:

- Provide clear guidance to determine when a program purpose is met rather than when it is not. Let organizations determine what their programs are and provide accounting guidance to account for the costs of these programs.

- Recognize that audiences of direct mail and telemarketing campaigns can be contacted for both program and supporting purposes and provide appropriate criteria to establish the multi-target audience.

- Let organizations decide how to best motivate their audiences to action by elimination of the slogan provision and by clear definition of calls to action.

- Eliminate the "other support" aspect of the call to action to avoid the misclassification of program related calls to action benefiting the organization's programs as fund raising.

- Clarify the action required, if any, when educational materials meet an identified need of the population audience receiving the materials.

- Limit the scope of the revision to joint costs.

We appreciate the opportunity to comment on the exposure draft.

Sincerely,

H. D

H. Dean Wilkerson
National Executive Director

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January 7, 1994

Joel Tanenbaum
Technical Manager
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Re: Proposed Statement of Position Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal.

Dear Mr. Tanenbaum:

The National Easter Seal Society (National Society) is a national organization representing seventy-eight (78) intermediary societies located throughout the United States. The mission of the National Easter Seals Society is to help people with disabilities achieve independence. This mission is achieved by providing rehabilitation services, technological assistance, disability prevention, advocacy and public education programs.

The National Society is keenly aware of issues regarding not-for-profit financial reporting by regulators and oversight organizations. As such, the National Society applauds the efforts made by the committee which prepared the Exposure Draft of the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal.

While the National Society understands the committee's intent was to provide guidelines on allocating/defining joint costs which will provide greater reporting consistency, we believe the Exposure Draft promotes an arbitrary approach to joint cost allocation and encourages the not-for-profit industry to become less efficient. The National Society has reviewed the comments to this Exposure Draft made by the National Health Council and Direct Marketing Association and supports their

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(88)

position. Both groups have referenced the technical inconsistencies between the Exposure Draft and current industry standards, namely FASB 117 and Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations.

Rather than reiterate issues presented by the above mentioned groups the National Society will limit its comments on the Exposure Draft to issues addressing the purpose, audience and content that have not been touched upon.

Purpose

Paragraph 22. "In determining whether a bona fide program or management and general function has been conducted, the purpose for conducting the activity must be considered."

Paragraph 23. "If substantially all compensation or fees for performing the activity are based on amounts raised, the purpose criterion is not met and all costs of the activity should be charged to fund raising. Further, if the performance of the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met and all costs of the activity should be charged to fund raising."

This language strongly suggests that an appeal which contains fund raising should be evaluated based on compensation to the party performing the activity rather than a more appropriate standard which is based on the intended outcome of the activity.

Paragraph 26(b). The method of evaluating the performance of the activity suggests, "where practical, measurement of program results and accomplishments may indicate that a bona fide program has been conducted." While this moves the purpose criterion in an acceptable direction, the Exposure Draft is ambiguous as to which criterion has priority; compensation of a third party, media usage, duties of personnel or program evaluation.

Audience

Paragraph 29 of the Exposure Draft states "if the audience is made up of existing donors which have also participated in program activities, the audience criterion would be met. If the audience is made up of past donors with no such previous program participation, the audience criterion would likely not be met." One of the National Society's programs is public education. Because of our mission and broad based commitment to people with disabilities, there is no audience that should not be selected to receive our messages. Disabilities are not confined to age, sex, location or an individuals likelihood to make a financial contribution.

In an attempt to quantify the fund raising/program audience, the Exposure Draft has again based the criterion on an arbitrary approach that would allow not-for-profit organizations, regulators and oversight organizations each to base their analysis on a different criterion.

Content

Paragraph 31 of the Exposure Draft states " Educational materials and activities should be treated as support of fund raising unless they motivate the audience to action other than providing financial support to the organization."

The Board of Directors of the National Easter Seal Society approved the following policy in July, 1991.

> That in order to help fulfill our mission, the National Easter Seal Society and its affiliates will use every reasonable opportunity in its public communications to influence attitudes and promote the independence of people with disabilities by incorporating public education in those communications. This includes our fund raising programs in which there will be deliberate messages to inform, to educate, and to call to action the recipient. The purpose of each communication whenever appropriate, is to educate the public as much as to raise funds.

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The intent of some materials of the National Society is to inform the audience about disabling conditions and disability issues. Simply by sharing this information we are reaching our program objective. A call to action is not always necessary or appropriate. We strongly recommend that messages which encourage attitudinal changes should be designated as a call to action. Footnote (6) to paragraph 31 indicates that some educational messages have an implied message to motivate the audience to action. With only a footnote discussion of this issue, the door is open to arbitrary interpretation.

Finally, the National Society suggests that the committee defer further action until the results of the Financial Accounting Standards Board revision of not-for-profit organization audit and accounting guidelines is published. At that time it would be appropriate to revise the Exposure Draft to reflect authoritative guidance and limit differing interpretations. When the Exposure Draft is revisited, we suggest that the not-for-profit community have broad base representation to assure that all perspectives are considered.

Sincerely,

James E. Williams, Jr.
President

Priscilla P. Burke
Executive Director

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January 7, 1994

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Mr. Joel Tanenbaum
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Re: Exposure Draft

Dear Mr. Tanenbaum:

We are taking this opportunity to respond to the exposure draft proposed statement of position "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal" released on September 10, 1993 by the Not-for-Profit Organizations Committee of the American Institute of Certified Public Accountants (AICPA). This exposure draft is a revision of SOP 87-2, "Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal".

A. Background

Founded in 1985 as the National Foundation for Medical Research, our organization changed its name to the National Caregiving Foundation in 1993. The National Caregiving Foundation (the Foundation) is a tax exempt 501 (c)(3) organization dedicated to helping caregivers of people with life-threatening and catastrophic illnesses. The Foundation provides support for husbands and wives, sons and daughters, health care professionals, and so many others who are caring for loved ones.

B. Mission and Programs

The mission of the Foundation is to meet both the *direct* and *indirect* needs resulting from the impact of catastrophic diseases on our society. Our mission is accomplished by:

- distributing support materials that ease the burden of those affected by these diseases

- disseminating educational information
- increasing public awareness
- providing funding for scientific and other research

Our programs have extensive outreach components. The first national effort of the Foundation has been the Alzheimer's Project. Our Alzheimer's Caregiver's Support Kit is available to all caregivers at no cost. In addition to the Support Kit, we offer the following publications:

- *Reaching Out to Those Who Care*
- *The Living Death: Alzheimer's In America*
- *Caregiver's Resource Directory*
- *Caregiver's Emergency Identification Card*
- *Caregiver's Guide to Alzheimer's Disease*

In addition, we publish our newsletter, *The Caregiver's Companion - You Are Not Alone*. Along with these publications, the Foundation supports conferences and seminars in both education and research; presents the annual National Caregiving Award to honor an individual or organization for their dedication; supports the Foundation's Fellows Program for both education and research in caregiving issues; and maintains a Speakers Bureau.

We utilize multi-purpose materials and activities including direct mail and telemarketing as cost-effective means to conduct our programs and raise funds to support our operations. We have major concerns about the proposed new standards of the exposure draft to establish the conditions for the allocation of costs of these materials and activities.

C. Exposure Draft

Pages 9 and 10 of the exposure draft list a number of concerns with the existing accounting standard, SOP 87-2, regarding the allocation of joint costs. The exposure draft states that some believe the guidance of 87-2 is inadequate to determine whether joint materials are for program or fund-raising purposes, whether activities conducted by professional fund-raisers could ever be considered program oriented, and what costs are covered by 87-2. In addition, the exposure draft states that 87-2 does not address the issue of **how** to allocate joint costs. Furthermore, the exposure draft states that some believe that guidance should be provided. The exposure draft states, and we concur, that users of financial statements want assurance that the amounts entities spend to solicit contributions, as well as the amounts spent for the program and management and general functions, are fairly stated. The exposure draft, however, describes and illustrates some commonly used and acceptable allocation methods, but does not prescribe or prohibit any method. If there are concerns about **how** costs are allocated, why does the exposure draft not present, suggest, recommend, describe, define or otherwise contain methodologies which should be followed in the allocation of costs to multiple purposes?

There is an elaborate body of cost accounting literature which addresses generally accepted accounting principles for cost accounting. Is it not possible to develop similar costing methodologies for cost allocation for materials and activities which include a fund-raising appeal?

The exposure draft retains the purpose, audience, and content criteria of SOP 87-2. While we believe these criteria are appropriate, the guidance for implementing these criteria should be refined. The tests for each of these criteria presented in the exposure draft should be eliminated or modified significantly.

1. Purpose Criterion

For the purpose criterion, three tests are presented. These are the compensation, evaluation, and "with/without" appeal tests. None of these tests, however, can tell us whether any of our activities or materials served a program purpose.

In the compensation test, the exposure draft dictates different accounting treatment based upon implementation strategies. For example, an organization that uses a public relations firm to develop a program package with a fund-raising appeal may allocate joint costs to program and fund-raising categories. Another organization that uses a fund-raising firm to develop the same package and pays that firm a fee based on the amounts raised must, by definition, report all costs, including program costs, as fund-raising. There is no further consideration in the exposure draft to whether or not a program purpose could be met under the latter set of circumstances. Because of the compensation, the costs are defined as **totally** fund-raising. Compensation based on amounts raised and evaluation based on funds raised will not assess whether or not a program objective was met.

The suggested test of conducting a similar activity without an appeal does not tell us whether we accomplished a program purpose. Furthermore, such a test contradicts economic efficiency. For small organizations, there will not be sufficient resources to conduct parallel efforts. Similarly, developing evaluation measures, the alternative suggested by the exposure draft, will be burdensome for small organizations. We believe our friends and supporters want us to conduct our program, management and general, and fund-raising activities in the most cost-effective manner possible.

2. Audience Criterion

The tests in the exposure draft require that we identify a principal reason, rather than multiple reasons, for selecting our audience. The exposure draft, however, fails to demonstrate how consideration of the source of the names indicates why the audience was selected for a multi-purpose material or activity.

Rather, the exposure draft specifically indicates how financial statements will be distorted by this standard. It states that even though program purpose and content criteria are met in a situation, utilization of a list maintenance procedure results in all costs, including those of the program materials, as fund-raising costs. We do not understand this reasoning.

We believe that the exposure draft should require that the audience have a potential or demonstrated need for, or interest in, the program material or activity of the organization. We have sent program materials, including our book, *The Living Death: Alzheimer's In America*, to large numbers of Americans, principally persons over age 55. Caregivers, however, may be of any age. For program purposes, the audience must be one which can respond to a program-related call for action contained in the material or activity. These conditions would retain the action step for each purpose of the material or activity as found in SOP 87-2. Our program purpose is substantiated by a call to action. Any fund-raising purpose is substantiated by the request for funds.

3. Content Criterion

The exposure draft test for the content criterion requires the material or activity to call for specific action by the recipient that will help accomplish our mission. That action must be unrelated to providing financial or other support to the entity. This test appears to disqualify program related calls to action that support the organization itself.

We believe the exposure draft should require that the multi-purpose material or activities contain content that serves our program purposes. Such materials or activities contain action steps or calls to action that audiences can take to help address the problems faced by caregivers in the United States.

D. Summary

Our reporting all costs that are otherwise clearly identifiable with program or management and general functions will not lead to proper accounting for these costs. Consequently, we believe the exposure draft, in its current format, would result in misleading financial statements. It requires all costs of materials and activities to be reported as fund-raising, including costs otherwise clearly identifiable with programs, if its criteria are not met.

The exposure draft dictates what our program and fund-raising appeals should contain and with whom we should develop our program and fund-raising materials and activities. As discussed above, many of these criteria are unrelated to determining whether program purposes are actually served. Thus, we do not believe the proposal would improve accounting practice.

We urge the AICPA to reconsider the focus of this exposure draft. The efforts of the Committee should be directed toward developing guidance for allocation of joint costs in SOP 87-2 rather than creating new standards for the conditions for allocation of joint costs.

Yours very truly,

Priscilla P. Burke

Priscilla P. Burke
Executive Director

PPB/449/la

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January 7, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position
"Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I have read the above referenced document and have the following comments related to both the process of exposing this SOP and to the SOP itself.

With regard to the SOP, I believe that it is basically a good document. I have trouble with the terms "joint costs" (as defined in paragraph 15) and "cost of joint materials" (as used in paragraph 18). I realize that the NFP Committee worked hard to distinguish between the two terms, but I believe that the similarity between the terms is confusing.

With regard to the process of exposing a document that is specifically applicable to state and local governmental entities, may I suggest that involvement of the governmental accounting and auditing committee during the development of the SOP would have been appropriate. I am not suggesting that the SOP would have been improved by such involvement, but I do believe that such cooperation between the two committees would lead to more consistency in standards applicable to the two types of entities.

Thank you for allowing me the opportunity to respond to this SOP.

Respectfully,

Kitty Pumphrey

Lela D. "Kitty" Pumphrey, PhD, CPA
Professor of Accounting

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AMERICAN KIDNEY FUND

6110 Executive Boulevard • Suite 1010 • Rockville, Maryland 20852 • (301) 881-3052

National Toll Free (800) 638-8299 • FAX (301) 881-0898

Member, National Health Council

January 7, 1994

Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of the American Kidney Fund (AKF) is to provide direct financial assistance, comprehensive educational programs, research grants and community service projects for the benefit of kidney patients. AKF uses multi-purpose materials, including direct mail as cost-effective means to accomplish our programs, and to raise funds to support them.

AKF is greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. In fact, action taken by our Board of Trustees mandates that we include educational messages in all of our direct mail packages and application of the proposed standard will force improper accounting for costs resulting in misleading financial statements.

We are alarmed that the proposal presumes to dictate the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

> Setting the financial and management issues aside, we are also concerned that the proposal impedes our organizational rights to free speech which have been affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina.

While the Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2 which we believe are appropriate, we feel, that the guidance for implementing them needs to be refined. To improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries, our patients. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

AKF believes that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves as Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgement of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to the American Kidney Fund.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals.

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of trustees and our management.

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed in refining SOP 87-2, rather than creating arbitrary and biased standards.

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The American Kidney Fund would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Francis J. Soldovere
Executive Director

FJS/csh

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American Heart Association
National Center

Dedicated to the reduction of disability and death from cardiovascular diseases and stroke.

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January 7, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA,
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The American Heart Association, National Center, has considered the AICPA's September 10, 1993 Exposure Draft (ED), <u>Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal</u>, and has prepared this letter of comment.

EXECUTIVE SUMMARY

While the American Heart Association (AHA) agrees that there is a need for greater clarity in the rules regarding the allocation of cost, we believe that the proposed changes are inappropriately skewed towards the classification of costs as fund-raising. This result is just as misleading to the public as is the inappropriate reporting of program costs. The AHA suggests that more balance be incorporated into the proposed criteria for classifying costs so that the public is not misled by the skewing of costs to the fund-raising area.

The AHA is also troubled by the ED's assumption that bona fide programs can not be delivered to a segment of the public selected because of its ability to give. Bona fide programs are deliverable to all segments of the population, including segments selected because of their likelihood to give. This is particularly the case when the program activity relates to a condition, such as heart disease, which affects a broad segment of the population.

PURPOSE CRITERION
Paragraph 26b - Method of evaluating the performance of the activity

This paragraph suggests that if the evaluation of an activity is skewed towards fundraising then the purpose criterion may not be met.

The fact is that most activities that combine fundraising and programs will be skewed either towards fundraising or programs. Very few activities are conducted on a 50/50 basis. However, the fact that an activity is skewed towards programs does not mean that fundraising is not taking place. In order to preclude the improper recording of cost to either programs or fundraising, we suggest that Paragraph 26b be changed to reflect that the skewing must be predominant in order to preclude allocation. We suggest the following change to Paragraph 26b:

> "Whether evaluation of the effectiveness of the activity is skewed principally to the activity's effectiveness in raising funds or skewed principally to the accomplishment of program goals".

We believe that adding the word "principally" will result in guidance that would prompt the proper recording of activities that include a fund-raising and program component.

AUDIENCE CRITERION
Paragraph 27

This paragraph states that if the audience is selected principally on its ability or likelihood to contribute, then all costs should be charged to fundraising. The ED seems to suggest that targeting an audience because of its ability or likelihood to give implies that no programming activity can be conducted. This is clearly not the case because in many instances a high-giving audience does benefit from the educational materials provided. The packaging of education and fund-raising materials merely provides non-profits with a cost-effective delivery mechanism and the fact that the audience is likely to give is not prima facie evidence that no programs are being delivered.

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In order to provide more balance in this criterion, we suggest that paragraph 27 be changed to read as follows:

> "If the audience for the materials or activities has no demonstrable need for the materials or activities and is selected principally on its ability or likelihood to contribute, the audience criterion is not met.................".

This change would require non-profits to demonstrate that a need exists for the materials and activities. However, more importantly it gives non-profits the opportunity to show that an audience that is selected because of its likelihood to give also can be an audience that benefits from program materials.

Paragraph 28A

This paragraph concludes that if an appeal is made to a broad segment of the population regarding a condition affecting a broad segment of the population then the audience criterion may be met. We believe that this logic is equally applicable to an appeal made to a small segment of the population regarding a condition affecting a broad segment of the population. We believe that if a non-profit can demonstrate that there is a need for program materials in a segment of the population that is likely to give, then the audience criterion is met. The point we would like to make is that the segmenting of the population does not remove the programming need that exists.

We suggest that a new paragraph be added under Paragraph 28a as follows:

> "Appealing to a small segment of the population to avoid heart disease, for example, by avoiding cholesterol or reducing dietary fat, may meet the audience criterion since heart disease is a condition affecting a broad segment of the population".

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We thank the AICPA for providing us the opportunity to comment.

Sincerely,

Walter Bristol

Walter Bristol
Vice President, Finance

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January 9, 1994

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Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

Amnesty International USA would like to take this opportunity to comment on the "Exposure Draft, Proposed Statement of Position, Accounting for costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal." While we welcome the effort by the AICPA to provide clearer procedures for the joint allocation of expenses to program, fundraising, and general and management, we have serious reservations concerning the proposed SOP and do not feel it provides the clarity you seek.

AMNESTY INTERNATIONAL'S PROGRAM

As you may know, Amnesty International is an independent not-for-profit organization made up of individual members who work to free prisoners of conscience (individuals who have been arrested for their beliefs, provided they have neither used nor advocated the use of violence), insure fair and prompt trials for all political prisoners, and end all torture, executions and "disappearances." AI has over 1,000,000 members worldwide, 375,000 of whom are members of AIUSA.

The work of our mandate is accomplished through various letter writing campaigns, approaches to offending governments and non-governmental entities, publication of human rights information and reports on abuses around the world, and work with governments and non-governmental organizations working to end human rights abuses.

AMNESTY'S EXPERIENCE WITH THE JOINT ALLOCATION OF EXPENSES AND SOP 87-2

Money to support these activities is raised from a variety of sources -- foundations, planned giving, major gifts, and direct mail are the largest among them. As well as providing funding, the direct mail program serves as the most indepth source of human rights information for the majority of activists who work on these programs. In addition, it is an integral part of Amnesty International's ability to meet programmatic objectives.

Since 1987, AIUSA has used SOP 87-2 as the basis for the joint allocation of expenses within our fundraising programs. We have identified those mailings which include a request for the member to take an action in addition to writing a check and have jointly allocated the expenses associated with those mailings between fundraising and program. As we said at the start of this letter, based on our experience, we agree that there is a need for clarity in the procedures laid out in SOP 87-2. However, the proposed SOP does not provide that clarity.

COMMENTS ON THE EXPOSURE DRAFT

We have several specific areas we wish to highlight, as well as some overall comments. In the course of this letter we will also outline some recommendations.

OVERALL COMMENTS

We feel that this SOP assumes that all non-profits are alike and implement their plans in the same way. Religious organizations, charities, and membership organizations have very different programmatic goals and the means for accomplishing these goals vary. A call to private prayer is quite different from a concerted effort to educate the public and affect the behavior of a government abusing the human rights of its citizens and can not be evaluated in the same way. There needs to be some attempt to address these differences.

We also feel that this revision misses the opportunity to clarify the AICPA's definition of fundraising, consultant, program, general and management, and other terms related to this area. It would be helpful if the first step in this process were not an entirely new SOP, but instead an attempt to clarify what constitutes each of these areas.

Finally, paragraph 2 in the introduction says, in part, "External users of financial statements, including contributors, creditors, accreditation agencies, and regulators, want assurance that the amounts entities spend to solicit contributions, as well as the amounts spent for the program and management and general functions, are fairly stated." The proposed SOP leaves out the users of SOP 87-2, the non-profit organizations. Procedures need to be written that help the non-profit, not just the external users of financial statements. Please take into account the needs of the non-profit when looking at this issue.

SPECIFIC COMMENTS

CONTENT

While this is not the first area that the proposed SOP addresses, we would like to start our first specific comments here.

We cannot state too strongly that we feel this is the only legitimate area for determining whether an appeal qualifies for joint allocation of expenses. If the action included in the appeal serves an integral programmatic function, it should be jointly allocated; if it does not, it should not be jointly allocated. The issues raised in the discussion of Purpose and Audience simply muddy the water.

In this area of Content we have a few specific problems. Your examples here do not allow for the differences in how organizations accomplish their goals. It attempts to fit all causes, charities, religious institutions, and other organizations into one mold of activism. While we understand the need for some degree of homogeneity in developing the regulation, we feel it is unnecessarily succinct and will preclude it's fair application to all non-profit organizations.

Furthermore, for Amnesty, public visibility is one crucial programmatic goal in the accomplishment of our mandate. Activities that enhance that, such as the display of a decal are not empty actions. The greater our visibility, the greater our membership, the greater our effectiveness. This would not be allowed for in your new definitions as stated in paragraph 30,a.

PURPOSE

While we wish to see Content as the only criteria, we have two comments on the Purpose section which we hope will prove helpful should you go ahead with the new SOP.

<u>COMPENSATION</u>

We feel in no uncertain terms that it is unfair to penalize an organization based on the decision it makes on how to compensate it's fundraising consultants. To say two identical mailings, one prepared with the assistance of a consultant paid a flat monthly fee and one prepared by a consultant who receives a percent of income raised, does not both serve a legitimate programmatic goal sets up a double standard that unfairly punishes the smaller and younger organizations, who are often the ones who have these types of compensation arrangements. Compensation should not affect an organization's ability to allocate bona fide program expenses that are associated with a joint mailing and we would like to see this distinction between consultants removed entirelppy.

PROGRAMMATIC ACTIVITY

For Amnesty, the programmatic goal is an integral part of many of our fundraising packages. It has been our experience that including a request for a program related action will only succeed if the two messages are integrated. Frequently, the donor/membership is viewed as the only available means to generate a mass number of responses on a particular action.

We cannot afford to send 300,000 or more letters out to generate this action unless we also include a request for funds to support the program. Often, were it not for the direct mail appeals, some programmatic actions would not be undertaken. We do not feel that the purpose criteria as defined in paragraph 25 clearly allows for these mailings to have a portion of their expenses allocated to program. We would like to see this decision made based on the Content issue -- does it serve a legitimate programmatic function.

AUDIENCE

We cannot say strongly enough that this is the area that poses that greatest difficulty for Amnesty International, and other organizations and, should you decide to make this an area of consideration, we would like to see serious revision. We base this request on the two areas outlined below where we would be adversely affected -- acquisition of new members and appeals to current donors.

ACQUISITION OF NEW MEMBERS

A crucial element of Amnesty's ability to accomplish our work, particularly in approaches to governments, is the size of our membership. People do not join Amnesty unless they are sufficiently educated about human rights concerns and the role Amnesty plays in affecting these issues. Our donor acquisition mailings serve three purposes -- they educate the public, make our membership base grow by offering likely new members a path to membership, and provide the public with the opportunity to take an action that will have an impact on a human rights issue.

We select our lists based on our previous performance history. Those lists from organizations, publications, etc. that have shown a past likelihood to generate new AI members are selected. By the proposed audience criteria, even though our mailings include bona fide programmatic actions (petitions, post cards, letters, use of decals and stamps for public awareness), we would not be able to jointly allocate our expenses. Again, this assumes that organizations have unlimited funds that allow them to accomplish their programmatic goal in a fundraising-less vacuum. That is an impossible assumption.

APPEALS TO CURRENT MEMBERS

Every fundraising appeal that AIUSA sends out to its current members, whether it contains a bona fide action or not, generates a net of a least $250,000. Without that income, we would be forced to make substantial program cuts. We can not afford action requests to meet programmatic needs, without requesting funds and selecting the audience for the mailing based on their ability to make a financial commitment.

We do not have information on the individuals on our data base that allows us to select based on their likelihood to take an action. We select based on giving patterns because that is the information on which we have to select. We constantly mail to all our members, but the type of mailing is different. Our experience has shown us, based on membership in activist programs, that our best donors are also our most likely activists. None of the careful thought that goes into our audience selection will allow us to jointly allocate those mailings that contain a bona fide action because the basic selection criteria is past giving. This is a very narrow approach to audience definition.

CONCLUSION

We hope that the AICPA will consider our comments and suggestions, as well as those of other non-profits, and refine SOP 87-2 so that it is more effective rather than issuing an entirely new Statement of Position. As written, the proposed SOP on Accounting for Costs will make it difficult for Amnesty International, and others, to accomplish our goals. Rather than providing clearer guidance to our auditors, it will make their job more difficult.

We hope that these comments are helpful and appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Curt Goering
Acting Executive Director
Amnesty International USA

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January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified
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1211 Avenue of the Americas
New York, New York 10036-8775

Re: Exposure Draft Proposed <u>Statement of Position</u>

Dear Mr. Tanenbaum:

We appreciate the American Institute of Certified Public Accountants (AICPA) allowing us the opportunity to respond to the AICPA's exposure draft which will supersede Statement of Position (SOP) 87-2. SOP 87-2 is the current standard for accounting for joint costs of informational materials and activities that include a fund-raising appeal. As an organization which uses multi-purpose materials and activities including direct response mailings and telemarketing, we are very interested in the generally accepted accounting principles which will apply to our organization and operations.

Based upon our assessment of the exposure draft, this document seems to be both a repetition and expansion of current generally accepted accounting principles addressing accounting for costs of materials and activities which have multiple purposes. The draft statement begins with several assertions:

- costs of all materials and activities are fund-raising unless a bona fide program or management and general purpose can be demonstrated;
- if a bona fide program or management and general function has been conducted, the costs should be allocated;
- new criteria should be met before any cost allocations may be instituted.

In addition, the exposure draft describes several approaches for cost allocations but neither prescribes nor prohibits alternative methodologies. If cost allocations are performed, the financial statements must contain certain disclosures for the readers.

We concur with the position of the AICPA that users of financial statements want and expect the financial statements to be fairly presented. This is true for supporters, whether or not such individuals or entities are contributors; members of management of the organization; combined giving programs or other sources of funding, such as grants or contracts; members of the media; and others who have an over-sight or regulatory role.

This exposure draft asserts that the guidance in 87-2 is inadequate to determine if fund-raising appeals have program content. While the exposure draft identifies a number of areas where SOP 87-2 has been difficult to implement and states that "some believe that guidance should be provided", it does not document any such examples. The exposure draft does, however, attempt to establish standards for identifying joint costs.

United Seniors Association, Inc. (USA, Inc.) was founded to provide an independent organization for senior citizens who support the American free enterprise system. Our purposes are to educate and inform seniors about Medicare, Social Security, national security, and economic prosperity; convey the opinions of senior citizens to their elected representative in Washington, D.C.; promote public debate regarding issues of concern to seniors and the involvement of seniors in the democratic process; and provide seniors with various financial benefits available to them on a group basis. Our primary means of reaching our members, the media, and government officials is through the dissemination of informational materials. Last year, we mailed over eight million letters to senior citizens educating and informing them about issues which affect their lives. In addition, we mailed more than two million copies of our newsletter, *The Senior American.* We conduct regular surveys of our members and provide the results to the news media and elected officials, both legislative and executive.

We believe our approach is a cost-effective means both to accomplish these vital programs for seniors and to raise funds to support our program goals.

The exposure draft retains the purpose, audience, and content criteria of SOP 87-2. While we believe these criteria are appropriate, the guidance for implementing these criteria should be refined. The tests for each of these criteria presented in the exposure draft should be eliminated or modified significantly.

Purpose criterion

We have major concerns about the proposed standard to account for the costs of our multi-purpose informational materials and activities. Unless an organization can demonstrate that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, the revised standard would require reporting all costs of materials and activities that include a fund-raising appeal as fund-raising costs. This reporting would include costs that are otherwise clearly identifiable with program or management and general functions.

Our reporting all costs, even those clearly identifiable with program or management and general functions, as fund-raising will not lead to proper accounting for these costs. Rather, such an approach will result in misleading financial statements.

Our programs are the activities that result in services being distributed to our program beneficiaries. None of the tests contained in the exposure draft, however, can tell us whether any of our activities or materials served a program purpose. Likewise, the suggested test of conducting a similar activity without an appeal does not tell us whether we accomplished a program purpose. Furthermore, such a test contradicts economic efficiency. We believe our friends and supporters want us to conduct our activities in the most cost-effective manner possible. This belief often calls for multi-purpose materials and activities.

We believe the exposure draft should require verifiable documentation as the primary test to determine whether a material or activity that includes a fund-raising appeal serves program purposes. This is the guidance in SOP 87-2. It should be retained.

Audience criterion

The exposure draft tests for the audience criterion require determination of a principal reason, rather than multiple reasons, for audience selection. The exposure draft also fails to demonstrate how consideration of the source of the names indicates why the audience was selected for a multi-purpose material or activity. Illustration 2 states that even though program purpose and content criteria are met in a situation, utilization of a list maintenance procedure results in all costs, including those of the program materials, being reported to the reader as fund-raising costs. We fail to understand this logic.

We believe that the exposure draft should require that the audience have a potential or demonstrated need for, or interest in, the program material or activity of the organization. For a program purpose, the audience must be one which can respond to a program-related call for action contained in the material or activity. These conditions would retain the action step for each purpose of the material or activity as found in SOP 87-2. The program purpose is substantiated by the call to action and the fund-raising purpose is substantiated by the request for funds.

Content criterion

The exposure draft test for the content criterion requires the material or activity to call for specific action by the recipient that will help accomplish the entity's mission. That action must be unrelated to providing financial or other support to the entity. This test appears to disqualify program related calls to action that support the organization itself. Some examples are volunteering or donating materials. Such a test could be devastating to the many programs of charitable organizations.

We believe the exposure draft should require that the multi-purpose material or activity contain content that serves an organization's program purposes. Such materials or activities contain action steps or calls to action that audiences can take to help accomplish the program purposes of the organization to which the content relates.

The exposure draft dictates different accounting treatment based upon implementation strategies. For example, an organization that uses a public relations firm to develop a program package with a fund-raising appeal allocates joint costs to program and fund-raising categories. However, an organization that uses a fund-raising firm to develop the same package and pays that firm a fee based on the amounts raised must report all costs, including program costs, as fund-raising. This bias against particular types of firms and compensation methods results in distorted financial information. In addition, it prevents one from being able to compare organizations.

We urge the AICPA to reconsider the focus of this exposure draft. We believe its present content is a reaction to criticisms based on the belief that some organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public.

This criticism appears to be directed at the issue of how allocation of joint costs is done rather than whether allocation of joint costs is appropriate. The exposure draft describes some approaches to the allocation of joint costs but does not prescribe or prohibit any particular methodologies. Therefore, we believe your efforts should be directed toward developing guidance for allocations of joint costs in SOP 87-2 rather than creating a new standard for employing allocations of joint costs.

As discussed above, many of the criteria contained in the exposure draft are unrelated to determining whether program purposes are actually served. Thus, we do not believe the proposal would improve accounting practice. Furthermore, some organizations will inevitably take steps to counteract the effects on their financial statements created by these arbitrary criteria, without taking any steps to improve the implementation of their program activities. The proper accounting for program efforts is the goal we believe should be fostered by the AICPA not the attempt to bias the financial statements of a certain segment of the not-for-profit community.

Yours very truly,

Sandra L. Butler
President

SLB/361/la

MADD™

Mothers Against Drunk Driving

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January 3, 1994

Mr. Joel Tanenbaum
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American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Ref: File 3605.JA

Dear Mr. Tanenbaum:

It is our understanding that the AICPA is revising the standard for accounting for costs of materials and activities that include a fund raising appeal. Our organization, MADD Florida, relies heavily on telemarketing as a cost-effective means to increase public awareness concerning drinking and driving, obtain participation in our efforts to eliminate drunk driving, and raise funds for our operations. We are very concerned about the effects this proposal would have on our organization's public awareness programs.

Since 1983, we have been actively involved with the local community to eliminate drinking and driving. As a direct result of telemarketing and direct mail campaigns, we have been able to show the public the consequences of drinking and driving. Because of these informational campaigns, we have dramatically changed the public's attitudes about drinking and driving.

Other benefits which we have received from these campaigns include volunteering by many individuals to assist victims of drunk drivers, to serve as court watchers, and to help operate our chapter. In addition, our operating funds have been provided by donors, large and small, as a result of those campaigns.

The arbitrary rules contained in the draft proposal threaten the very existence of our vital programs. We know we have substantial programs in place to aid victims of drunk drivers. Many of these programs have been implemented through our telemarketing and direct mail campaigns. Drunk drivers have proved to be equal opportunity killers. Anyone, rich or poor, young or old, driver, passenger, or pedestrian, can be a victim. We do not believe that arbitrary rules about purposes, audiences, and contents of multi-purpose activities are justifiable when they could result in program costs being called fund raising costs.

Our organization deals with extremely limited resources. We cannot afford to comply with arbitrary rules. We do not believe that these rules will properly reflect how our resources are used to anyone who is truly interested in the vital services we provide to our local community. We also do not believe it is appropriate for the AICPA to establish rules that would require us to generate unfair and misleading financial reports for public distribution.

We urge the AICPA to reconsider the arbitrary rules in the proposal. Let the organizations that deliver services to the community decide what programs they wish to pursue and limit the accounting rules to reporting the costs of these services fairly and accurately.

Sincerely,

Judy Alexander

Judy Alexander
Executive Director

jka

cc: MADD National Office

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Alan R. Jagger
President of Board of Directors

Jim Friesner
Executive Director

The Children's Home
of Wyoming Conference

1182 Chenango Street
Binghamton, New York 13901-1696
607-772-6904

January 3, 1994

Joel Tannebaum, Technical Manager
Accounting Standards Division
File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
Washington, DC 20006-1503

Dear Mr. Tannebaum:

We concur with the position of the National Association of Homes and Services for Children regarding the fund-raising issue.

Sincerely,

James E. Friesner

James E. Friesner
Executive Director

JEF:slk

AMERICAN
KIDNEY
FUND

6110 Executive Boulevard • Suite 1010 • Rockville, Maryland 20852 • (301) 881-3052

National Toll Free (800) 638-8299 • FAX (301) 881-0898

Member, National Health Council

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January 7, 1994

VIA FAX AND MAIL

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775
FAX #212-596-6213

Dear Mr. Tanenbaum:

The American Kidney Fund endorses the National Health Council's position dated January 6, 1994 on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft. Furthermore, we ask that the AICPA vigorously apply existing disciplinary measures to its members who do not adequately disclose noncompliance with existing joint cost allocation principles when rendering opinions on client's financial statements.

Thank you for this opportunity to respond.

Very truly yours,

Carol B. Sadoff
Director of Finance

cc: Jean Gilbert, National Health Council

(98)

STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

HUBERT H. HUMPHREY III
ATTORNEY GENERAL

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January 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Comments on Exposure Draft
File 3605.JA

Dear Mr. Tanenbaum:

This letter offers comments on the proposed statement of position (SOP) on Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Entities that Include a Fund-Raising Appeal.

It is evident that the Committee has given this important issue a great deal of consideration. We appreciate the fact that the accounting profession, through the AICPA Accounting Standards Division, apparently believes, as many state regulatory officials do, that the integrity of nonprofit accounting and, to some degree, public confidence in our nonprofit sector may well be affected by the guidance that emerges from this effort.

On the whole, the proposed SOP does provide greater guidance to practitioners. Its positive features include its broader application to a greater number of nonprofits, its broad scope covering all costs of joint activities, its limiting the ability to allocate costs when the "program" is nothing more than use of a slogan, and its introduction of some useful allocation principles and illustrations.

Its weaknesses include its lack of specificity in the following areas:

1. Paragraph 23 provides that if substantially all compensation or fees for performing the activity are **based on amounts raised,** the purpose criterion is not met and all costs of the activities should be charged to fund-raising. (Emphasis added). Unfortunately, this key provision is vague and open to subjective interpretation. It appears to address only percentage-based contracts between a nonprofit and fundraiser. It doesn't clearly apply to fixed fee contracts that provide the fundraiser is to be paid before the charity and solely from the revenues of the fund-raising campaign. The provision should be clarified or expanded to include this and similar situations.

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2. Paragraph 25 strives to establish a worthwhile factor for consideration. But the phrase "program or management and general component" is vague. Also, the consequence of failing this test is not clearly expressed.

3. Paragraph 26 contains many positive features. It could be improved by adopting the editing changes offered by the National Association of State Charity Officials in its comments.

4. The audience criterion is crucial. This office agrees with comments submitted by the State of Connecticut that donor acquisition activity, in particular, seldom warrants allocation to the program function. The proposed SOP does little to tighten the guidance language in this area.

Thank you for consideration of these comments.

Very truly yours,

Jody Wahl

JODY WAHL
Investigator, Charities Division

Telephone: (612) 297-4607

JW:chh.ig8

March of Dimes
Birth Defects Foundation
National Headquarters
1275 Mamaroneck Avenue
White Plains New York 10605
Telephone 914 428 7100

March of Dimes Preventing Birth Defects

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January 7, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

This letter is in response to the Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal.

We feel that the SOP should not be issued in its present form. The document appears to be a rigid and negative response to perceived abuses in the area of joint cost allocation.

Most importantly we feel that the proposed SOP negates the fundamental proposition that education about good health and health hazards can work. The success of the national smoking reduction effort illustrates the point that frequent, redundant and universal delivery of a message can change behavior. It would have been less effective to focus the message only on smokers. Smokers quit because of hearing the message directly and by hearing it from their family and friends. We believe the same is true of our messages about care before and during pregnancy. These messages should be delivered not only to potentially pregnant or pregnant women but also to their mothers, fathers, aunts, uncles and friends--all those they go to for advice. This argues for joint allocation of costs as long as the message is cogent and correct. To eliminate the possibility is to limit the potential for public health education. For this reason we believe that the SOP should not be issued. There are several other reasons why this SOP should not be issued.

Under this SOP, an organization which sends programmatic literature without a solicitation for funds to individuals can charge all costs to program. However, merely including a remittance card could require that all costs be recorded as fund-raising. Most not-for-profit organizations have very limited financial resources--especially in these difficult economic times. By implementing these arbitrary rules, the SOP will require organizations to make often difficult decisions as to whether to: send the programmatic information and the solicitation request separately (a gross waste of their resources), send only the programmatic message without an appeal for funds (and risk jeopardizing their financial stability), or in some instances to send only the fund-raising information (possibly to the detriment of their mission). The result will be to hinder organizations and dictate to them how they may raise funds while providing less meaningful financial statements.

For many organizations the SOP would cause a distortion in the financial statements by requiring that all costs of materials and activities be reported as fund-raising costs, "including costs that are otherwise clearly identifiable with program ... functions". This would not provide users of financial statements with the best information. Overstating fund-raising expenses will hurt not-for-profit organizations and will not provide contributors and other financial statement users with meaningful information.

Requiring all costs to be charged to fund-raising "if substantially all compensation or fees for performing the activity are based on amounts raised" is another arbitrary rule which will discourage fiscal responsibility. Under these rules the same activity which qualified for allocation to program would be required to be fully allocated to fund-raising if a consultant were to be paid on the basis of funds raised. Some organizations may use such arrangements as they provide an incentive to the consultant, while at the same time guaranteeing the organization a profit and limiting its financial exposure. For many organizations this option would no longer be feasible, potentially decreasing amounts raised and increasing fund-raising costs. Organizations will be caught in the dilemma of making poor fiscal decisions so their financial statements appear sound under this SOP or making sound fiscal decisions and looking like a charity with high fund-raising costs.

We have noted several recent articles written by professionals about the financial statements of non profits which contained numerous material errors and false statements. How can we expect the public to understand the reasons for these changes when experts in the field do not agree or understand these issues?

We believe that the audience criterion is also too restrictive. The SOP does not take into consideration the fact that the audience may be selected to meet both program and fund-raising objectives. In addition it does not comprehend the idea that strong, clear, health messages are of value and will be communicated to the recipients of the mail and *their family and friends* as the appropriate occasions arise. Education on these matters work in a more generalized way than the SOP presupposes.

In paragraph 29 the SOP states that "lists acquired from organizations with similar or related programs are more likely to meet the audience criterion". How does one determine the source of names on the other organizations list? There are also inherent limitations as to the type and amount of data that can be derived from a mailing list for purposes of targeting a specific audience. This will especially be true for smaller organizations with less sophisticated data bases and fewer resources at their disposal.

As stated previously, this SOP appears to be motivated by perceived abuses by non-profit organizations. I am not aware of any rigorous analysis of "abuses". Instead, the response appears to be based on anecdote. Please keep in mind that these stringent rules will hurt most the non-profits that are adhering to current accounting standards. The organizations that may be abusing the rules will continue to do so under this SOP. These few are best dealt with by our industry's numerous regulatory and watchdog agencies. It would be more appropriate for the accounting profession to discipline its own practitioners who are abusing the rules than to penalize all non profits with rigid rules.

The SOP should be revised to provide more constructive guidance as to what constitutes a programmatic expense. The focus should be on the content of the materials with less emphasis placed on the method the organization chooses to make the public aware and involve them in their mission.

If you have any questions about the above, please feel free to contact me at (914)997-4512.

Very truly yours,

Kate Morrison

Kate Morrison
Vice President for Finance and Administration

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CRAVER, MATHEWS, SMITH & COMPANY, INC.
300 North Washington Street Suite 200 Falls Church, Virginia 22046 703/237-0600

January 5, 1994

Mr. Joel Tannenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal".

Dear Mr. Tannenbaum:

This letter comments on the referenced Exposure Draft ("ED"). Craver, Mathews, Smith & Company ("CMS") is a consultant to several not-for-profit organizations ("NPO"). Our expertise is in direct-mail fundraising for organizations with progressive public-interest agendas. We are concerned with the effect the proposed ED would have on our clients if it is accepted as it is currently written.

The ED argues that users of financial statements which are defined as including "contributors, creditors, accreditation agencies, and regulators" are clamoring for fair presentation of fundraising costs. While it is likely true that state regulatory agencies and accreditation agencies such as the National Charities Information Bureau (NCIB) and the Better Business Bureau are creating a lot of noise on the subject, this ED does not solve the issues, and in fact clouds them even more.

The greatest failings of the ED are in its basic philosophy. The ED is predicated on the idea that if techniques are used which allow a more efficient and cost-effective fundraising package, then the value of the materials as program or agency is eliminated. There are two faults with this premise. First, the materials do <u>not</u> lose their program value just because an NPO tries to be efficient in its fundraising. Second, there is an intrinsic program and agency value in the fact of the contact with a current or potential donor regardless of the fundraising content of the package.

PROGRAM VALUE OF MATERIAL

The ED uses three criteria to determine whether the cost of a contact with a current or prospective donor should be allocated or not. They are Purpose, Audience, and Content. The ED requires that all three criteria be met or all costs must be attributed to fundraising.

The ED asserts that if the NPO employs a fundraising consultant to design, analyze or implement a mailing, then the form of the contract with the consultant has a bearing on the allocation of costs. If the consultant is paid based on a percentage of funds raised, the ED declares the purpose criteria is not met, that the package is all fundraising, and there can be no allocation of joint costs. If all the material are exactly the same, but the NPO employs a consultant and pays a fixed fee, then the purpose criteria is not violated and costs may be allocated.

The form of the contract with a consultant has absolutely no bearing on the substance of the package. The likely affect of this provision is that start-up NPOs will not likely be able to consult with professional fundraisers about their initial contacts with potential donors. Many fundraising consultants will assume the risk of an initial prospect mailing in order to test the market for a start-up NPO. The contributions generated by the initial mailing are often the primary source of funds for that initial mailing. If the fundraiser is willing to assume the risk of the mailing, including costs of printing and postage, why should the AICPA arbitrarily declare that there is no valid program or agency value of the package?

The ED also takes the further step of examining the performance of the fundraising consultant. If the hired consultant is "evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met and all costs of the activity should be charged to fund-raising". Since fundraising consultants would only be hired based on their ability to raise funds, what other criteria would they be measured on? This measurement has absolutely no relationship to the content of the mailing, is done after the fact of the mailing and is once again a triumph of form over substance.

There must be an additional examination of the construction of the materials. Often, the NPO either writes a great deal of the materials itself, or provides significant input into the writing. Invariably the NPO's contribution is concerned with the program and agency portion of the writing. The consultant, whether or not a "fundraiser" is most concerned with the fundraising aspect. Should the program portion prepared by the NPO be tainted entirely by its association with the fundraiser? CMS does not believe that is appropriate.

The second measurement the ED uses is the Audience criterion. Paragraph 27 of the ED states "If the audience for the materials or activities is selected principally on its ability or likelihood to contribute, the audience criterion is not met and all the costs of the activity should be charged to fundraising". One of the specific examples the ED uses is an NPO that deletes lapsed donors from its mailing list. This is declared to violate the Audience criteria because the mailing is sent to contributors based on their likelihood of making a contribution.

The ED wants NPOs to mail to an audience based primarily on their interest in the NPO's program and any attempt to segment a file based on ability to contribute taints the mailing. Elimination of lapsed donors does not necessarily indicate a primacy of fundraising. What it does indicate is that the prior donors have lost interest in the NPO for whatever reason and are demonstrating that fact by not making further contributions. The NPO is only reacting to the information it receives from its donors.

Another danger to NPOs from this criterion is that the AICPA would likely declare any major donor program to be pure fundraising. If two similar mailings are sent, one to small donors and one to major donors, both could fail the audience test and be attributed entirely to fundraising. In actual practice, most major donor mailings include substantially more program and agency content versus fundraising content.

The largest problem facing a reasonably sophisticated NPO, however, is in its prospecting program. Certainly one of the criteria used to select lists for prospecting is the compatibility with the program; another major consideration is the likelihood of a return on the prospecting investment. The largest expenditure in the search for new members and advocates for a cause is therefore by definition classified as a fundraising effort.

These two criteria assume the materials lose their program value based on measurements unrelated to the contents of the package. There appears to be circumstances under which a package which contains no language about fundraising could be construed to be entirely fundraising. If such a package were prepared by a professional fundraiser compensated by a percentage method, whose performance is measured by the amount of funds raised, and the package was mailed to only the $25 - $50 donors of the NPO, then the package fails the Purpose and Audience test -- **AND THERE IS NO FUNDRAISING INCLUDED.**

The ED would have us believe that NPOs should be separating the fundraising effort from the program and agency efforts, preferably by disseminating fundraising materials separately from program and agency efforts. Only in this fashion would an NPO be able to meet the requirements of the ED. But as every NPO and fundraising consultant knows, the cost of that effort is prohibitive. If an NPO were to undertake such an endeavor, the public would appropriately question whether funds administered by the NPO were being used effectively. Such a scheme might reduce the percentage of funds expended for fundraising, but the total dollars out of the organization would be significantly higher.

VALUE TO THE NPO

The final criterion is Content. SOP 87-2 and the new ED both require that the materials support a bona fide program or management and general function, and the recipient be asked to take an action other than donating money (a call to action). The new ED and the old SOP go on to define a call to action as a bona fide program activity, but the new ED goes on to restrict the definition of what a call to action is allowed to be. For example, the new ED specifically eliminates a call to prayer as a bona fide activity. Religious organization will question why, when the United States government separates church and state, the AICPA is compelled to define a program on their behalf.

The new ED also classifies educational materials as in support of fundraising. This ignores the educational value the NPO delivers to current and potential donors about the organization itself and its program activities. Many NPOs, especially 501(c)(3) organizations have education as one of their primary purposes; it is in the mission statement of some and is the major program of others. Whether or not a current or potential donor makes a contribution is irrelevant to the value of the educational information disseminated.

This concept is well accepted by the Supreme Court of the United States. Justice White wrote in the majority opinion of *Schaumburg v. Citizens for a Better Environment*, 444 U.S. 620 (1980) "..solicitation is characteristically intertwined with informative and perhaps persuasive speech seeking support for particular causes or for particular views...and that without solicitation the flow of such information and advocacy would likely cease". Justice Brennan, in the majority opinion of *Riley v. National Federation of the Blind of North Carolina, Inc.*, 487 U.S. 781 (1988) quoted Justice White and went on to assert "where the solicitation is combined with the advocacy and dissemination of information, the charity reaps a substantial benefit from the act of solicitation itself.

Note that Justice Brennan characterizes the benefit as substantial. Not minimal, not ancillary, not incidental, but substantial. And he does not require a call to action, as the AICPA would, but merely the dissemination of information. It is clear that Justice Brennan recognizes that there is a value to the fundraising materials that goes beyond fundraising. If his argument is extended to the next conclusion we might find that the costs of the materials should be allocated to program and agency rather than fundraising.

There is no provision in the ED, however, to allocate costs exclusively to program or agency if all costs are present. The only allowable methodologies allocate among all three (or two if one or the other of program or agency costs are absent) or exclusively to fundraising.

CONCLUSION

The AICPA has proposed this statement in response to requests from regulatory and self-appointed "watch-dog" agencies to make it easier for them to identify fundraising costs. As currently drafted, the ED does not accomplish that objective. It only clouds the issue by establishing arbitrary criteria and has the effect of deliberately misstating fundraising costs in financial statements.

There is significant guidance from the AICPA and the Financial Accounting Standards Board currently available. Financial Accounting Standards 116 (Accounting for Contributions Received and Contributions Made) and 117 (Financial Statements of Not-for-Profit Organizations) cover the topic sufficiently when consistently applied with SOP 87-2.

Each of us concerned with NPOs has a responsibility to report fundraising costs fairly and accurately. It is imperative that we use a methodology which can be verified by independent auditors and that we apply it consistently. It is the responsibility of the auditors to opine whether or not the results of the methodology when take in the context of the financial statements taken as a whole distort the statements. It is <u>not</u> the responsibility of the AICPA to dictate the content of a mailing; the form of the contract with its consultants; or to assume, contrary to the several opinions of the Supreme Court of the United States, that there is no value in fundraising solicitation to an NPO's program or the education of the American public.

PROPOSED SOLUTIONS

SOP 87-2 should be clarified in part and some of its provisions tightened up to provide greater guidance to practitioners. I recommend the following:

1. Eliminate the arbitrary methodologies used in some instances to calculate the allocation among the various functions. Require that the methodology selected be quantitatively verifiable and consistently applied between various packages. Specifically disallow broad-brush estimates not based on the content of the materials.

2. Eliminate the requirement of "motivat(ing) the audience to action other than providing financial support to the organization...". Many of the NPOs are 501(c)(3) organizations which have education of the public as their primary purpose and one of their major programs. As discussed above, there is significant precedent in Supreme Court decisions to recognize that there is value to the content of the mailing by the very fact of a person receiving it. That value should accrue to the NPO regardless of the presence of any call to action.

Any organization, including the AICPA, which attempts to define the content of any NPO's mailing treads well beyond the line defining free speech.

3. Defining the contractual relationships between the NPO and the fundraising consultant is an exercise best left to the state and local regulatory agencies. Watchdog organizations such as the NCIB have for years unsuccessfully argued that all consultants are benefiting at the consumer's expense from direct-mail fundraising. Their jobs are made much easier by this standard, but it is not within the AICPA's purview to determine the structure of the working relationship between two entities. All CPAs would be outraged if an outside party (say the SEC) attempted to regulate the relationship between CPAs and their clients. In fact many states currently regulate the form of the contract between an NPO and their fundraiser; that regulation should be more than sufficient and inclusion in the ED is inappropriate.

4. There must be a recognition of the technologies that are available today which make fundraising more efficient. Forcing an NPO to retain all donors as active and never allowing the concept of a "lapsed" donor is a poor use of the limited resources available to an NPO. Segmenting a house file or an acquisition file as a <u>part</u> of a mailing should be permissible. The content of the package should be the determining factor of the allocation, not the background data used in assembling the materials.

5. Finally, there should be <u>no</u> circumstances under which the ED would require assignment of **all** costs to fundraising. Based on the decisions cited above, it is obvious to me that the Supreme Court has arrived at the conclusion that contact with a current or potential donor in any form, with or without a fundraising appeal, carries a value in and of itself. As an auditor, I could not therefor, find a rational basis for <u>not</u> allocating cost among all functional areas contained in a given package.

We hope these comments have been useful to you. If you have any questions or wish to discuss this further, please call me at (703) 237-0600.

Sincerely,

William J. Cook

William J. Cook, CPA
Chief Financial Officer

COMMUNITY ... WHERE IT ALL STARTS

NATIONAL
HEALTH
COUNCIL

101

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January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The National Health Council's membership includes 38 of the nation's leading voluntary health agencies (VHAs) with nearly 10,000 affiliates and chapters nationwide. On behalf of these agencies (see attached listing), we respectfully submit these comments on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft) dated September 10, 1993.

We commend the AICPA's attempt to clarify its position on joint cost allocation and we acknowledge the time, effort, and expertise that went into developing this document. Likewise, we appreciate the effort to provide ethical guidance in the Compensation Test of the Purpose Criteria. In fact, our own VHA Membership Standards state, "*The agency does not enter into agreements with organizations or individuals to raise funds on a commission or percentage basis.*" (VII.(8))

We are concerned, however, that this document tacitly proposes a return to the "primary purpose" approach to cost allocation. In 1987, it was determined by the AICPA that this approach was not in accordance with generally accepted accounting principles, and that it would cause fundraising costs to be misstated. Prior to 1987, the VHAs utilized the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations (1974 Black Book)(Revised 1964 and 1974) for accounting guidance on multi-purpose activities. The 1974 Black Book definitions of "Primary Purpose" included situations in which allocations to education programs could be made as described below:

> *The primacy of contributors' concerns about fund-raising and overhead costs of voluntary organizations requires that all costs of joint information programs be reported as fund-raising, with the sole exception of marginal, or additional, costs directly attributable to the separate, educational or other information material or activity. Thus, only the additional direct costs of a "public health education" piece, enclosed with an appeal for funds in a single mailing, should be charged to public health education. (1974 Black Book, Pages 65-66)*

The Exposure Draft would impose even more severe directives than the "Primary Purpose" rule. An agency's ability to allocate any costs to its public education program expense might be eliminated entirely, even though a multi-purpose activity may be the only economically feasible way to distribute the agency's message. This is both unfair and unacceptable. Therefore, we call upon AICPA to revoke the Exposure Draft in its current form.and begin anew, employing the expertise and resources from the non-profit community in the formulation of a revised statement which addresses the joint cost issues more reasonably and equitably.

PURPOSE

The proposed tests to determine whether or not bona fide program activities are taking place within a multi-purpose activity are troubling. Moreover, they are without basis in authoritative guidance provided by FAS 117. The Exposure Draft states:

> *"...in determining whether a bona fide program or management and general function has been conducted, the purpose for conducting the activity must be considered." (Par. 22)*

However, the tests to determine program activities provided in the Exposure Draft are in conflict with the guidance provided by FAS 117, which states:

> *"Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purposes for and the major output of the organization and often relate to several major programs." (Par. 27)*

Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations (a.k.a., the Black Book)(Revised 1988) provides specific definitions for public education activities which serve as the current industry standard. These definitions are as follows:

> *"Public education consists of information materials and activities: 1) Describing the symptoms of ill health, disease and physical or social disorders, or 2) Describing progress made in preventing or alleviating health or welfare problems, or 3) Describing actions to be taken by individuals or groups to prevent or alleviate personal or community health and welfare problems and Directed either to the general public or to special groups that may have a special need or special interest in the problem." (Page 52)*

The Exposure Draft does not address the totality of the program activities included in a fundraising appeal. To the contrary, it may exclude many program activities simply because it contains a request for funds. The tests required by the provisions of the Exposure Draft are more restrictive than other, more authoritative guidance, e.g., FAS 117.

Compensation Test: As previously noted, we have such criteria in our membership standards as well. However, we view the test as a behavioral standard, not an accounting standard.

Evaluation Test: We agree that some form of program evaluation should exist as a good business practice. It should not, however, exist as an accounting measure. In some instances, program results can be identified and measured, such as in a smoking cessation education campaign aimed at one segment of the population. But for many of the VHAs, the resources do not exist to identify, measure and report critical success factors of program services. Accordingly, an evaluation test should not be a major factor in determining whether the activity is a program service.

This provision has no relation to program purpose or intent. It precludes allocation regardless of whether an activity meets a program purpose as defined in FAS 117 paragraph 27 or the Black Book page 52.

With/Without Appeal Test: This test would undermine economic efficiency. Many of our smaller or lesser known agencies find it cost-effective to include fundraising materials with their informational materials. For example, an agency may ship a public or professional education piece in bulk to health conferences for inclusion in registration packets. This is a bona fide program of the agency that supports the mission of the organization and is a cost-effective way to distribute the piece. Another cost-effective way to distribute the piece would be to include a fundraising appeal with it. According to the exposure draft, this previously bona fide program activity would now be reclassified as a fundraising activity based on the method of distribution employed by the agency. This test assumes that this information is without value.

Duties of Personnel Test: This test disregards the fact that there are many small agencies and affiliates of agencies that employ a staff of less than ten. In such cases, any one employee may be responsible for a combination of fundraising, program functions and management and general activities. At what point does an employee's time become "significant" in these instances? The AICPA needs to define carefully the term "significant" as used in this context and clarify how this would apply to a small organization.

Additionally, the Exposure Draft states that

> *If the entity employs a third party, such as a consultant or contractor, to perform part or all of the activity, the third party's experience and full range of available services should be considered in determining whether it is performing program activities. (Par. 26D)*

Essentially, the Exposure Draft is asking the irrelevant question, "What services does the third party provide?" More aptly stated, the question should be, "What specific services were provided to the entity?" However, the most glaring omission in this test is that there is no means to determine whether or not a bona fide program service activity took place.

AUDIENCE

Paragraph 27 states that if the audience is selected principally on its ability or likelihood to contribute, then all costs should be charged to fundraising. This suggests that no programming activity can be conducted in these instances. This is illogical because, in many instances, a high-giving audience benefits from the educational materials provided.

The Exposure Draft also does not consider the situation where the principal reasons for the audience selection may be both program interest and ability to contribute. There are no criteria provided in the exposure draft for this common practice.

We request further clarification and expansion on the audience test.

CONTENT

We request further clarification on the Content Test. Paragraph 30 states:

> *"...the materials or activity must support bona fide program or management and general functions... Information must be provided explaining the need for and benefits of the action." (Par. 30)*

However, paragraph 31 states:

> *"...statements identifying and describing the entity or stating the needs or concerns to be met... should be treated as in support of the fund-raising appeal." (Par. 31)*

These statements contradict of one another. This matter must be clarified. Additionally, many times an appeal for volunteers includes the same materials as would a fundraising appeal. The Exposure Draft does not address this issue. Regarding Residential Campaigns, the Black Book states:

> *"...Nevertheless, even though these campaigns often raise less than in prior years, certain agencies have continued them because of the importance of the program aspects of the effort. In these circumstances, it may sometimes be concluded that the fund-raising objectives are incidental to the program objectives and that joint costs should be allocated to the program function. (Page 133).*

According to the Exposure Draft, however, these costs would now become fundraising. This is another matter where confusion reigns.

INCIDENTAL COSTS

Despite considerable discussion in the Exposure Draft on incidental costs, one is left without an understanding of what is meant by "incidental costs." A clear definition of the term should be developed.

EFFECTIVE DATE

In the unfortunate event this Exposure Draft is approved as it stands, all agencies will require an adjustment period so that their public education programs and fundraising programs can conform with the changes in the Exposure Draft. It is unreasonable to demand full compliance without notice. We request that AICPA extend the effective date to correspond with organizational fiscal years and reiterate our preference for revocation of the proposed statement of position.

CONCLUSION

The Exposure Draft will not bring about uniformity and comparability of financial statements as is the intention of the Committee. The arbitrary criteria will cause similar organizations to report similar transactions differently resulting in financial statements that cannot be meaningfully compared over time either within or between organizations.

Moreover, we understand that the development of this Exposure Draft was motivated by anecdotal information supplied by regulators, and was not based on systematic evidence of SOP 87-2 abuses. Therefore, alleged clarifying changes made in this document are merely arbitrary strictures. We would encourage instead that the AICPA apply existing disciplinary measures to AICPA members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

In conclusion, we believe it would be in the best interest of the accounting profession and not-for-profit community to rescind the Exposure Draft and rewrite it with input from both the not-for-profit community and the users of financial statements. At the same time, the AICPA should actively engage in the discipline of its members to help assuage the regulators' concerns about abuses.

When the new document is formulated, it should embrace current authoritative guidance on program activities so as to minimize differing interpretations, eliminate contradictory directives and clarify intent with definitions. The next draft should embody the spirit of rational joint cost allocation, not resurrect the ghost of "primary purpose" accounting.

If you have any questions regarding our comments, or require assistance, please feel free to contact either myself, or Jean Gilbert of our staff.

Sincerely,

Joseph C. Isaacs

Joseph C. Isaacs
President

STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT
Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (206) 753-5450

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January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

These are the state of Washington's comments on the AICPA ED of a proposed SOP on *Accounting For Costs Of Materials And Activities Of Not-For-Profit Organizations And State And Local Governmental Entities That Include A Fund Raising Appeal.*

We are always pleased to see the promulgation of accounting standards that provide good definitions, detailed guidance and appropriate examples. This proposed SOP does all of these things and is a clear improvement over SOP 87-2. The only question we would raise is that of applicability. We believe that this SOP should be applicable only to separately issued financial statements.

The proposed SOP would be applicable to ". . . all NPOs and state and local governmental entities that report expenses or expenditures by function . . ." In Washington state, two and four year colleges, university hospitals, and state hospitals are blended in the state's CAFR. The proposed applicability would create several presentation and disclosure issues for the Washington State CAFR. On a statewide level, when very little fund raising activity occurs, and it is spread across all fund types, the numbers could conceivably be 'rounded away' in a state CAFR. With several components of the CAFR engaging in this activity, the disclosures required by paragraph 35 would be both onerous to the preparers and meaningless to the readers.

According to Cod. Sec. 2200.120, two types of disclosure are required in the CAFR: notes that are essential to the fair presentation of the GPFS and narrative explanations useful in providing an understanding of the combining statements and schedules. The disclosures required by the proposed SOP, when applied to a state's CAFR, do not appear to fulfill either of these requirements. However, we believe that the financial reporting and full disclosure of fund raising activities would be appropriately displayed in separately issued financial reports. For that audience, the size and types of fund raising activities are of both programmatic and financial importance.

We appreciate the opportunity to respond on this ED. If you have any questions, please do not hesitate to give me a call at (206) 664-3403.

Sincerely,

Mike Cheney

Mike Cheney, CPA, Manager Statewide Accounting
Accounting and Fiscal Services Division

MC:BG:em

cc: Carl Wieland, OFM
National Association of State Controllers
Governmental Accounting Standards Board

NATIONAL HEALTH COUNCIL
VOLUNTARY HEALTH AGENCY MEMBERSHIP

Alzheimer's Association, Inc.
American Cancer Society
American Diabetes Association
American Heart Association
American Kidney Fund
American Liver Foundation
American Lung Association
American Red Cross
American Social Health Association
Amyotrophic Lateral Sclerosis Association
Arthritis Foundation
Asthma & Allergy Foundation of America
Crohn's & Colitis Foundation of America
Cystic Fibrosis Foundation
Epilepsy Foundation of America
Guillain-Barré Syndrome Foundation International
Huntington's Disease Society of America
Interstitial Cystitis Association
Juvenile Diabetes Foundation International
Lupus Foundation of America
March of Dimes Birth Defects Foundation
Myasthenia Gravis Foundation
National Down Syndrome Society
National Easter Seal Society
National Hemophilia Foundation
National Mental Health Association
National Multiple Sclerosis Society
National Neurofibromatosis Foundation
National Osteoporosis Foundation
National Psoriasis Foundation
National Tuberous Sclerosis Association
Paget's Disease Foundation
Planned Parenthood Federation of America
Prevent Blindness America
RP Foundation Fighting Blindness
Sjögren's Syndrome Foundation
Spina Bifida Association of America
United Ostomy Association

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Richard D. Johnson, CPA
Auditor of State

Kasey K. Kiplinger, CIA
Deputy Auditor of State

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January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 50036-8775

Dear Mr. Tanenbaum:

Re: AICPA SOP ED "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that include a Fund-Raising Appeal"

We haven't had much experience with this subject but we do have two comments.

1. It appears to provide better guidance for identifying fund-raising costs. We support any effort to improve financial reporting, in this case, complete disclosure of fund-raising costs.

2. We found portions of the document to be difficult to follow. The approach is generally that if a cost does not meet certain criteria then it is fund-raising. Would it be clearer to indicate what costs <u>are</u> fund raising (or joint) costs?

Should you have any questions please call or write me or call Don Meadows at 515-281-5538.

Very truly yours,

Richard D. Johnson

Richard D. Johnson

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Michael K. Stevens
203 Longview Court
Lancaster, KY 40444

January 7, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

I was delighted to read the proposed Statement Of Position, Accounting For Cost Of Materials And Activities Of Not-For-Profit Organizations And State And Local Government Entities That Include A Fund-raising Appeal. The clear definitions of the decision making process provided by the proposed SOP are vast improvements over those of what I fear was the widely abused SOP 87-2. Frankly, I fear that many nonprofit organizations which expend a significant portion of their contributions on fundraising efforts will continue to seek ways to justify the classification of fundraising costs as program costs under the new SOP. While I appreciate the need to provide fairly broad guidance that can be used by entities with varying circumstances, I believe that the proposed SOP would be strengthened and unjust reclassifications minimized should certain specifics be added to the document.

It is my understanding that some organizations, in an effort to bolster the allocation of information costs to programs, have amended bylaws to include "educating the general public about the cause for which the entity exists" as a program. The SOP should make it clear that education about the "cause" does not constitute a program expense unless that education leads the individual reader to an action other than contributing money that impacts the "cause" itself. The SOP should also borrow from and expound upon 87-2, paragraph 17, and make it clear that all fundraising appeals must educate the reader in order to motivate him or her to contribute or to perform some alternative action. It should explicitly state that the presence of a call to action other than the contribution of funds does not suddenly convert the cost of educational material to program cost. The educational material should be allocated solely to program cost only if that material was designed and disseminated exclusively to obtain the alternative action. When an effort is made to both obtain funds and achieve a program goal through alternative actions on the part of the reader, the cost of a common body of educational information should be allocated either wholly to fundraising or to fundraising and program based upon some relative measure of the efforts expended. In view of this, I believe that paragraphs 31 and/or 33 should be strengthened.

I believe that the discussion of the "physical units method" in paragraph 34 is correct in pointing out that an "allocation based upon line counts may not reflect the purpose for which the activity was undertaken or the reason the audience was selected" and that "solicitations sometimes include content that is not clearly identifiable with either fundraising, program, or management and general; or the physical units of such content are inseparable". I believe that the following statement should be added at the end of the discussion of the physical units method.

> If not separable and the physical units method is used, all material which informs the public, thereby motivating the public to either contribute or take other actions, should be attributed to fundraising.

The remainder of the comments which I shall make shall be presented in the order in which the related material is presented in the proposed SOP.

In paragaph 21, subsections e. and f., there appears to be a presumption that an activity can contain only two of three functions (fundraising, management and general, and program) at the same time. These subsections should be modified or supplemented to clearly indicate that situations can exist where all three functions are simultaneously served through the same activity.

The illustration given under the "relative direct cost method" in paragraph 34 should be expanded. The expanded illustration should specifically state that the separate program materials and postcard with a call to action included in the direct mailing were designed specifically to motivate the reader to perform the alternative program related action and not to support the fundraising appeal. It should be made clear to the reader of the SOP that segregating educational information from the piece of paper on which an appeal for funds is made does not insulate the cost of the educational material from consideration as a fundraising cost. Without such clarification, I fear that entities will simply endeavor to separate educational materials that support the fundraising effort from the specific appeal for funds in order to continue to justify classifying the cost of that educational material as a program expense. It simply makes no sense for an entity to be able to justify the cost of educational material as a program expense by simply cutting it off from the related specific appeal for funds.

I suggest that following the information currently contained in paragraph 35, a caveat be presented. The caveat would advise the reader to ensure that only joint costs are identified in the footnotes and that fundraising costs not subject to allocation should not be included as if they were subject to allocation.

I feel that paragraph 36 should be amended to require that the amount of joint costs for each activity be disclosed. Such a requirement would help illuminate the reader about the extent of allocation relative to each activity and would help to ensure that total costs subject to allocation would not be inflated by the inclusion of fundraising costs not subject to allocation. Such a requirement should not prove to be burdensome since the cost of each separate activity would have to be identified during the allocation process regardless of the costing method used.

I appreciate the opportunity to respond to the proposed SOP. While I realize that many of the comments which I have included in this letter have already been addressed in some fashion in the proposed Statement of Position, I firmly believe that the document would be strengthened and understanding enhanced if the specific suggestions which I have made were included. I wish you the best of luck in your continued efforts to resolve this issue. I know that it has been a difficult and controversial topic.

Sincerely,

Michael K. Stevens

Michael K. Stevens, CPA

MKS/ka

C#75;mkslet6.1 - .3

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Missouri Special Olympics
1907 William Street
Jefferson City, Missouri 65109
(314) 635-1660

January 6, 1993

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal"

Dear Mr. Tannenbaum:

This letter is a response to your request for comments on the above reference proposed statement of position (SOP). Our organization currently uses both direct mail and telemarketing in order to educate the public about Special Olympics, as well as to raise funds to run our programs. While we agree that standard criteria must be set up in order to accurately report the operations of these programs, we believe that the criteria in the proposed SOP would not allow us or any other not-for-profit to provide accurate reporting.

The purpose criterion makes it very difficult to prove any public education value to our mailings or phone calls because there is no cost-effective way to measure any program call to action, such as a request to volunteer for the local Special Olympics program. We do not have the financial resources to reach as massive an audience without a fund-raising appeal in addition to one with a fund-raising appeal, as suggested by one of the tests of the criterion. Also, just because a fund-raiser's fee might be based on the amount of income raised, it does not mean that the fund-raiser has not put together an extensive package to educate the public about our mission, and therefore we should be able to allocate some of the costs to public education.

The audience criterion is very difficult to meet because its definition is much too narrow. The criterion states that it must be determined that we select an audience either on their ability to contribute, or on the ability to help our program meet its goals. Most of our mail and phone calls are targeted to an audience that could potentially do both, because, as stated above, we cannot afford financially to have different appeals--one for public education and one for fund-raising. Since our appeals include both public education and fund-raising, we should be able to allocate costs between the two.

Overall, we believe that as long as our appeals contain substantial public education about our mission in addition to a request for contributions, it should not matter that all of our messages have a fund-raising appeal, or that our audience came from a list of an organization that may not be entirely similar to ours. Everyone we reach is a potential volunteer as well as a potential donor if we educate them properly. SOP 87-2 came about to replace the old "primary purpose rule", in order that organizations such as ours could properly account for public education. The narrow criteria in the proposed SOP seem to be going more in the direction of the "primary purpose rule", which would not allow us to report what we are actually doing--that is, educating the public about Special Olympics in addition to raising money.

Sincerely,

Mark C. Musso
Executive Director

(106)

Missionary Oblates of Mary Immaculate

NATIONAL SHRINE OF OUR LADY OF THE SNOWS • BELLEVILLE, IL 62223-4694

January 3, 1994

Mr. Joe Tanenbaum
Technical Mgr., Accounting Standards Div.
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal."

Dear Mr. Tanenbaum,

This letter comments on the referenced Exposure Draft. The mission of this organization is to organize and animate lay groups which seek to share in the Oblate spirituality and apostolate. We use multipurpose materials, including Direct Mail as cost-effective means to accomplish our programs and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fund-raising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fund-raising appeals and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley vs. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

> Example: For the Purpose criterion, the tests proposed for compensation, evaluation, and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet, none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fund-raising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multipurpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fund-raising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgement of an auditor for that of an experienced fund-raiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purposes(s) to which the content relates.

Example: The Exposure Draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fund-raising. But if the charity uses a fund-raising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fund-raising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This Exposure Draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our Board of Directors and our management.

THE WILDLIFE LEGISLATIVE FUND OF AMERICA
To protect the Heritage of the American Sportsman to hunt, to fish and to trap.

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January 6, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to educate hunters and fishermen about their sports and about their role in wildlife management. We use multi-purpose materials, including mailings concerning issues affecting hunting and fishing sports which require the attention of our members and of hunters and fishermen generally, as cost-effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as fund raising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

801 Kingsmill Parkway - Columbus, Ohio 43229-1137 (614) 888-4868 FAX (614) 888-0326

Our central concern which motivates this letter is that it is important for an organization such as ours to be able to report as factually as possible the relative expense of fund raising, without having to appear to slander our own operation by having to overstate such expenses. Other than renewal notices, we never make any significant expenditure for fund raising, in that fund requests are collateral to issues that must be dealt with on a timely basis. However, under the new standards it would appear that the "tail would wag the dog" in this regard and we would be required either to reduce our organization's effectiveness or risk a bad public image which we did not deserve.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Rick Story
Executive Director

RS:cld

(108)

STANLEY F. DOLE
CERTIFIED PUBLIC ACCOUNTANT

1536 EASTLAWN S.E. - GRAND RAPIDS, MICHIGAN 49506
616 245-7271

January 3, 1994

Joel Tanenbaum
Technical Manager, Accounting Standards Division
File 3605JA
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036

Dear Mr. Tanenbaum:

For over 20 years I have operated a small firm whose practice has been limited to non profit organizations. I believe that it is very worthwhile to have financial statements of non profit organizations which break down costs between program, management, and fund raising, and I believe that such a breakdown should be required. However, I know that many small organizations are unable or unwilling to devote the resources necessary to keep books on that basis. Nearly 80% of my clients are in that situation. I also know that even where functional books are maintained, different organizations are making allocations of these costs in different ways. While in theory for comparison purposes, these should be uniform, I doubt that such uniformity is practical or can be mandated, even with the specific rules in this proposed S.O.P.

Most smaller non profit organizations that I audit have limited staff in the accounting area and are not well equipped to apply the complicated criteria set forth in this statement to determine whether particular costs should be allocated to program, management and general, and fund raising expenses. Staff of these organizations usually have duties in more than one area, and seldom keep accurate time records of how much time they spent in a particular task such as preparing a brochure. It may be possible to determine the printing cost of the brochure, but paper, envelopes, postage, and other indirect costs of the brochure are buried in other accounts.

Membership organizations usually have a basic membership that covers the direct cost of service to members, but have other categories of membership, such as contributing and sustaining, for larger amounts that may help fund charitable service rendered to others. How should the renewal solicitation be allocated in this situation? Many special events have both programmatic and fund raising elements. These situations require allocation based on judgment, not arbitrary rules.

Many organizations, especially those with no present functional accounting on their books, will simply not attempt to apply this S.O.P., which may result in the auditor feeling that he must make the determination, and must make the determination based on the arbitrary standards in the S.O.P. if he is to express an unqualified opinion.

I feel this is inappropriate. The organization knows what it is trying to do and should determine the allocations based upon what it is doing and where its management knows its staff are spending their time. Where organizations have no functional accounting on their books, which is often the case, I sit down with the management and they tell me what percent of each employee's job they feel is in each program and in management and fund raising, after I have explained the meaning of each of those terms. Then all identifiable direct costs of each area are charged thereto and all other costs are allocated in proportion to the payroll of each function as determined above. This is not precise, but is good enough for all practical purposes, and while computed by the auditor, is the client's determination, not the auditor's. This permits an organization with very limited accounting staff that does not keep books by function to have an unqualified audit opinion on functional reporting.

I would not require a note disclosure of the costs allocated. In my view, the majority of costs in most of these organizations are allocated, and to try to separate joint allocated costs from other allocations does not make a lot of sense to me, particularly if the overall allocation approach I described above were followed.

In respect of costs applicable to special events that are all or part program events, if the event generates net revenue, I believe the net should come in as a line item in income, and if a net expense as a line item in expense, allocated to functions on a judgment basis, with note disclosure of the income and expense applicable to each major event, rather than mixing in these incomes and costs with other program or fund raising costs. This method tells the donors what they want to know, which is what was the financial result of an event they donated to or are being asked to donate to. That is, does the donation primarily support that event or primarily the organization as a whole?

I take exception to the following concepts in the S.O.P.:

A. The idea that if a person is compensated based on the amount raised, all the cost is fund raising, and that if material is prepared by a fund raiser,

/C.8

it is all fund raising. Smaller organizations do not have full time staff in each specialized area and they often do not employ outside consultants in each area. A fund raiser or public relations person may well be directed to prepare the parts of an appeal that relate to other functions.

B. If the audience targeted is selected principally on its ability or likelihood to contribute, it is all fund raising. Obviously, no organization can mail to the whole world, and organizations with any sense will direct most of their mailings to people who are considered likely to be interested and able to give, even if they are attempting to educate, raise awareness, or promote action about a particular problem. For example, people known to belong to other environmental organizations are much more likely to be willing to be educated and respond positively to a new environmental cause such as recycling, preserving a particular area, writing a legislator on a bill, etc. Those with an ability to give are more apt to read the material than those who are destitute. Actually, today there is practically no one in the country who has no ability to give anything whatever, so in my opinion, that criteria is virtually impossible to apply.

Rather than mandate the specific criteria set forth in the S.O.P., I would present them as suggestions as to how the costs might be allocated, but state that management has the responsibility to make the allocations based upon its knowledge of the activities of the organization.

The auditor then would have the responsibility to express an opinion as to whether the result is a fair presentation based on his professional judgment and knowledge of the organization. I much prefer this approach to mandating the many detailed rules of this S.O.P.

Thank you for the opportunity to comment on this file.

Sincerely,

Stanley F Dole

Stanley F. Dole
SFD/egd

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JAY STARKMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANT
2531 BRIARCLIFF ROAD
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January 7, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036

Dear Mr. Tanenbaum:

As everyone knows, SOP 87-2 is abused. Every solicitation is geared to allocating joint cost to education expense.

The proposed SOP, "Accounting For Costs Of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities That Include A Fund-Raising Appeal", makes the standard much stricter, but it's still an invitation for charities to structure solicitations for the same abuses.

At a minimum, Paragraph 27 should be amended to create a presumption that the audience has been selected on its ability or likelihood to contribute. Then set the standards in Paragraph 28 for determining the exceptions. As presently written, there is too much discretion and vagueness, which would allow for misallocation.

Preferably, I urge an even stricter standard. Every appeal should be charged to fundraising, unless the appeal is incidental. The words "Contribution to Organization X may be sent to (address)" may appear on a small area of a message. However, if a return envelope or any appeal or contribution check-off is included, it's fundraising. An exception would apply when the target requests materials and an appeal card is enclosed with his requested materials.

Consider the real world. When I call a charity for educational information, they send it. Very rarely is a fundraising brochure enclosed. On the other hand, every time I receive unsolicited "educational materials", an appeal card and return envelope are enclosed.

For example: A direct mail company organizes a charity, American Orphan Society. A mailing consists of a 4-page letter and color flyer on the plight of orphans and promoting adoption as an alternative to abortion. A call to action asks people to make sure that certain adoption programs and resources are available in their communities, with sufficient detail that might satisfy the content requirements of paragraph 30. The only mention of solicitation is an envelope with a tear-off pledge/contribution notice. The audience is prospective and actual adoption parents, where the criteria is too vague for an auditor to make a definite determination.

Ninety percent of the funds raised by American Orphan Society will pay for printing and mailing costs. The remaining 10% will be sent by the "charity" to some orphans organization. Under the proposed SOP, American Orphans has a chance at showing 90% program costs.

The issue of joint costs is a hot-button to me. I've seen too many charity abuses. The public is largely ignorant of the fact that a mail solicitation usually costs over 50% of the amounts raised. Regulation is lax and accounting standards are weak.

I hope that members of the Not-for-Profit Organizations Committee will leave their client advocacy behind when they decide on this matter. I understand that SOP 87-2 was recognized as a weak pronouncement, but politics prevented AICPA from issuing a stronger statement. I hope that Mr. James Brooks, who was on the Committee back then, as he is now, will help the Committee honestly reflect on the need for a strong standard.

Personally, I tithe. But I contribute to organizations with very low fundraising costs. I don't object to a 20% fundraising-administration cost. Unfortunately, I consider accounting standards an abysmal failure in helping me sort out the good and bad charities.

Sincerely,

Jay Starkman

Jay Starkman

JS:abm:x

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Special Olympics Virginia

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(804) 644-0071 / (800) 932-GOLD

January 6, 1994

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, "Accounting for Costs of materials and Activities of Not-for-Profit organizations and State and Local Government Entities that Include a Fund-Raising Appeal"

Dear Mr. Tannenbaum:

This letter is a response to your request for comments on the above referenced proposed statement of position (SOP). Our organization currently uses both direct mail and telemarketing in order to educate the public about Special Olympics, as well as to raise funds to run our programs. While we agree that standard criteria must be set up in order to accurately report the operations of these programs, we believe that the criteria in the proposed SOP would not allow us or any other not-for-profit to provide accurate reporting.

The purpose criterion makes it very difficult to prove any public education value to our mailings or phone calls because there is no cost-effective way to measure any program call to action, such as a request to volunteer for the local Special Olympics program. We do not have the financial resources to reach as massive an audience without a fund-raising appeal in addition to one with a fund-raising appeal, as suggested by one of the tests of the criterion. Also, just because a fund-raiser's fee might be based on the amount of income raised, it does not mean that the fund-raiser has not put together an extensive package to educate the public about our mission, and therefore we should be able to allocate some of the costs to public education.

The audience criterion is very difficult to meet because its definition is much too narrow. The criterion states that it must be determined that we select an audience either on their ability to contribute, or on the ability to help our program meet its goals. Most of our mail and phone calls are targeted to an audience that could potentially do both, because, as stated above, we cannot afford financially to have different appeals--one for public education and one for fund-raising. Since our appeals include both public education and fund-raising, we should be able to allocate costs between the two.

Overall, we believe that as long as our appeals contain substantial public education about our mission in addition to a request for contributions, it should not matter that all of our messages have a fund-raising appeal, or that our audience came from a list of an organization that may not be entirely similar to ours. Everyone we reach is a potential volunteer as well as a potential donor if we educate them properly. SOP 87-2 came about to replace the old "primary purpose rule", in order that organizations such as ours could properly account for public education. The narrow criteria in the proposed SOP seem to be going more in the direction of the "primary purpose rule", which would not allow us to report what we are actually doing--that is, educating the public about Special Olympics in addition to raising money.

Best regards,

Virginia H. Foster

Virginia H. Foster
President

cc: Sargent Shriver
Edgar May
Phyllis Freedman

American Institute
for Cancer Research

Administrative Office
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January 7, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

The American Institute for Cancer Research ("AICR") respectfully submits for your consideration the following comments with respect to the above-referenced exposure draft. AICR is a non-profit, tax exempt organization whose purpose is to provide funding support for research into the relationship between diet, nutrition and cancer to expand consumer knowledge about the results of such research as it relates to cancer prevention and treatment.

In our view the exposure draft demonstrates a bias against joint costs, i.e., program and fundraising, that in the learned opinion of the United States Supreme Court significantly advances a charity's purposes. In Riley v. Federation of the Blind of North Carolina the Court found:

> . . . where the solicitation is combined with the advocacy and dissemination of information, the charity reaps a substantial benefit from the act of solicitation . . . Thus, a significant portion of the fundraiser's "fee" may well go toward achieving the charity's objectives even though it is not remitted to the charity in cash . . .

We believe there is no sound basis in the principles of accounting or otherwise to account for a clearly identifiable program cost as fundraising. To require such is to propose inherently misleading financial statements. Allocation of joint or common costs is not unique to the fundraising/program practices of non-profit organizations. Yet we are unaware of any other accounting standard that requires joint costs to be reported as one type of cost to the exclusion of the other. Furthermore, a number of the tests in the exposure draft totally ignore the question of whether a program activity did indeed take place. If there is a concern that the current methods of allocation being used by the non-profit community result in misleading financial statements we respectfully suggest that this exposure draft provide significant guidance on allocation methodology to eliminate that problem, rather than substitute one set of misleading financial statements for another.

There also appears to be a concern of certain regulators, which the AICPA apparently shares, that the quality of the program element in certain joint costs results in a less than bona fide program function. To the extent that this concern exists, we again suggest that that problem be dealt with directly without penalizing all other non-profit organizations who combine a fund-raising appeal with a legitimate program function.

It has been AICR's experience that not only is a combined effort that has multiple audiences, purposes and content the most cost efficient manner to accomplish our charitable objectives, but it is also one of the most effective. For example, our mailings result in the education of everyone who reads our message about the relationship between diet and cancer, not just those individuals who return a contribution. An average contribution response rate is 3 to 10%, meaning that the purpose for which we exist -- to educate the public about diet and cancer -- also reaches the other 90 to 97% who only read our materials. Moreover, we have satisfied ourselves through statistically valid surveys that our program objectives are indeed being met.

The AICPA has stated that the content of the exposure draft is directed to concerns raised by certain regulators with respect to the abuses they perceive in joint cost allocation by non-profit organizations. We are not aware, however, of any valid research that has been conducted to document the nature or extent of the problem they perceive. Accordingly, we respectfully request that any further action with respect to the exposure draft be deferred until such time as the precise nature and scope of the problem is determined. To do otherwise is to create accounting standards that are arbitrary and off the mark.

The exposure draft, if adopted in its current form would require AICR to incur significantly increased costs through such devices as duplicate mailings without a fund-raising appeal, not to the benefit of our program objectives, but merely to allow us financial statements that would pass muster with the regulators. Ironically, as evidenced by the attached letter we received from the National Charities Information Bureau, Inc., even then the regulators would not be satisfied.

Sincerely yours,

Marilyn Gentry

Marilyn Gentry

enclosure

NATIONAL CHARITIES
INFORMATION
BUREAU, INC.

Promoting Informed Giving Since 1918

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(212) 929-6300

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Cont'd

December 23, 1993

Mr. Kelly B. Browning
Executive Vice President
American Institute for Cancer Research
1759 R Street NW
Washington, DC 20009

Dear Kelly:

In reading, and rereading, your letter of November 19 and also the one of November 12 to Milton White, we realized that your and our communications frustrations would not be resolved by identifying and focussing on specific disagreements. Our correpondence and discussions with you reveal, rather, substantive and pervasive differences in approach to the entire issue of joint costs: their identification, their allocation, and, in extreme cases, their very existence.

This letter, therefore, is our attempt to describe the overall premises and broad guidelines for our dealings with joint costs and their allocations. We believe that this response will better clarify, for us both, not perhaps the answers, but at least the basis for the differences.

Here, then, as best we can now state them -- and the ongoing debates and proposals emanating from FASB and the AICPA make the time qualification essential -- are NCIB's working strategies and assumptions in undertaking joint cost analyses.

NCIB believes that its obligations to contributors require it to adopt a conservative stance in its analysis and evaluation of all joint cost allocations in all areas, and most particularly in the following situations:

- There is nothing in the organization's direct mail package copy which represents a call to action which we feel would meet the criteria established by SOP 87-2

- Over 30% of the costs of a charity's direct mail/telemarketing/telethon packages which include a fund-raising appeal are allocated/reported as program and management and general expenses

- An organization's ability to meet NCIB's minimal program expense ratio of 60% is critically premised on that organization's ability to assign to its reported program category joint costs from its direct mail/telemarketing/telethon activities which include a fund-raising appeal

- A substantial proportion, if not the entirety, of a charity's "program" allocation represents expenses of activities whose GAAP-sanctioned definition and reporting as "education" requires a definition of "education" markedly broader than that which might be understood by the average individual contributor.

We believe that our wariness in evaluating joint allocation reporting is justified not only by common sense -- consumer protection oversight agencies are historically relied on to be conservative -- but also as a necessary preventive reaction to the significant damage -- both actual and perceptual -- which is sustained by the charitable community as a result of repeated and flagrant charitable abuses of joint cost allocation privileges.

You have certainly seen the Exposure Draft of the AICPA's recommended revisions to SOP 87-2. Oddly enough, although this is a document which we vigorously oppose, it does include a startlingly clear exposition of one of the major -- and, we believe, insoluble -- underlying problems in evaluating joint cost allocations.

The ED, in discussing various allocations techniques, indicates that the test for the appropriateness of any selected methodology is whether the resulting numbers seem reasonable or not. And round and round we go. The AICPA is not <u>inventing</u> the circularity of the problem, it is simply exhibiting it.

In this context, AICR most likely begins its own analysis of its direct mail packages on the basis that their content can reasonably be expected to meet/validate the AICR board's stated and duly recorded intentions in sending them. This necessarily colors what AICR finds.

NCIB, on the other hand, begins its analysis of AICR direct mail packages as an outside consumer protection agency, with no such assumptions of reasonableness. In fact, we would begin with the assumption that a letter intended to raise money was a fund-raising letter. That necessarily colors what we find.

So, yes, NCIB has a bias. We have a bias towards being able to offer contributors the assurance that when we say a charity is spending over 60% of its money for program activities the organization is indeed doing so. We cannot attest to that if we believe the definition of "education" used by the group for purposes of its "program" allocations is markedly broader than that which would be generally understood as "an 'education' program" by a prospective contributor.

Current practices by charities in the areas of joint cost allocations and the definitions of allocations' program categories, especially "education," have undermined NCIB's ability to confidently offer contributors such assurance. These same practices are also undermining the credibility of the financial statements of charities. And it is within this context that we must continue to try to justify contributors' trust in the accuracy, fairness, and rigor of our evaluations.

I regret that, in this case, AICR and NCIB do not agree with the results of the NCIB analysis and evaluation. And I hope that this letter is at least confirmation that we are approaching the controversy in good faith.

I also want to add my thanks to you, Kelly, for the information you have made available to us and your readiness to meet and talk with us. That has been appreciated and is remembered.

Sincerely,

Ken

Kenneth L. Albrecht
President

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Special Olympics Idaho

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January 4, 1994

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, "Accounting for costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal"

Dear Mr. Tannenbaum:

This letter is a response to the above referenced proposed statement of position (SOP). Idaho Special Olympics uses both direct mail and telemarketing as means of public education and of raising funds for our programs.

We agree with the AICPA that there must be some rules and guidelines, but we believe that the SOP as written is too restrictive and narrow in scope in both the purpose and audience criterion.

We would encourage the AICPA to revise the SOP so that Idaho Special Olympics and other 401(c)3 organizations can report that we are educating the public about our organization in addition to raising money.

Sincerely,

Mary T. MacConnell

Mary Therese MacConnell
Executive Director

James Hall

James Hall, President
Board of Directors

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Jon W. Swanson
Associate Vice Chancellor

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January 6, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.J.A.
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

I am writing to express concern with the AICPA's exposure draft, "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that include a Fund Raising Appeal".

Of greatest concern is the suggestion that the assignment of costs within a complex budget be linked to the terms of remuneration for specific services rather than to the purpose(s) those services fulfil. This shift in critera will handicap efforts to make comparisons among institutions or to measure institutional performance against appropriate standards. This is a disappointing departure from your usual sound logic.

If the issue is the use of commissions as a form of compensation for fundraising services, let's deal with that directly rather than misuse an otherwise good accounting tool to punish commissioned expenses.

Please carefully consider the comments you received from David Harr as you proceed with your review. The approach to SOP 87-2 must be in the spirit of advancing a better tool, not a weapon.

Sincerely,

Jon W. Swanson

Jon W. Swanson, Ph.D.

JWS:jw

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Original to follow by courier

Ralph Reese
Vice President
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1/8/94

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

re: File 3605.JA

Dear Mr. Tanenbaum,

Reese Brothers is the largest company in America to specialize in multipurpose public education/fund-raising campaigns. We use telephone and mail as our primary media. As such we are intimately familiar with the implementation of the type of programs being analyzed by the Exposure Draft and how to make them effective.

It is our belief that the AICPA Exposure Draft to revise Statement of Position (SOP) 87-2, whatever the merits of its purpose, is (1) unworkable for not-for-profit organizations and professional direct marketers alike; (2) misleading to users of statements produced under its guidelines; and (3) deleterious to rather than improving of current practice.

I am aware of many technical criticisms of the Exposure Draft; and **in particular I have read and agree with the analysis submitted to the AICPA by Nonprofit Mailers Federation.**

I am also certain that the AICPA will receive numerous comments on these technical issues. Accordingly, I would like to address only a few technical issues directly germane to professional fund-raisers and issue advocates. The bulk of my comments concern issues of a more conceptual nature. All comments are attached by topic to this letter, in the form of appendices. In addition, I have tried to create exemplary "case studies," which run through several of my comments.

In the context, it is, perhaps, appropriate to include a call to action:

Before convening the committee to undertake the re-drafting of a revision to SOP 87-2, I would urge AICPA to study field practices in an exhaustive way. By studying field practices systematically and by making empirical data the basis for changes in SOP 87-2,

the motivation for changes and the likelihood of their successful implementation would be significantly increased. As it is written now, the Exposure Draft appears to have been conceived and constructed so as to be unrestrained by verifiable empirical evidence.

Contrary to the statements expressed in Sections 11 and 12 of the Exposure Draft, in public presentations AICPA Committee Members have indicated that no attempt had been made to determine whether or not SOP 87-2 was being implemented in a way that led to widespread problems in accounting practice or whether SOP 87-2 was generally successful. Rather, the perception by NCIB and a few (by no means the majority of) state regulators that material, widespread problems exist was cited. By contrast, this perception was not shared by most not-for-profit organizations or practitioners surveyed. **Regardless of whose perception is correct, the data should be empirically determined to isolate the problem areas before recommending a cure.**

Similarly, before doing anything final and before releasing any further Exposure Drafts, AICPA should test its procedures on a data sample with practitioners. Despite the patina of process (and the dramatic, if logically incomplete and therefore flawed, flow chart in the Exposure Draft), I seriously doubt that the current Exposure Draft will result in more consistent and more accurate field practices by accountants or greater comparability among not-for-profit organizations.

The Exposure Draft repeatedly empties its logical and quantitative processes of meaning by rooting them in qualitative judgments. All important tests contain scalar qualifiers like "substantial" as integral to the tests. While I concur in the belief that the core judgments in question are often more appropriately and necessarily qualitative, there is no point to building a quantitative temple atop to mask the true nature of the judgment. It adds the false-- indeed, deceptive- appearance of verifiability and at great cost besides. The whole process gains apparent precision, but it is completely tautological.

For many reasons that will be expressed below, the only criterion of utility in the Exposure Draft is the criterion of Content, and it is the only criterion that should be retained. Numerous other specific recommendations are also made below.

Whatever the final form of the process to revise SOP 87-2, the goal should be a cost-justifiable gain in accuracy and improvements in comparability. However, the Exposure Draft discourages comparability in a number of ways that will be explained below. Also, to assist in comparability in reporting of multipurpose campaigns, it should be required that all categories of direct and indirect expenses and revenues be included either as footnotes or as line items (including cash or its equivalents, gifts-in-kind, donated services, volunteer services even though otherwise excluded from reporting requirements, overhead charges, etc.).

Sincerely,

Ralph Reese

APPENDIX I: Selected Comments on the "Compensation Test," from the Point of View of a Professional Direct Marketer

Compensation Test. *Section 23 of the Exposure Draft: "If substantially all compensation or fees for performing the activity are based on amounts raised, the purpose criterion is not met and all costs of the activity should be charged to fund-raising."*

Conclusion: The Compensation Test is ambiguous, unworkable, and based on incorrect premises. If effected, it will harm not-for-profit organizations and render their results non-comparable. It should be removed from the Exposure Draft, as should be related illustrations and introductory comments.

The Exposure draft categorizes as fund-raising expenses all costs of materials and activities incurred in a multipurpose program that includes a fundraising appeal [hereafter referred to in this document as "a multipurpose program"], when a for-profit entity receives compensation or fees based substantially on the amount raised, even those costs that would otherwise be categorized as direct program expenses if the method of compensation were different.

It is unclear what is intended by "substantially." Interpretation of such vague a qualifier could lead to widely varying interpretations. In determining substantiality, is the comparison to other payments made by the not-for-profit organization to other vendors for similar services and materials or for other payments made to the vendor by other not-for-profit organizations for similar services and materials...or to some industry norm (for what)? Also, there is some grammatical ambiguity in the wording: Does "substantial" refer to the percentage of the portion of the fee or could it be a small portion of the fee with a substantial basis in the amount raised?

Professional fund-raisers are in many states legally required to guarantee a minimum net percentage to not-for-profit clients who use their services (for a fund-raising campaign or a multipurpose campaign that includes fund-raising). This guaranteed minimum is a required contract term and is required to be stated in writing. By any interpretation, such a legal requirement substantially associates a professional fund-raiser's fees to the funds raised, even during the conduct of a multipurpose campaign. The compensation test would by definition thus disqualify all businesses required to register as professional fund-raisers (in many states) from conducting multipurpose campaigns (even if the campaigns would otherwise be categorized as such). I do not think that this was the AICPA's intention, and the compensation test would, perhaps, result in restraint-of-trade if left unchanged.

The Exposure Draft does not define "compensation or fees" and for the purposes of this test it is unclear whether the AICPA intends "cash (or its equivalents) compensation" only or whether a broader construance of "compensation or fees" is intended. By distinguishing compensation from fees, the Exposure Draft seems to be suggesting a broad definition, but neither the purpose nor the scope of the distinction is clear.

For example, would other material or intangible assets be subject to this test and at what point do these become "substantial"? Would a right of first refusal on the sale of tangible property be a form of compensation? Would an option to extend or terminate the contract, if certain terms or conditions are met? When would this option be "substantial"? And would substantiality be affected by whether the option was unilateral (by one or both of the parties) or bilateral only?

The premise of this test seems to be that it is impossible for a multipurpose campaign to be a bona fide multipurpose campaign, when the provider of the materials and services has a fee that is closely associated with the success of the fund-raising component of the multipurpose campaign. This premise is incorrect.

Attempting to relate compensation to results is routine in any endeavor and it may be deemed desirable by some not-for-profit organizations to associate fees with program result and to provide performance-based compensation for the achievement of program results; however, it is impractical to rely on program results for this purpose. For several reasons it is difficult, often impossible, to compensate a professional marketer of programs in a manner that is directly tied to the program results:

1. It is easier to evaluate the fund-raising work of a vendor and use these results as a surrogate for the multipurpose campaign. Such a surrogate measure is valid and more reliable than alternatives.

Evaluating a fund-raising result is quantitative and finite; by contrast, evaluating a program result is a mix of quantitative and qualitative judgments and a merged blend of program inputs (not just the multipurpose input). In addition, programs often extend over several or even many years before results are achieved, which is too long a period for performance-based compensation as well as making the project accounting difficult.

Indeed, if it were easy to measure program results, the whole issue of allocation would be transparent. AICPA would not be applying a variety of tests for purpose, etc.: It would simply require accounting of program by demonstrably correlated inputs and outputs.

The generic measurement problem is similar to the common management problem of how to measure, forecast, and evaluate intangibles. Although some non-for-profit programs are measurable to a degree (such as hospital care), this is frequently not the case (advocacy campaigns may be the extreme). And even programs, like hospital care, that are managed by highly quantified methods have difficulty dealing with the qualitative measures of results, like patient outcomes.

The problem is described succinctly by two executives in *Cost-Benefit Analysis for Executive Decision Making* (Alfred Oxenfeldt, 1979):

> Executive A: "In dealing with intangibles, we should be concerned with their ultimate tangible effects....even though such estimates could prove to be far off the mark."
>
> Executive B: "One of our firm's ultimate goals is to be recognized as a good member of the community. If that's so, then a project that makes a social

contribution should be credited with producing something that top management values, even if it does not give rise to a subsequent tangible benefit. In other words, it represents a benefit in and of itself without increasing revenues or reducing costs. As such, it should be treated as equivalent to some amount of money income and should perhaps figure in the return on investment when that project is compared to others."

Executive A: "I am impressed by the logic and consistency of your argument, but the conclusion is so uncongenial that I resist it....Discounted Cash Flow would no longer be descriptive of cash flows and would be become more of a cost-benefit technique."

Executive B: "I agree."

The conclusion is that intangibles cannot be usefully measured for the purpose of ROI and financial management of the operating entity; thus, it would be inappropriate to render incentive compensation directly linked to the production of intangibles.

2. When a multipurpose campaign is being conducted, one of the prime limiters of the program component is the fund-raising component.

Typically, a not-for-profit organization will budget some minimum net from the multipurpose campaign for general organizational purposes and commit all remaining funds to the program that is integrated into the multipurpose campaign. Therefore, an important component of the program's success is often the success of the fund-raising.

3. The success of the fund-raising component can be a direct effect of the success of the program components of a multipurpose mailing. The reverse is never true: the success of a program is never due to the success of a fund-raising component of a multi-purpose campaign (except in the limited sense that it provides the funds, as noted in #2 immediately above).

Program purpose often has an indirect effect on fund-raising; and to a great degree program and fundraising are often inextricably intertwined, not only in multipurpose programs but in discretely conducted programs as well: For example, the American Heart Association might mail a group of air traffic controllers about the dangers of stress and urging them to participate in programs to ameliorate these dangers. If the mailing were successful in getting the air traffic controllers to enroll in such programs sponsored by Heart Association, it would be highly likely that the participating controllers would be disposed to donate to the Heart Association. All independent evidence, such as the data in *Giving and Volunteering*, substantiates this conclusion. The reverse is not true: obtaining a donation from an air traffic controller would say little about the likelihood of that controller's participating in the stress reduction programs, until demonstrated otherwise (for example, donors might primarily be low stress controllers or controllers with more disposable income, etc.). However, it is difficult to measure the program effects, given the geographical dispersion of the audience and the not-for-profit organization, and the program effects may lag the fund-raising effect. While the not-for-profit organization might prefer to tie compensation to the program effect in a substantial way, it is impractical. It is, however, practical and effective to tie the compensation to the fund-raising effect.

In short, method of compensation says little about intent, in respect to program. Nor does it seem to have much relevance to the audience.

The recipient of a multipurpose communication is unaware of why he or she was selected and interprets the multipurpose communication as a communication from the not-for-profit organization. The recipient may be unaware of the existence of, let alone the professional status of or method of compensation of any vendors to the not-for-profit organization. That is, the recipient's interpretation is based on the actual content of the communication and the circumstances of the communication. The effect of the communication on the recipient has no contingencies associated with methods of compensation, in respect to either program or fund-raising. (See more on this below, Appendix IV, page 17).

Multipurpose direct marketing campaigns are typically grassroots in nature. The donors give relatively small amounts of money and there is a direct association between the work done by the professional and the result. Under such circumstances, it is not inappropriate or unethical to associate compensation with fund-raising results, as it might be with grant writers or fund-raising counsel (nor is the range of performance incentives limited to commissions, as the Exposure Draft seems to imply). The practicality of such an arrangement, especially for a small or new or risk averse not-for-profit organization, is quite beneficial to the not-for-profit organization. There is no reason to taint legitimate programs because a not-for-profit organization finds such a method of compensation to be beneficial. To exclude such arrangements is to bias the accounting rules in favor of established or securely funded not-for-profit organizations or those that have a higher tolerance for risk.

APPENDIX II: The Exposure Draft goes beyond describing accounting practice. Underlying the accounting analysis are a number of presumptions about advertising and marketing practices as well as human psychology. These presumptions are false and harmful to the Exposure Draft.

Conclusion: Several deletions and revisions in the Compensation test, the Audience test, and the Content test should be made, as noted below (in this Appendix).

From a marketing point of view, the goal of a multi-purpose campaign is to achieve the most efficient *multi-purpose result*. Yet the Exposure Draft requires demonstrable proof that the program elements (audience and content) as well as the program medium and the program purpose be *independently severable* from the multi-purpose campaign.

Consider the following hypothetical example, in which two options are presented to a not-for-profit organization by its advertising agency. Option 1 is to conduct two separate campaigns of 300,000 pieces apiece, targeted to audiences that overlap to a high degree:

Option 1	Income	Expenses	Net
Program	0	100,000	(100,000)
Fund-raiser	300,000	100,000	200,000
Combined Result	300,000	200,000	100,000

Option 2 is to combine the two campaigns in a multi-purpose direct mail campaign to 400,000 people, eliminating the duplicate postage and envelopes for 200,000 mailings. The result would be a decrease in cost. In addition, there would be an increase in the number of persons who would receive each component, although some of the non-overlap portions of the list would be inferior targets for one component or the other.

Option 2	Income	Expenses	Net
Program Component	0	85,000	(85,000)
Fund-raising Component	340,000	85,000	255,000
Combined Result	340,000	170,000	170,000

Realistically, the decision is obvious: The multi-purpose campaign reduces costs, increases income, and delivers program to more individuals. Yet the Exposure Draft would put pressure on the not-for-profit organization to choose Option 1, the inferior choice, because Option 2 would fail to qualify as a multipurpose campaign. Indeed, this is the only reason that the advertising agency presented Option 1.

Option 2 fails the audience test, because 3/4 of the list originally were originally selected for its fundraising list and thus were chosen "principally on their ability or likelihood to contribute": 100,000 of the 400,000 people mailed appeared only on its "fundraising only" list; 200,000 were on both lists; and 100,000 were only on the program list. (Hypothetically, assume that it also happens that 20,000 of the people on the program-only list were lapsed donors to the organization and 10,000 were current donors, but the list was derived without this knowledge. What is the significance of this *post facto* determination for this campaign? And for future campaigns to the same audience?)

Option 2 also fails the purpose test, because, unknown to the not-for-profit, the advertising agency intended on sub-contracting development of the fund-raising mailing or the fund-raising portion of the multi-purpose mailing to a vendor who would be paid a base fee plus an incentive that could double the fees, based on beating a fundraising target (by the way, the target used was 10% more than the historic control package's result, which had been the best package for over 12 years). The agency itself had developed the program materials included in the mailing and no evaluation was being made of the program, in respect to providing performance incentives. The agency was, however, paid a 15% override on all sub-contractor's fees-- so the agency itself stood to receive a doubling of its override fees, if the sub-contractor beat the fund-raising target.

Applying the Exposure Draft to the example will result in a not-for-profit organization's electing the worst option:

Under Option 1, the not-for-profit will report spending $100,000 on program and a fundraising cost of 33% and an average donation of $1 per piece mailed. Under Option 2, the not-for-profit will report spending $0 on program and a fundraising cost of 50% and an average donation of $.85 per piece mailed. ***When the not-for-profit is scrutinized by regulators, watchdogs, and donors, it will look worse under Option 2, even though the result -- $70,000 more net dollars and 100,000 more program contacts-- is far superior by any objective measure.*** **The Exposure Draft would encourage the not-for-profit to choose Option 1, the inferior result , so as to report misleadingly "better" results on its financial statements.**

This is bad marketing advice masquerading as good accounting.

<u>In addition to promoting inefficiency and waste, the Exposure Draft could generate different accounting results for identical and indistinguishable campaigns</u>. To take an example:

> Not-for-profit "A," whose mission is to create a racially unbiased society, selects a list (an audience) that is responsive to direct mail fund-raising appeals dealing with the civil rights of Asian Americans. It then analyzes the list to determine which of its programs can most effectively be marketed to this list in conjunction with the fund-raising appeal. It develops and executes a multi-purpose mailing to half of the list. The fund-raising component of the program is not effective, but the program is spectacularly effective in a highly measurable way. As per the Exposure Draft, the entire mailing would be categorized as fund-raising.
>
> Not-for-profit "A" would like to repeat the mailing, but it does not have the funds. Not-for-profit "A" contacts Not-for-profit "B," whose mission is similar to Not-for-profit "B" and relates the success of the program and the funding insufficiency. Not-for-profit "B" is better funded and decides to pick up the program . Not-for-profit "B" purchases rights to the program materials from Not-for-profit "A" as well as the

unused portion of the list, since this list is known to be responsive to the program in question. Not-for-profit "B" continues to include the fund-raising appeal, as revenue is projected to exceed the minimal additional cost of the fund-raising component. Although the campaign content and result for Not-for-profit "B" are identical to those of Not-for-profit "A," the Exposure Draft would classify the campaign as a bona fide multipurpose campaign with a valid program component.

Such a result seems inconsistent. But there are further inconsistencies:

Not-for-profit "B" decides to repeat the campaign. It contacts the same list broker and rents more of the same names. Not-for-profit "B" also contacts a professional fund-raiser, to redo the fund-raising components, since they have been performing poorly. The professional fund-raiser has worked for Not-for-profit "B" before and has an established fee, which is $.01 for each piece mailed. Not-for-profit "B" offers the fund-raiser an incentive. In addition to your normal fee, we will pay you a bonus under the following conditions: If you can double the net results of the fund-raising component, we will mail another mailing of double the size of the test mailing, for which you will be paid $.005 per piece (your usual fee less your standard quantity discount).

According to the Exposure Draft, the contingent doubling of fees related to the fundraising success (twice the volume at half the piece rate) would mean that the purpose criterion was no longer met, due to the compensation test...even though the identical fees would be paid, if the work were subsequently undertaken without the contingency. But in this case the work and, thus the fees, are guaranteed if a certain fundraising performance is achieved. Thus, the program components of the multipurpose campaign are no longer valid for accounting purposes and all expenses undertaken in the course of the campaign are to be categorized as fund-raising expenses...even though the program materials and audience and actual purpose were unaltered and the tainting fee bore no relation to the program, which was pre-existing but not done in another medium. *Had the bonus been a percentage of the additional net revenue, the Exposure Draft would be even more dogmatic about this.*

A fundamental premise of modern organizational development is that there is a critical nexus between program and fund-raising and that the least cost route for fund-raising is to market program to the donor constituency. **In other words, the entire premise of the propose Audience criterion (Section 27,** "If the audience for the materials or activities is selected principally on its ability or likelihood to contribute, the audience criterion is not met and the costs of the activity should be charged to fund-raising") **is flawed. It is precisely the opposite of good management advice and, if followed, will harm not-for-profit organizations.**

In Chapter 4 of *Managing the Nonprofit Organization: Principles and Practices*, noted management authority Peter Drucker engages in a dialogue with Derek Hafner, CEO of the American Heart Association, on "Building a Donor Constituency." The central principles for successful achievement of a sustainable, least-cost fund-raising base that are recommended are (the summary is mine):

(1) A not-for-profit organization should intentionally market its programs to people who are already donors to an organization and who have no prior commitment to program,

regardless of their apparent interest or qualifications, because such program marketing makes the fund-raising both more dependable and more cost-efficient over time. In the long term, all not-for-profit marketing is program marketing.

(2) Attempt to market program to as broad an audience of potential donors as possible, because in the long run it reduces fundraising costs and broadens program effects.

The Audience Criterion in Section 27 of the Exposure Draft is counter-productive to the best interests of not-for-profit organizations and will result in reduced effectiveness of programs and reduced efficiency of fund-raising. The Audience Criterion should be deleted from the Exposure Draft in its entirety or re-drafted to reflect a correct measure of relevance, as should the Illustrations of this criterion:

The only meaningful relation between a not-for-profit organization and an audience is the *ability* of the audience to help effect or participate in the program as requested by the not-for profit. The purpose or blend of purposes by which a given audience is selected (including its actual or potential ability to donate, for the purposes of this section) are irrelevant, so long as the audience has the *potential* to help effect or participate in the program. The measure of relevance should be the inherent character of the audience and not the manner in which the list is assembled.

Similarly, remarks like "For example, programmatic impact of a direct mail campaign or a telemarketing phone message may be significantly lessened when performed in conjunction with a fund-raising appeal (Section 34, "Stand-Alone Joint-Cost-Allocation") **should be stricken from the Exposure Draft.** The use of the conditional "may" is meaningless, in that the opposite "may" also be true. The remark also represents a bias that is unmerited and improper and unjustified. If the AICPA believes that it is necessary to include a comment on this subject, then it should restate the sentence to read: "For example, programmatic impact of a direct mail campaign or a telemarketing message is likely to be enhanced when performed in conjunction with a fund-raising appeal." This would represent a truer representation of industry belief and practice.

In addition to encouraging poor marketing practices, the Exposure Draft promotes an invalid marketing methodology. The Draft contains numerous erroneous conclusions about the nature of human psychology and motivation. I will discuss a few, but my purpose is not to write a summary of consumer psychology. **The Draft has no reason to attempt to incorporate such material in its analysis, whose subject is cost allocation accounting, nor does the AICPA have any expert status that would give its motivational recommendations a special status. The Draft, in addition, fails to provide a meaningful way to distinguish slogans from calls-to-action.**

Furthermore, the Draft uses the concept of "benefit" (to an individual or society) as the justification for categorizing a "call-to-action" as a bona fide program. Yet, despite the Draft's position that "slogans" (howsoever they may be distinguished) may also provide social benefit (Section 42), the draft arbitrarily denies that "slogans" are equally bona fide programmatically, for accounting purposes. The only factor that apparently distinguishes a "call-to-action" from a "slogan" is specificity, and there is no explanation of either the benefit of or intent of making such a distinction.

All such material should be deleted from the Exposure Draft, including Section 30.a., the accompanying footnote, and Section 42.

For the above stated reasons of relevance, I do not believe it is necessary to analyze the specifics of Section 30. However, out of respect to the AICPA, I will attempt to address them briefly. The specific details will hopefully be illustrative of the dangerous consequences that arise in this general area.

The following phrases are deemed in Section 30 to be flawed, as motivating calls to action, due to lack of specific method, etc.: "Stop smoking", "Do not use alcohol or drugs."

The Draft provides no evidence to substantiate the claim that such statements fail to motivate, and the claim itself is not an obvious one. In fact, I believe that not-for-profit organizations involved in these issues can demonstrate that such statements are powerful motivators; and I further believe that this can be confirmed by perusing any standard marketing textbook. Although the statements may seem to lack novelty today, this is irrelevant to their use and may even reflect the success of the "slogans." I believe that some of these "slogans" were considered controversial and unjustified when first introduced.

It is easy to demonstrate the power of the statements. Consider examples of their opposites: "Teenagers, it's time to start smoking!"; "Use drugs every chance you get"; "Drink more alcohol at every meal"; "Please drink and drive." No one would deny the powerful hortatory content of these negative examples (and unfortunately there may even be not-for-profits whose mission it is to encourage such activities, such as smokers' rights organizations, organizations promoting the views of thinkers like Timothy Leary, etc.). Inadvertently, the Exposure Draft appears to be denying that simple, socially acceptable messages have any motivating power.

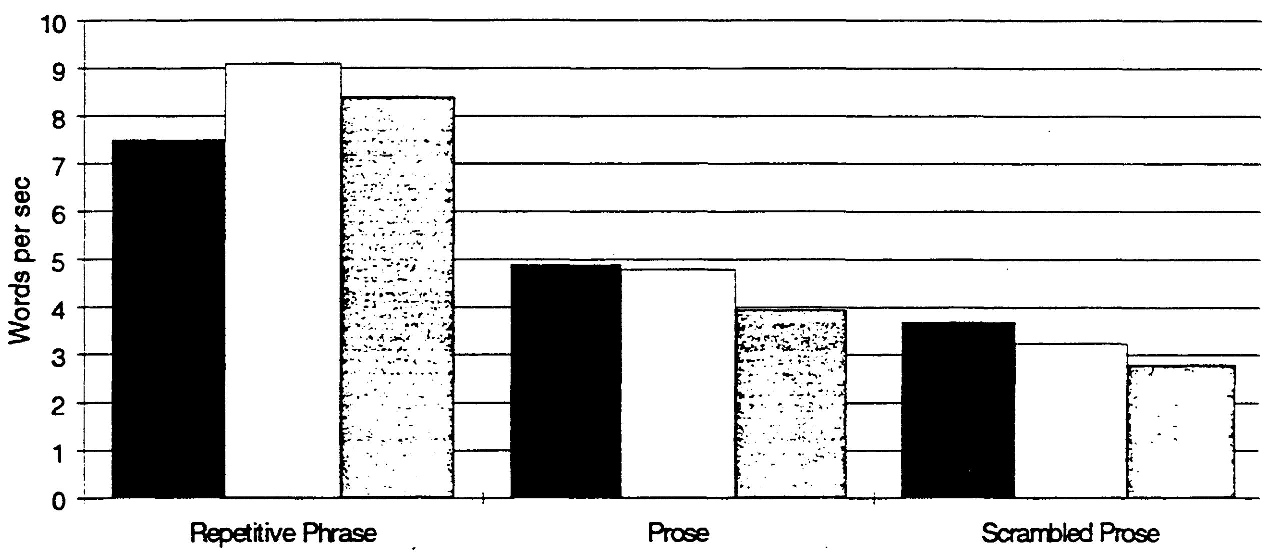
<u>It is also unclear why or even how some motivating calls-to-action could be made more effective by adding specificity</u>. What "method, instruction, reference, or available resource" can make the message "Don't use drugs" more clear or motivating or beneficial? Indeed, the entire point of some calls to action, such as "Just Say No to Drugs" is that they are simple and comprehensible and actionable by even elementary-school age children, who are a primary audience for some uses of the message. How would the AICPA recommend that the League of Women Voters alter a call-to-action like "Vote"? And what if studies have shown that such a call-to-action is more motivating than numerous alternatives tested? Similarly, the footnote finds the entreaty to "Pray" to be too non-specific and therefore not actionable; this seems to represent a universal determination by the AICPA about how prayer can be made beneficial to society as well as infringing on some religious freedoms: In the context of any given religion, the request to "Pray" may very well incorporate a request for specific meaningful actions without additional explanation; and for other religions, the authentic religious meaning of a request to "Pray" may be violated if attached to specifics.

The Exposure Draft, in this context, appears to be encouraging a not-for-profit organization to splinter its message. In one context, add a specific something that is directly relevant to that audience. In a second context, add a specific something that is directly relevant to that audience. It is as if Coca Cola were told they could be more effective and would be required to be specific to qualify the use of their "slogans" as deductible advertising expenses. Would the AICPA seriously recommend to Coca Cola something like the following? "Drink Coke– ask your parents to only buy Coke" to young kids, "Drink Coke– ask your school cafeteria to sell it" to teenagers, etc. The accounting profession has no competence or standing to render such judgments. Nor should it be of interest to the Exposure Draft.

While modern database marketing does seek to market individually to each consumer, this is not the technique used. Indeed, the clarity and repetitively consistent use of branding (sometimes accompanied by fragmentation into distinct brands) has gained in importance in marketing.

The following graph appears in *Symbols, Signals, and Noise: The Nature and Process of Communication* (J.R. Pierce, 1961), and it is illustrative of why simplicity and repetition are so fundamental to the effect of a "slogan" used in a marketing context.

Information Processing in Words per Second, by 3 readers of various texts



Repetition rather than variation is the operational mode for use of "calls-to-action" and "slogans." This is necessary because of all the competition in the advertising channel and its effect on attention spans and information processing. In classic terms, the more novel a statement the more information (as measured in bits per second) it conveys; however, this also makes the communication more difficult to understand. So the solution, as noted, is to provide a clear, repetitive "slogan" in which to frame all information.

<u>The accounting profession also has no special standing or competence that would cause the public to value its judgments evaluating the authenticity of calls-to-action or actions that "benefit the recipient or society."</u> The general subject of "what is good" and "what is

beneficial to society" has been a central topic of Western philosophy since the time of the ancient Greeks. Philosophers have studied this topic, the central topic in ethics, since that time without anything approaching the judgmental confidence shown by AICPA in the Exposure Draft, and I think that their caution is an instructive model for AICPA. Similarly, the late Kenneth Burke wrote extensively and thought deeply on the relationship of language and action and calls-to-action. The Exposure Draft's conclusions may be understood to represent a behaviorist, reductive denial of Mr. Burke's extension of the Aristotelian concepts of action, even though the concepts in the Draft ironically may be a direct consequence of Mr. Burke's writings.

But even if AICPA were to have a privileged position in respect to understanding what words or how a group of words could "benefit the recipient or society," it has no authority for elevating its own understanding to institutional status in the accounting code. To do so is to pre-judge the goodness of any not-for-profit organization's mission or techniques, in respect to its conformance the AICPA institutional position. Organizations can legitimately disagree about what is good and how to accomplish it, and it is precisely the intent of our political system to offer unprejudiced freedom of speech to all points of view on an issue.

In addition to being irrelevant to the issue of cost allocation, the Exposure Draft's institutionalized restrictions on speech and ethical freedom of action may be understood as effectually abrogating very basic Constitutional rights.

The quandary of analyzing value vs. creating values is a quandary common to quantitative domains. As allocation accounting is primarily taxonomic, it would be fatal to the accounting enterprise in a free society to embed values into its taxonomy.

From a user's perspective, allocation accounting is an instrument of financial and business management. Goal setting and mission determination in a not-for-profit organization precede the use of allocation accounting. The pre-determined non-quantitative values drive the use of the accounting mechanisms; and as the purpose (in distinction to some of the pragmatics) of the enterprise is not reducible to money, quantitative methods of measure are unable to capture the achievements of the not-for-profit enterprise in a useful way (short of directly associating outputs to mission).

Economics, whose domain is more intimately bound to the process of value creation, would seem to be in a better position than accounting to make judgments about what is beneficial to society. Yet even economists have not succeeded in such an undertaking:

> "He is important as a sort of conscience of our profession....He taps something many economists feel, namely that you've put your misspent youth into learning all this stuff but you can't say, *as an economist*, whether something is the right thing to do."
> (Robert Solow, Nobel laureate in economics, *New York Times*, January 9, 1994, emphasis added.)

Until further progress is made in quantitatively associating an organization's mission with its program results, not attempt should be made to judge quantitatively the merit of its programs *qua* programs when undertaking cost allocation in a multipurpose context.

Appendix III: The Exposure Draft fails to understand the importance of a not-for-profit organization's status to its programmatic effectiveness. It incorrectly assumes throughout that all attempts made by an organization to enhance its status are bona fide management and administrative costs. In fact, many costs that the Exposure Draft would categorize as "management and administrative" are more properly bona fide program costs. A related problem exists in relation to what the Exposure Draft would categorize as "fundraising expenses."

Conclusion: All sections dealing with either categories of costs should be re-written, especially those dealing with "management and administrative costs" like Section 15b and 41 and illustrations A42 and A47.

The Supreme Court, as I am sure the AICPA is aware, has been quite specific about the hortatory importance of an organization's name, and the Exposure Draft would seem to contradict the meaning and intent of the law where the Draft touches on this and related issues.

The reason for the Supreme Court's opinion is easily demonstrated. The sentence ""Planned Parenthood is against the use of condoms and against the legalization of abortion" would strike anyone who knows the organization as a contradiction. This is not an intrinsic meaning of the words themselves-- the organization could easily be a Roman Catholic agency advocating use of the rhythm method of family planning. Therefore, the organization's name must possess some affirmative "call-to-action" status, a status that it has built over time by marketing its programs.

Attempts to build this link between an organization's name and the cause it advocates are closely related to another speech phenomenon that is succinctly described by Roger Brown in *Words and Things: An Introduction to Language* (1958):

> "It would be a mistake to suppose that repetition and the qualities of the product are the only effective devices in advertising. An effort is constantly being made to improve source credibility." (page 334)

That is, the status of the speaker is every bit as critical as the content of the speech and has important instrumental consequences when an organization attempts to implement programs. Therefore, attempts to elevate the status and credibility of a non-profit organization often relate directly to its advocacy and other program efforts. Unknown organizations or organizations with a reputation for poor credibility will operate at a disadvantage and will incur higher costs in marketing their programs. <u>Efforts to enhance the credibility of a not-for-profit organization are more properly categorized as program expenses than general and administrative expenses, somewhat analogous to brand building in commercial organizations</u>.

Dudley Hafner in Peter Drucker's *Managing the Nonprofit Organization* states a related and commonly held belief that fundraising itself is inextricably intertwined with free speech and advocacy:

> "[Something] that is unique about the United States is the fact that charitable giving is as much a force in the freedom of democracy as the right of assembly or the right of vote or the right of free speech. It's another way of *expressing* ourselves, very, very forcefully." (page 88, emphasis added)

In other words, it would be appropriate to recategorize a portion of a not-for-profit's fundraising expenses as program. Since the pragmatics of establishing such an allocation case by case would be difficult, in distinction to the multipurpose allocation that is generally the subject of the Exposure Draft, the AICPA should establish in the Exposure Draft an institutionalized "free speech factor," which a not-for-profit could use in lieu of a formal allocation determination. This factor would be applied to all of a not-for-profit organization's fundraising costs and used to establish an allocation to program.

APPENDIX IV: The Exposure Draft contains an extended section on "Purpose." But the section fails to speak about purpose. Rather, it seems to be speaking about sincerity (that is, the relationship of stated purpose to actions). It is impossible to derive sincerity by quantitative methods, as sincerity is inherently a relationship (of words to actions). While quantitative methods may be used to support qualitative judgments, they have no special status and give a false impression of precision and accuracy. Furthermore, the purposes of a not-for-profit organization cannot usefully be said to exist beyond its explicit publicly stated purposes, as created and maintained in its bylaws, board meetings, etc.

Conclusion: The Purpose Section of the Exposure Draft should be discarded. The organization's written record of its purposes (in the form of board resolutions, etc.) should be deemed the purpose of a program. And the content of its multipurpose programs should be the basis for making allocations.

Suppose an organization is insincere about its purpose and lies about its purpose in its board resolutions. What is the consequence and how does this impact its accounting? And similarly, what if the organization is sincere but ineffective and works at cross purposes to its own interests? How can this be distinguished from insincerity?

For example, let us assume that a real purpose of the John Birch Society is to promote the success of the United Nations. As an independent party could I verify whether this is true or false? No. Despite the vocal diatribes of the John Birch Society against the U.N., could one not fairly conclude that its extreme methods have actually increased support of the U.N. in America? And in narrowly targeting right-wingers for its messages, could its real purpose be to incite a small group of zealots to act in such a way as to motivate its real audience to react and do something to combat the zealots?

How can I determine the "real" purpose of the John Birch Society? I cannot, except to accept its stated purpose and render personal conclusions about either its sincerity or its competence. Once I accept its stated purpose, though, I can only render judgments of competence.

And competence (whether strategic or tactical) is unrelated to purpose. Additionally, the tests for competence are themselves not obvious. Failure of the John Birch Society to achieve its mission may not indicate ineffective programs. It may simply indicate that its mission is not popular.

Such a problem is a Gordian knot and no number of accounting tests will cut it. At all costs, the issue of sincerity should be avoided by the Exposure Draft. There is no way to prove or adequately test sincerity, so incorporating the requirement that auditors engage in tests to prove sincerity only encourages political or ideological repression. It also opens up the accounting process to interference from outside sources.

Tests for competence are similarly outside the scope of cost allocation accounting. Indeed, one of the purposes of the accounting is to provide insight into competence and effectiveness.

To incorporate such tests into the allocation process would hopelessly muddle things and bias the outcome and convert the accounting statements into ideological instruments.

The above John Birch Society example is obviously extreme. But it points to a straightforward conclusion: There are only a few ways to determine the purpose of a programs.

1. By accepting the stated purpose of the organization in creating the program .
2. By evaluating the content of the program itself.
3. By analyzing the actual effect of the program on program participants.

But the sincerity of a not-for-profit's purpose cannot be questioned without opening up an endless chain of questioning that only a qualitative judgment can resolve.

There is currently no adequate accounting method for measuring mission effectiveness or associating specific programs with mission effectiveness, and until such methods exist all judgments about sincerity and competence are highly hypothetical in nature. Allocation is about the uses of funds *after* purpose has been determined, and it is a misuse of allocation techniques to attempt to use them to justify purpose.

A simple example demonstrates the opacity of purpose to allocation techniques:

> Not-for-profit "X" has the mission of increasing the literacy of first-generation Mexican Americans. It spends all of its budget on a symposium and a series of publications that deal with the problem of North Korea and its potential nuclear threat. To broaden its influence and to convince the American public of its position, Not-for-profit "X" conducts a bona fide multipurpose direct mail campaign on the North Korean issues. These programs are genuine and so successful that they become the basis for official U.S. policy.
>
> Despite the fact that the programs themselves are inappropriate to the mission and misuses of the organization's funds (even though disclosed), allocation techniques would certify the programs as valid programs. It is only by comparing the purpose of the programs to the organization's mission that any evaluation can be made about the *appropriateness* of the program to the organization's mission and the sincerity of its organizational purpose. And such a comparison precedes the allocation and is independent of the allocation.

The Exposure Draft's language on purpose exemplifies a common analytic error known traditionally as "the Intentional Fallacy." The Draft confuses the *purpose* of a communicating entity with the *effect* of the communication on the recipient. The confusion has been described and analyzed at great length in literary criticism, linguistic philosophy, and hermeneutic studies; and while my characterization is over-simple, it is germane. Indeed, the oversimplification is probably justified, given that an organization (as opposed to an individual) can only be said to have "purpose" in respect to explicit purpose, which has been publicly expressed in language such as bylaws, board meetings, etc.

I have already attempted to demonstrate some of the practical problems associated with measuring program *effect*, which would otherwise be a preferred solution as it provides a measure of cost-benefit to the public. And as noted immediately above, the issue of sincerity in relation to purpose is indeterminable in any meaningful way beyond the organization's own documented purpose.

The conclusion, thus, would be that an analysis of content would be the best available substitute and in and of itself would be a sufficient basis for making allocations. The sections of the Exposure Draft under the title "Allocation Methods" provide a fairly useful range of such methods.

Such a conclusion is in no way unusual and it does not represent a skeptical attitude toward communication. Rather, it is a typical conclusion of semantic analysts:

> "The author of mass media materials, however, is not unlike the sailor dropping the bottle over the side. He does not know who will listen. *For the analyst of its effects*, therefore, it makes sense to make what inferences he can on the basis of the text alone regardless of the context of the receipt."
>
> ("Trends in Content Analysis Today: A Summary, "I. Pool, in the section "Semantic Aspects of Linguistic Events," *Psycholinguistics: A Book of Readings,* 1961, emphasis added.)

Appendix V: The cost of implementing the procedures in the Exposure Draft is extremely disproportionate to the benefit, even if the benefit is real. All but a few of the very largest charities will be unable to afford to engage in the preliminary quantitative research studies and other documentation necessary to execute the required procedures in a thorough and irrefutable manner. And small campaigns (under several hundred thousand dollars) will simply be unaffordable, due to increased overhead costs and prevailing industry standards for overhead costs.

Furthermore, the Exposure Draft does not provide a confidence standard for use in its applying its criterion tests, which leaves the not-for-profit vulnerable to criticism, even if it implements the tests in good faith.

Conclusion: If the criterion tests are to be retained, specific tests and confidence standards must be provided to not-for-profits. None are included in the Exposure Draft.

AICPA should also evaluate its recommendations for cost and benefit prior and make its evaluation public. This would assist not-for-profit organizations by providing a sense of the scale of verification intended by AICPA in making its recommendations and by assisting organizations in explaining their increased overhead costs to the public.

The Exposure Draft would require that each and every multipurpose campaign be analyzed and documented in a prescribed manner. In addition, as noted above, the Draft will promote inefficiencies in the conduct of multi-purpose campaigns due to the priority and tests it imposes on the program components.

It is obviously difficult to provide a generic cost and a generic benefit for a hypothetical process and a hypothetical campaign, but some attempt should be made. We generally believe that the Exposure Draft is harmful rather than beneficial, but it can easily be demonstrated that the cost of implementing the Exposure Draft will be enormous to any not-for-profit organization that engages in multipurpose campaigns.

AICPA should test its process in several real world cases to determine a basis both for costs and benefits.

It should be kept in mind that not-for-profit organizations that engage in multipurpose campaigns typically execute 10-25 distinct campaigns per year, each of which would require individual and separate validation of audience, purpose, and content and each of which would require individual and separate documentation and granular management.

While AICPA might be inclined to reduce audience research requirement for campaigns with a "family resemblance," such a reduction would, in fact, invalidate the audience test by re-opening up the possibility that the imputation of resemblance is false and insincere. Once the audience test requirement is implemented with any requirement for "proof," there is no half-way point or middle ground.

Additionally, AICPA has not established a standard of certainty or a confidence level by which to evaluate the tests for the purposes of "proof." This could greatly impact on cost. Without such a standard, the inclusion of criterion tests are inconclusive from an accounting point of view and will always leave a not-for-profit vulnerable to criticism from third parties.

Based on our understanding of the Exposure Draft, we have made an estimate of the cost impact of the Draft. Costs will obviously vary somewhat, based on size and complexity of the campaign and degree of statistical confidence required by AICPA and the estimate is based on experience rather than specifics.

<u>The magnitude of the costs is such that we believe it will require most not-for-profit organizations to forego the use of multi-purpose campaigns</u>. They will either categorize them as fundraising campaigns, to avoid the associated overhead costs incumbent in the criterion tests, or forgo the use of multipurpose campaigns. Such an outcome would be harmful to the public interest and would represent a bias by the AICPA in favor of organizations using other techniques for which no validation of audience, purpose, or content are required, even when these techniques may be inappropriate or less efficient.

<u>Current SOP 87-2 costs:</u>

Internal content allocation:	\$10,000 to \$30,000
Allocation audit:	\$10,000 to \$100,000

<u>Additional, new costs under the Exposure Draft *for each multi-purpose campaign*:</u>

Each formal market research study to determine and validate audience criterion:

Qualitative:	\$5,000 to \$10,000
Quantitative:	\$15,000 to \$30,000
Development of scoring:	\$15,000 to \$25,000

List management (for program-based items) to implement audience criterion in a formal manner (note that these costs may be reducible for large not-for-profits, who can develop the capabilities in-house):

Program Scoring:	highly variable, depending on list and quantity
Cost of rejected rented names:	highly variable, depending on list and quantity
Segmentation management:	highly variable

Decrease in efficiency, due to weighting program higher than the combined effect of the multipurpose campaign: highly variable

Internal paperwork requirements of the not-for-profit organization: highly variable

Appendix VI: The Exposure Draft is based on an unjustified premise unrelated to accounting methodology *per se*. The strong form of this premise is that most not-for-profit managers and their auditors will knowingly falsify allocations under SOP 87-2, due to pressure to report low fund-raising costs. The weak form of the premise is that SOP 87-2 in application generates inconsistent results that do not permit independent judgment of integrity in allocation.

Conclusion: Sections 11 and 12 of the Draft should be deleted. AICPA should undertake a study of how SOP 87-2 is applied to determine whether there are material inconsistencies in implementation and the cause of the inconsistencies before attempting to improve SOP 87-2.

As noted in my cover letter, AICPA has presented no evidence to document the claims of Sections 11 and 12 entitled "Present Practice." These sections should be deleted from the draft, unless they can be verified by research.

It is particularly important that the AICPA conduct tests to validate these premises. To do otherwise would be to compromise the logic of the Draft itself and the legitimacy of the project, which is primarily composed of tests that the AICPA would impose on not-for-profit organizations. The Draft would appear to be placing the AICPA in the position of not practicing what it preaches, in respect to validation.

Additionally, since Sections 11 and 12 express the principal reason for the AICPA's undertaking the Draft itself, there is some reasonable burden of proof required to justify its purpose. The primary data is readily accessible, so there is no justification for substituting unsubstantiated opinion.

Phrases like "some believe" are rhetoric devices devoid of content and should be expunged whenever they occur in the Draft.

APPENDIX VII: The Exposure Draft is biased without purpose or cause against professional fund-raisers. A mere change of nomenclature from fund-raising counsel to public relations counselor or educational curriculum developer could *prima facie* change the status of the work performed by an entity without further explanation. Similarly, the accounting treatment of otherwise identical services and materials, developed in an identical manner and for identical purposes, would differ among various external and internal providers, based on the fee relationship and the fee structure.

Conclusion: Identical results should receive identical accounting treatment.

These matters are the subject of comments above.

VIETNAM
VETERANS
MEMORIAL
FUND

(115)

January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal"

Dear Mr. Tanenbaum:

We are responding to the exposure draft issued by the American Institute of Certified Public Accountants (AICPA) which will supersede the AICPA's Statement of Position (SOP) 87-2. If this draft Statement of Position becomes part of generally accepted accounting principles, we believe the program costs of the Vietnam Veterans Memorial Fund (VVMF) and other similar organizations will be seriously misstated in our financial statements. We do not believe this should be the purpose of the AICPA.

A. Background

1. <u>Our Programs</u>

Since VVMF was founded in 1979, we have worked exclusively to build and maintain the Vietnam Veterans Memorial in Washington, D.C. and, through various sources of information, raise public awareness to the role of the veterans in the Vietnam War and educate the public regarding the Memorial, the sacrifice which it represents, and encourage visitation to the Memorial.

Vietnam Veterans Memorial Fund, Inc.
815 Fifteenth St., NW, Suite 600, Washington, D.C. 20005 (202) 393-0090 Fax (202) 393-0029

To accomplish our mission, we develop programs with a specific message or a specific audience. These programs serve as a matrix of activity to accomplish our overall mission statement.

Since the Memorial has been dedicated, we have focused on five program areas:

- **Maintain Memorial and add names** - To continue to honor the veterans who served in the Vietnam War, VVMF receives from the Department of Defense (DOD) the names of veterans who have died as a result of service in Vietnam and adds these names to the Memorial and changes the status of names on the Wall as further information is received. In addition, VVMF assists in the on-going up-keep and maintenance of the Memorial to ensure that it remains attractive to visitors and befitting the memory of those it honors.

- **Special events and programs** - To honor those service men and women who served in Vietnam, to encourage national reconciliation of the divisions created by the War, and to educate the general public about the sacrifices of those who served, VVMF sponsors Memorial and Veterans' Day observances at the Memorial site.

- **10th Anniversary Commemorative Program** - To commemorate the 10th anniversary of the dedications of the Vietnam Veterans Memorial, the VVMF planned and conducted five days of special events leading up to Veterans Day 1992 ceremony.

- **Protection and maintenance of the Memorial** - To ensure the continued existence of the Memorial, VVMF created a long range structural advisory committee to ensure that schedules and procedures are established for any significant repairs or replacements to sections of the Memorial. The long-term focus of this program separates it from the on-going maintenance of the Memorial.

- **Public education** - To inform the public of the role of the Memorial in honoring those service men and women who served in the Vietnam War, VVMF continues to invite visitors and encourage visitation to the Memorial and conduct programs at the Memorial, issue special invitations to visit and attend functions at the Memorial and promote national reconciliation through the distribution of educational materials to the general public. Included in the public education are:

Educational Seminars held to add to our knowledge of Vietnam's legacies and promote the reconciliation of the country. These programs have addressed literature, military strategy, media involvement, race relations and methods of teaching Vietnam, among other topics, to demonstrate the influence of the Vietnam era on our culture and heritage. Furthermore, the seminars brought the message of healing, hope and the resilience of the American people to the country as a whole.

Educational materials to the general public and other groups such as the book *The Wall That Heals* which are distributed to veterans groups, in veterans' hospitals, and high school civics classes and colleges to stimulate discussion of the Vietnam War's history and current impact on America and to relate stories of experiences at the Memorial to encourage the process of reconciliation. The book is also distributed to the general public to encourage the recipient to visit the Memorial and remember those who served.

The Wall That Heals tells seventeen stories of individuals or incidents involving the Memorial. Each of these stories relates how the Memorial has influenced lives, assisted in remembering those who served, and brought reconciliation to those who visited the Memorial. The book also encourages the recipient to visit the Memorial site and remember those who served. Other materials are also distributed to the public seeking their participation in other Memorial projects. The success of these projects continue to be important to VVMF and the implementation of our mission statement.

Veterans Reunions held, under the auspices of VVMF, for Veterans of the Vietnam War which further serve to provide reconciliation between Vietnam veterans and their families and other citizens.

2. Our Direct Response Program

VVMF began using direct response activities in 1980 to mobilize a solid base of support, educate the public to the many purposes of the Memorial, and to raise the funds to erect and maintain the Memorial and conduct its operations without relying on any government funding. The design is recognized internationally as a great architectural triumph.

The direct response activities and other fund-raising efforts succeeded in raising over $8 million to erect the Memorial. This support base forms the core of our effort to attract visitors to the Memorial, to promote the involvement of the public in the reconciliation of the country, and to encourage people to interact with the Memorial. This participation may take the form of sending an item to the Memorial (e.g., a card to honor those whose names are etched on the Wall) or to attend special events staged at the Memorial. Since its dedication in 1982, the Vietnam Veterans Memorial has become the Nation's most visited Memorial. The Memorial attracts more than 2.5 million visitors annually.

Part of the success of the Memorial's program of reconciliation and remembrance is the fact that the public frequently leaves personal mementos at the base of the Memorial. The mementos are collected daily, catalogued and transferred to the humidity and temperature controlled Museum and Archeological Storage Facility (MARS) in Glen Dale, Maryland.

The participation of the public influences our direct response program. For example, the personal mementos, notes or other items of memorabilia left at the Memorial are sometimes addressed to specific individuals. Other times they are left without any personal identification.

To ensure that the direct response program falls in line with our mission statement to inform the public about the Memorial, its up-keep, and the addition of names, and to foster the public's involvement in the Memorial, we maintain a close working relationship with our producer of the direct mail materials. This influence is illustrated through this response of the public to the Memorial. We never envisioned that the Memorial would touch visitors as it has and that such a volume of mementoes, letters and other items would be left. Through our direct response program, these items are mentioned or their messages become incorporated in the materials which are sent to the public to personalize the individuals who served and foster the reconciliation process.

Our direct response consulting firm is under contract to produce periodic public information campaigns for our organization. Several of the specific duties outlined in the agreements include:

i. Developing a theme for each mailing to increase the public's awareness of Memorial events or the observances which are being held at the Memorial, and to promote an understanding and reconciliation among our society for those who served and died in the Vietnam War.

ii. Working with our staff to develop innovative opportunities to bring VVMF's educational and public awareness programs to the direct mail support base.

iii. Distributing schedules of events at the Memorial and research data on the number of visitors to the Memorial and the contribution of American service men and women who served in Vietnam to increase awareness of the Memorial's role in American society.

We believe these initiatives establish our consultant as a vital public relations firm for us. Thus, we require regular creative sessions, involving our principals and creative staff of the consultant with VVMF programs, members of the Board of Directors, and other groups with an interest in promoting our mission and preserving the Memorial for future generations.

Virtually every person in the United States has the potential to assist VVMF in implementing one or more of our programs. From sending a commemorative card to the Memorial, attending a function at the Memorial, or using the educational materials to reconcile feelings regarding the War, the general public is an important participant in effecting the remembrance of the veterans and reconciling the Nation. As a result, there are no specific criteria for list selection in developing and expanding the direct mail supporter base. Indeed, we seek to reach the largest, most diverse audience possible with our programmatic message to seek involvement with the Memorial and the veterans the Memorial honors.

The direct response program regularly forwards program materials to identified supporters and the general public in order to educate them about the Memorial and to urge the recipient and friends of the recipient to visit or attend special observances at the Memorial. Each mailing contains pertinent statistical data, such as the number of individuals memorialized or the number of visitors attracted to the Memorial, and may focus on a particular theme or program we are developing. These programs are consistent with our primary objectives: education, public awareness, and reconciliation of the country following the war.

B. **Exposure Draft**

We urge the AICPA to reconsider the focus of this exposure draft. We believe its present content is a reaction to criticisms by some states' attorneys general and other "watch-dog agencies" to the methodology followed by some not-for-profit organizations to allocate joint costs. The AICPA has stated that these criticisms are based on the belief that some organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public.

Based upon the background presented in the **Present Practice** subsection of the draft, this criticism appears to be directed at the issue of how joint costs are allocated rather than whether allocation of joint costs is appropriate. The exposure draft accepts the concept of joint allocation. Therefore, we believe your efforts should be directed toward developing guidance for allocation of joint costs rather than creating a new standard for determining when costs should be allocated.

The exposure draft requires a principal reason for audience selection. As we have discussed in Our Direct Response Program subsection, we have multiple reasons for selecting an audience. The exposure draft would exclude all costs from allocation if the appeal is to a broad segment of the population concerning a condition affecting only a small segment of the population. Vietnam Veterans are a small segment of the population. Indeed, nearly all appeals, whether for fire, flood, or hurricane relief; mentally or physically handicapped; are requests for assistance to be provided to a small segment of the population from a much larger cross-section of the population.

We believe that the exposure draft should require that the audience have a potential or demonstrated need for, or interest in, the program material or activity of the organization. For a program purpose, the audience must be one which can respond to a program-related call for action contained in the material or activity. These conditions would retain the action step for each purpose of the material or activity as found in SOP 87-2. The program purpose is substantiated by the call to action and the fund-raising purpose is substantiated by the request for funds.

The exposure draft test for the content criterion requires the material or activity to call for specific action by the recipient that will help accomplish the entity's mission. That action must be unrelated to providing financial or other support to the entity. This test appears to disqualify program related calls to action that support the organization itself. An example would be calls for volunteers to assist in our program implementation. Such a test could be devastating to these programs and require us to misclassify a valid program cost.

We believe the exposure draft should require that the multi-purpose material or activity contain content that serves our program purposes. Such materials or activities contain action steps or calls to action that audiences can take to help accomplish the program purposes of the organization to which the content relates.

We believe the exposure draft should require verifiable documentation as the primary test to determine whether a material or activity that includes a fund-raising appeal serves program purposes. This is the guidance in SOP 87-2. It should be retained.

The revised standard would require us to report all costs of materials and activities that include a fund-raising appeal as fund-raising costs. This reporting would include costs that are otherwise clearly identifiable with program or management and general functions. In addition, the exposure draft dictates different accounting treatment based upon implementation strategies.

Our reporting all costs, including those which are otherwise clearly identifiable with program or management and general functions, as fund-raising costs will not lead to proper accounting for these costs. Such reporting will, in fact, result in misleading financial statements requiring a certain segment of the not-for-profit community to record such costs as fund-raising unless they are clearly program costs appears to be an attempt to bias our financial statements. Furthermore, financial statements of organizations which do not use direct response will not be comparable to those which do.

Furthermore, this statement dictates what our program and fund-raising appeals should contain and with whom we should develop our program and fund-raising materials and activities. For example, an organization that uses a public relations firm to develop a program package with a fund-raising appeal allocates joint costs to program and fund-raising categories. On the other hand, an organization that uses a fund-raising firm to develop the same package and pays that firm a fee based on the amounts raised must report all costs, including program costs, as fund-raising. This bias against particular types of firms and compensation methods results in distorted financial information. In addition, it precludes comparability between organizations.

We believe the draft in its current form would result in misleading financial statements. It requires all costs of materials and activities to be reported as fund-raising, including costs otherwise clearly identifiable with programs, if its criteria are not met. As discussed above, many of these criteria are unrelated to determining whether program purposes are actually served. Thus, we do not believe the proposal would improve accounting practice.

Sincerely yours,

Jan C. Scruggs, Esquire
President

JCS/356/la

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PVA

PARALYZED VETERANS OF AMERICA
Chartered by the Congress of the United States

January 10, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public
Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

This letter is written to comment on the proposed Statement of Position ("SOP"), "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal."

The Paralyzed Veterans of America ("PVA") is a non-profit organization chartered by the United States Congress on August 11, 1971. One of the missions of PVA is to acquaint the public with the needs and problems of paraplegics. We use multipurpose materials, primarily direct mail, as cost-effective means to accomplish our programs and to raise funds to support them.

The proposed new standard would severely limit the number of non-profit organizations who would be able to allocate these costs. While this may in and of itself not be bad, I believe that all non-profits who would be effected by this, should all be treated in a like manner. My specific concerns with the proposed SOP follow.

Paragraphs 22 through 26, inclusive, deal with the purpose of conducting the activity. In these paragraphs, there is a discussion of compensating the fund-raiser based on their effectiveness of raising a certain amount of funds. Why should a large non-profit organization be able to allocate costs since they are able to employ a fund-raising department, while a small non-profit organization would not have the funds for a fund-raising department and typically would hire an outside fund-raiser who would charge a percentage of funds collected? If both of these organizations mail exactly the same materials, it does not make sense that the larger one would be able to allocate costs and the smaller one would not.

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Paragraph 21(d) states in part that "if the audience is selected principally on its ability or likelihood to contribute...the audience criteria is not met and all costs of the joint activity should be charged to fund raising." The audience criteria is discussed further in paragraphs 27 through 29. Although theoretically this makes sense, trying to apply this criteria practically would be difficult.

As an example, if an organization has continually sent mailings to an individual over several years that include both educational and fund-raising materials, at what point does one determine that they are really still educating that individual or really knowing that the person will contribute each time something is received? Typically, when any non-profit sends out educational material, the underlying goal is to raise funds to continue its programs.

In Paragraph 29, an example is given of existing donors who have also participated in program activities in the past would qualify under the audience criteria. If the audience is made up of past donors with no previous program participation, the audience would likely not be met. While I may agree with the former statement, I do not agree with the latter statement. If an organization is informing a potential contributor of its mission, it is more likely to mean more to a potential contributor than one who already knows the organization's mission.

The latter part of Paragraph 29 discusses list rentals and exchanges and states as an example that "lists acquired from organizations with similar or related programs are more likely to meet the audience criteria than lists based on consumer profiles." Why would it make sense then, that two medical associations could exchange lists from *The Ladies Home Journal* and be able to allocate costs?

Another area of concern relates to Paragraph 21 (b) in determining "whether the program or management and general component is conducted on a similar scale using the same medium without the fund-raising appeal." I am not sure whether it makes sense to define "similar scale" but this could lead to another abuse by non-profits in allocating costs since this is not defined and two organizations may interpret this in two different ways.

The "audience" criteria is discussed in Paragraphs 27 though 29, inclusive. The overriding criteria here is if the audience is selected based on its ability or likelihood to contribute, the costs of the activity should be charged to fund raising. Paragraph 28 goes further to say that "if the audience is selected principally based on its need for the program or because it can assist the entity in meeting its program goals other than by financial support provided to the entity, the audience criteria is met." This criteria may apply to only a handful of non-profits. You specifically discuss a broad segment of the population and a population specifically in need of the program services of the organization. In the case of

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PVA, we need to appeal to the broad section of the population regarding the plight of the paralyzed veteran because (1) paralysis does not affect a broad section of the population (thankfully) and (2) these are the people most in need of our help and they can not afford to contribute. I am not sure what actions could help meet the program objectives, but in our case, would writing your congressman on the plight of the paralyzed veteran really apply?

The content of the message and call to action criteria also seem very broad. I would hate to sound sarcastic but would PVA's call to action be "Do not go to war so you will not be shot and incur paralysis" be a call to action?

In regards to the sections on "Incidental Cost" and "Allocation Methods", I hope this will clear up an area which I know is being abused. If an organization sends out material with a little language regarding its programs and the rest being fund raising, I would now expect that based on the language in the draft SOP, this would now be considered "incidental" and all costs be allocated to fund raising.

As another concern, as a former audit manager at a Big 6 firm, I believe that since auditors deal with a higher level of materiality as it relates to re-classifications (which do not effect net income) as compared to adjustments (which do effect net income) that not as much attention is given by the auditors to the allocation of these costs because they do not effect net income.

As an overall comment, it is my belief that all non-profits should be governed by the primary purpose rule. I believe most uninformed users of financial statements (which is the bulk of the population) would be upset if they actually knew how they were being duped into what a non-profit purportedly is spending on its programs. Even with a disclosure of what is being allocated from fund raising to programs is not going to help a user. All it really does is mask the true dollars being spent on programs.

Very truly yours,

John D. Ring
Chief Financial Officer

CCFA

Crohn's & Colitis Foundation
of America, Inc.

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Serving people with Crohn's diseas and ulcerative colitis

January 10, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605JA
AICPA
1211 Avenue of the Americas
New York, N.Y. 10026-8775

Dear Mr. Tanenbaum:

The Crohn's & Colitis Foundation of America endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We would like to suggest that it would be in the best interest of the accounting profession and the not-for-profit community to rescind this draft and rewrite it with input from both the not-for-profit community and financial statement users. The Crohn's & Colitis Foundation of America would be pleased to offer our input into this critical document. We also believe that the AICPA should apply existing disciplinary measures to those members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for allowing us this opportunity to respond.

Sincerely,

Barbara Boyle

Barbara T. Boyle
National Executive Director

National Headquarters: 386 Park Ave. South, N.Y., N.Y. 10016-8804
Tel: (212) 685-3440 (800) 932-2423 Fax: (212) 779-4098

American Diabetes Association.

National Center 1660 Duke Street Alexandria, Virginia 22314 (703) 549-1500 Telex: 901132 Fax: (703) 836-7439

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January 10, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The American Diabetes Association endorses the National Health Council's position on the Proposed Statement of Position of Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

Kevin A. Kavanaugh
Vice President, Financial. Services

KAK/klp

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March of Dimes
Birth Defects Foundation
National Office
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White Plains New York 10605
Telephone 914 428 7100
Direct Line 914 997 4626

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March of Dimes

Barry Ensminger
Vice President
and General Counsel

VIA FACSIMILE AND REGULAR MAIL

January 10, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

RE: Proposed Revision of SOP 87-2

The Legal Department of the March of Dimes Birth Defects Foundation has reviewed the proposed statement of position on accounting for joint costs that revises SOP 87-2. Recognizing the importance of this revision not only for non-profit organizations, but also for the public interests that they serve, we wish to share our comments with the Not-for-Profit Organizations Committee of the American Institute of Certified Public Accountants.

The issue of fair and accurate presentations of categories of expenditures by non-profits is, quite rightly, a matter of concern. Instances of abusive practices in determining program costs in fund-raising appeals have brought discredit not only on the organizations directly involved but also on the entire non-profit sector. This, in turn, has had a negative impact on a number of worthy institutions. The Committee has obviously expended a great amount of time and thought in its attempt to provide a detailed and extensive set of rules to address this problem.

Nonetheless, the exposure draft will not solve the problem of abuses in accounting for joint costs and it will in fact result in harming the non-profit sector as well as the donor public that it was designed to protect. On the most general level, the proposed rules are excessively complicated and inequitably balanced in favor of understating program costs. The "flow chart" (Appendix B) summarizing the general analytical framework illustrates this point. To reach an allowed program allocation, an activity containing a fund-raising component must pass through a number of

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interrelated tests; a failure to fully satisfy any one of the stated standards will result in the exclusion of program allocation. The criteria of "purpose," "audience" and "content" function not as elements in an allocation analysis and decision, but rather as barriers to program allocation. The proposed rules introduce intentionality as the central and exclusive standard for allocation.

Our more specific comments are as follows.

The proposed rules will not result in a fair or accurate categorization of program costs. For instance, the allocation of program costs could depend not on an activity's content or impact, but (1) on methods of evaluation and compensation external to the actual conduct of the activity, (2) on the nature and content of other activities of the organization, or (3) on the activity's intended audience. A public service campaign containing an appeal for funds would in no part be allocable as program expenditures if performance is evaluated or rewarded on fund-raising impact or if the audience is determined on criteria not explicitly based on program impact.

To the extent that the rules require classification of actual program costs as fund-raising or management and general costs, many non-profits will unfairly suffer a decline in public and institutional support. For some non-profits, the application of the proposed rules will, in an unfair and misleading manner, alter the ratio of program costs to other costs. This ratio is widely regarded by the general public and by grant makers as a major barometer of a non-profit's worthiness and effectiveness. Many "watch dog" agencies have set specific ratio requirements: the Council of Better Business Bureaus states that fund raising costs should not exceed thirty-five percent of related contributions and the National Charities Information Bureau requires that at least thirty percent of annual expenses be applied to program.

For many non-profits, compliance with the proposed rules would be excessively burdensome and even impossible. The proposed rules must be susceptible to reasonable efforts at compliance. Many individual non-profits and many local units of national institutions are small and operate with limited resources; their staff and volunteers lack the expertise and the time to follow and apply the detailed and sophisticated analytical procedures required by the proposed rules. The complexity of compliance, revealed in the summary "flow chart," would result for many in uneven compliance or in the incurring of additional costs, with a resulting diversion of program funds.

The proposed rules could result in a reduction in program messages and activities. Though many activities are primarily directed to

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raising funds, they also contain information and appeals whose content is directed to program issues. The placing of program appeals may be the result of an honest and legitimate intention to further a non-profit's mission or of a desire to establish a particular balance of fund-raising and mission expenditures. But, in favoring allocation only to fund-raising costs, the proposed rules offer a disincentive to the inclusion of appropriate program messages in fund-raising materials.

We thank you and the Committee for the opportunity of sharing our concerns and comments with you.

Sincerely yours,

Barry

Barry Ensminger
Vice President and
General Counsel

BE/ndp

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Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10026-8775

January 7, 1994

Dear Mr. Tanenbaum:

Our firm, Sarfino and Rhoades, performs audits of various Voluntary Health and Welfare Organizations. The audits of these organizations are currently performed based on Statement of Position 87-2, Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations that Include a Fund-Raising Appeal. According to an exposure draft of the proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (SOP), these organizations will be required to follow the proposed SOP. We welcome the AICPA's proposal to clarify the allocations of joint costs and acknowledge the time, effort, and expertise that helped develop this exposure draft. We have some concerns as outlined below for your consideration.

Our first concern is the purpose test that determines whether or not bona fide program activities are taking place. The proposed SOP requires auditors to determine if costs relate to programs, management and general, or fund raising based on the purpose for conducting the activity. According to FASB 117, program services are costs associated with activities that result in beneficiaries, customers, or members receiving goods or services that meet the mission of the organization. The goods and services are the purpose and output of the organization and often relate to more than one program. A definition for public education is included in Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations (Revised 1988). The proposed SOP does not address the purpose of the activities included in a fund-raising appeal. Based on this, one auditor could determine a variety of purposes for conducting an activity. Therefore, we feel uniformity and comparability of financial statements as

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Mr. Joel Tanenbaum
Page 2
January 7, 1994

intended by the committee will not occur since interpretation of the purpose or intention of the fund raising appeal will be made on an organization by organization basis.

Also, the exposure draft requires the auditor to determine the nature of joint costs based on an evaluation test. We believe the evaluation test will cause many questions to arise due to the materials being distributed by an organization. For many of the Voluntary Health and Welfare organizations we audit, the only reason individuals know about a particular disease or problem in society is due to the organization's efforts. Even if no donations are received from an individual through a mail solicitation, the individual is now informed about a disease or problem that is affecting society and possibly family or friends. The individual would not receive this information if not for the educational program of these organizations. We feel the evaluation or success of a program is not measured by accounting.

Our final concern is with the audience test. Many Voluntary Health and Welfare organizations send mailing based on the ability to contribute. Many organizations have no ability to split their mailings into an audience that is likely to contribute and an audience that is selected for program need or assistance in furthering the organization's program goals. We as auditors would not have the ability to actually confirm whether every name on a mailing list is used due to ability to contribute, the need for program assistance, or the ability of an individual to help further the organization's goals. If, indeed, confirmation is needed of every donation, the costs associated with this process would greatly outweigh the benefits. Therefore, we feel further clarification and expansion of the audience test is needed.

If you have any questions regarding our comments, please feel free to contact myself or Andrew Powell of our staff.

Sincerely,

J. Gregory Sarfino

J. Gregory Sarfino

National Association of State Comptrollers

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January 10, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

On behalf of the National Association of State Comptrollers (NASC), I am pleased to provide you with these comments regarding the exposure draft (ED) **Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal**. Our members support this ED and believe that it provides necessary and appropriate guidance in an area of accounting in which the present standard, SOP 87-2, is not sufficient. We approve of the greater detail and clarification that this ED provides, and believe that its application will result in greater consistency in the reporting of fund-raising activities of not-for-profit organizations. The provisions of this ED should also help to assure the users of financial statements that the costs associated with fund-raising activities are fairly and completely disclosed.

Our members commented to us that the decision process described in the ED appears to be thorough and reasonable. The three criteria of purpose, audience, and content appear to be appropriate and comprehensive; they are adequately defined and explained, and the examples provide helpful guidance.

The disclosure requirements outlined in the ED, however, do not meet with our members' full approval. While state comptrollers believe that the disclosure requirements are generally reasonable and appropriate, almost half of our respondents observed that a discussion of allocation methods would involve information of a technical nature that

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does not belong in the financial statements. One state also advocated the elimination from the final standard of paragraph 36, which recommends that the amount of joint costs for each activity be disclosed.

Several of our members noted a specific deficiency in the ED and offered a suggestion for its improvement. The flowchart on page 29 is somewhat confusing to follow as it is presently written, because it is not always clear where to proceed after a "yes" or "no" answer. The problem could be easily fixed by indicating "yes" or "no" on the arrows leaving the decision symbols on the flowchart.

Finally, one of our members expressed concern about the costs and practicality of applying this proposed standard to entities in which contributions are small in comparison to other sources of revenue. A state university is an example of such an organization. A university would generally have a development office which is in charge of fund-raising, but its budget is typically a fraction of a percent of the university's entire budget. Individual academic departments also engage in some fund-raising efforts, but the benefits of adding and tracking accounts for these activities in every department would not seem to justify the costs. Perhaps the standard should include some explicit discussion of materiality considerations.

The National Association of State Comptrollers appreciates the opportunity to participate in the due-process procedures of the American Institute of Certified Public Accountants. Should you have any questions about our comments, please feel free to call me (205-242-7063) or Pat O'Connor of the NASC staff (606-276-1147).

Very truly yours,

Robert L Childree

Robert L. Childree
President

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To Joel Tanenbaum	From Pat O'Connor
Co. AICPA	Co. NASACT
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Fax # 212-596-6213	Fax # 606-278-0507

MADD™

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MOTHERS AGAINST DRUNK DRIVING
MICHIGAN STATE ORGANIZATION

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January 10, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775
Fax # 212-596-6213

REF: File 3605.JA

Dear Mr. Tanenbaum,

This letter is in response to the exposure draft calling for changes in "Accounting for Joint Costs of Informational Materials and Activities of Not-For-Profit Organizations That Include a Fund Raising Appeal."

MADD was first started in the state of Michigan in 1982 by a handful of citizens dedicated to the cause of eliminating drinking and driving. The first four years of existence for the State of Michigan MADD were very difficult because there was little to no funding and a relatively small number of volunteers were attempting to make a difference. These volunteers assisted victims of drunk driving, monitored the court systems, spoke to the public at every opportunity in an effort to educate, and ran the day to day operations of the organization. As you can well imagine, this was quite a task, and in many cases, the volunteers were performing these services in the midst of enormous grief due to the loss of a loved one to a drunk driver. Their priority was and still is to accomplish the above mentioned tasks, and this is where their time and effort is spent. This leaves very little time available for fund raising.

In 1986 however, we hit upon a solution which solved our fund raising dilemma and at the same time allowed us a forum to educate the public on a wide scale, recruit additional volunteers and still allow our volunteers to dedicate the majority of their time to our programs and not to raising funds. The solution was telemarketing.

Telemarketing has reached citizens in the state of Michigan in a way that our volunteers never could have. We have been able to show the public the consequences of drinking and driving and we have dramatically effected attitudes and laws in this state toward drinking and driving. Our program volunteer base has

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risen dramatically as a direct result of telemarketing. The funds raised through telemarketing have allowed us to expand our programs. We have added youth programs, victim impact panels, funding of equipment needed by law enforcement agencies to stop drunk driving and many other vital programs. We have seen approximately a 36% drop in deaths from drinking and driving in Michigan since our efforts began.

Telemarketing has raised funds - but only because in the telemarketing process we have educated the public about drunk driving, thereby influencing their decision to make a donation to stop the carnage on Michigan's roadways.

If this proposal passes, we will be in a position of having to prove that we meet the three requirements regarding purpose, audience and content, otherwise all telemarketing cost will be deemed to be fundraising cost. These three criteria are very arbitrary and open to wide interpretation. Our fees to CPAs will more than likely increase in an effort to comply, leaving us less money to spend on programs. Full compliance could actually cost us our entire telemarketing revenue if we cannot anticipate an audience's ability or likelihood to contribute.

The result of non-compliance is that all cost of telemarketing will be deemed to be fundraising cost only. <u>This does not properly categorize these costs.</u> As previously mentioned - we utilize telemarketing to educate and recruit volunteers for our programs. It is not strictly a fundraising activity, and yet we would be required to categorize it as such under your new proposal.

As you are well aware, donors look at the percentage of an organization's money that goes to fundraising and administration versus program cost prior making the decision to contribute. By forcing all telemarketing cost to go to fundraising, our percentages would not show a true reflection of the educational benefits of telemarketing and could cause donors to question the integrity of the organization and decide not to contribute.

Our resources and that of many other Not-For-Profit organizations could be dramatically effected by the acceptance of the exposure draft.

We respectfully request that you reconsider this proposal. The future of many Not-For-Profit organizations such as MADD could rest on your decision.

Sincerely,

Robert Brokenshire /km

Robert Brokenshire, Chairman
MADD, Michigan State Organization

RB/km

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National Mental Health Association™

January 10, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10026

Dear Mr. Tanenbaum:

Recently, you received correspondence from Joseph Isaacs, President of the National Health Council, in which he stated the position of the Council, and its members, on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and local Governmental Entities that Include a Fundraising Appeal.

The National Mental Health Association, as a member of the National Health Council, endorses the recommendation that the Exposure Draft be rescinded and rewritten. The rationale for this recommendation, as contained in Mr. Isaacs's letter, applied directly to the Association and would result in an inaccurate, and understated, portrayal of our programmatic efforts.

We also support the enforcement of existing disciplinary measures against those members whose financial statements reflect abuse of the joint cost allocation rules.

Thank you for considering our request.

Sincerely,

John A. Smith
Acting President/CEO

1021 PRINCE STREET • ALEXANDRIA, VA 22314-2971 • 703/684-7722 • FAX 703/684-5968

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Fighting 40 Neuromuscular Diseases

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... a *non-United Way* independent voluntary agency which has never sought either government funding or fees from those it serves.

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January 10, 1994

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, MY 10036-8775

Dear Mr. Tanenbaum:

On behalf of the Association, I'm writing this letter to comment on the AICPA's Exposure Draft, Proposed Statement of Position ("SOP") - "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal."

We agree that a revision of SOP 87-2 would be salutary because it could (1) apply to all not-for-profit organizations ("NPOs"), (2) define what costs of multi-purpose activities should be allocable, (3) give guidance on cost allocation methods and (4) provide illustrations in applying the SOP.

We strongly recommend that the SOP be completely revised along the lines set forth below.

(1) The principal conclusions of the SOP should be that:

(a) The allocation of joint costs to functional expense categories (program, fund-raising, management and general, etc.) is required but only if verifiable evidence exists that an individual activity (within a multi-purpose activity) is consistent with the NPO's exempt purpose.

(b) All costs of multi-purpose activities which include a fund-raising appeal that are clearly identifiable with, and specifically attributable to, a functional expense category must be charged directly to that category.

(c) The allocation of joint costs should be based on the degree to which the cost element was incurred for the benefit of the activities undertaken. The cost allocation methodology used should be rational and systematic, it should result in an allocation of joint costs that is reasonable, and it should be applied consistently, given similar facts and circumstances.

(d) The basis for costs allocations should take into account the content of the material or activities, and the purpose for which the activity was undertaken. The

MUSCULAR DYSTROPHY ASSOCIATION

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audience for such materials or activities should not be a basis for allocation since every audience will benefit from receiving NPOs program messages.

(2) The remainder of the SOP should address:

- Various types of costs (direct, indirect, joint, incidental) that should/should not be allocated
- Allocation methods and related examples
- Financial statement disclosure requirements and options
- Effective date of the SOP

However, should the AICPA proceed along the lines set forth in the Exposure Draft ("ED"), we offer our suggestions for revisions as set forth below.

(A) We object to use of "bona fide" throughout the SOP to qualify programs because of the implication that NPOs may otherwise engage in deceptive programs.

(B) Eliminate all tests as to whether "a bona fide program or management and general function has been conducted in conjunction with the appeal for funds" (paragraphs 20-29 of the ED) and substitute a general criterion along the lines stated in 1(a) above.

(C) If purpose is a criterion, then paragraphs 23-25 of the ED must be eliminated since they have no bearing on whether a "bona fide" program or management and general function activity has been conducted -- they are arbitrary and factually insupportable. We're incredulous that there's criteria which says in effect that using a program without a fund-raising complement in "the same medium" and on a "similar to or greater than scale" (paragraph 25) or "in a different medium" (paragraph 26 c.) has a direct bearing on whether a "bona fide" program was conducted. Accordingly, the absurd implication is that materials or activities cannot be specifically designed for multi-purpose activities without the presumption that they're not "bona fide."

Also, sub-items a. through d. of paragraph 26 should be eliminated because they have little if any bearing on whether "bona fide" functions have been performed.

(D) If content is a criterion, then the requirement that the "materials or activity must call for specific action by the recipient" should be deleted. It should be obvious that a legitimate program purpose can be met without a call to action by the recipient.

MUSCULAR DYSTROPHY ASSOCIATION

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(E) The illustrations contained in Appendix A of the SOP should be consistent with the foregoing suggestions.

(F) Disclosing the allocation method used by the NPO provides the reader of the financial statements no useful information and, accordingly, the disclosure should not be required.

In conclusion, we believe the ED presents many practical problems for both NPOs and their auditors, and raises in our minds serious conceptual accounting concerns. Many of the ED requirements smack of a "primary purpose" mentality. Accordingly, we recommend that the AICPA revise the ED along the lines set forth in the third paragraph of this letter. Alternatively, the proposed arbitrary criteria must be either eliminated or significantly modified as we've indicated above.

Sincerely,

Robert Linder

Robert Linder, CPA
Director of Finance

RL/dp

P. 02

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WWF

January 10, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal."

Dear Mr. Tanenbaum:

I am writing in regard to the above-referenced exposure draft. While WWF supports and looks forward to clarification of the current Statement of Position for accounting for joint costs, we have some concerns about the proposed statement.

World Wildlife Fund (WWF) is an international conservation organization which is working worldwide to conserve nature by preserving the abundance and diversity of life on earth and the health of ecological systems. Our programs encompass a range of issues -- illegal wildlife trade, rain forest destruction, poverty and conservation, and many others.

Central to our strategy is increasing public understanding of global conservation needs. Public education is one of our most effective conservation methodologies, complementing our field work, policy initiatives, and scientific research. It is crucial to bringing about change.

We are greatly concerned about the effect of the proposed new standards on the way we report the costs of our educational efforts. We believe these are an integral part of our program, to be reported as such. The proposed new standards would require, however, that in many situations we must report all these education activities as fundraising costs. In our view, this will lead to improper accounting for those costs, and to misleading financial statements.

World Wildlife Fund
1250 Twenty-Fourth St., NW Washington, DC 20037-1175 USA
Tel: (202) 293-4800 Telex: 64505 PANDA FAX: (202) 293-9211
Incorporating The Conservation Foundation. Affiliated with World Wide Fund for Nature.

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We include educational and fundraising materials in the same mailings in order to achieve cost effectiveness. If we did not do so, we would have to incur additional costs for separate mailings. These additional costs would reduce the amount of funds available for our conservation program.

We also feel that a certain class of organizations -- those that work internationally -- is put at a particular disadvantage. Because of the physical distance between the individual being educated and overseas activities of these organizations, there are often few personal actions an individual can take. For example, WWF sometimes asks individuals to take specific actions like petitioning Congressional representatives or not buying endangered species products, but more often we are simply trying to raise awareness of international conservation needs, expecting this heightened awareness to affect individuals' behavior and attitudes in a range of ways -- recycling, making consumer choices, voting, and responding to opinion polls.

In sum, we are concerned that the proposed SOP would

- lead to improper accounting and misleading financial statements,
- eliminate the cost savings of multi-purpose mailings, and
- result in a particular disadvantage to international organizations like ourselves.

Thank you for your consideration of these points. If you have any questions, please feel free to contact me. My direct line is (202)778-9598.

Sincerely,

Lawrence J. Amon
Vice President for
Finance & Administration

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January 6, 1994

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs Of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund Raising Appeal."

Dear Mr. Tanenbaum,

This letter comments on the referenced Exposure Draft. Defenders of Wildlife is a non-profit, tax-exempt wildlife conservation organization dedicated to preserving native wildlife, endangered species, and habitat. Supported by nearly 80,000 members and activists nationwide, we concentrate our efforts on eliminating two of today's top environmental threats: the accelerating loss of species and biological diversity and the destruction of habitat.

We use multi-purpose materials, including direct mail and the telephone, as cost-effective means to accomplish our program goals and to raise funds to support our programs.

We believe the purpose, audience, and content criteria are appropriate, as they are under SOP 87-2, and that we are currently in compliance with the regulations proposed under the Exposure Draft. However, we cannot support the new proposal because the guidelines for its implementation are seriously flawed. If implemented, the proposed standard has the potential to substantially limit our ability to cost-effectively carry out our mission and programs.

The tests proposed in the Exposure Draft should be either eliminated or significantly modified. Multi-purpose materials should be tested by verifiable documentation as to whether they include program as well as fundraising purposes, as is the current guidance in SOP 87-2. Content criterion should be that the multi-purpose materials or activities should serve the non-profit's program purpose and that the materials contain action steps that the recipients can take to help accomplish the purpose(s) to which the content relates.

We do not believe that this Exposure Draft serves the purpose of better standardizing the allocation of joint costs to better inform the users of the financial statements when comparing various non-profit organizations. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

Sincerely,

Anita F. Gottlieb
Senior Vice President for Operations

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SMITHSONIAN INSTITUTION
Washington, D.C. 20560
U.S.A.

January 7, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The Smithsonian Institution has reviewed carefully the Exposure Draft of the proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-raising Appeal. We offer the following comments for your consideration.

Administrative Burden

Not-for-profit organizations today face ever increasing challenges in raising funds to support their programs. The competition for funding is fierce, and corporations and individuals operating in a stagnant economy have limited support to offer. As funding has become harder and harder to come by, not-for-profits have had to examine every dime spent on non-programmatic functions and reduce wherever possible. The requirements of this proposed Statement of Position (SOP) would add to the administrative burden of not-for-profit organizations at a time when they cannot afford it.

Not-for-profits now find themselves in a "catch 22" situation. The scandals associated with specific not-for-profit organizations have resulted in calls for increased disclosure by all not-for-profits. This SOP represents a case in point. Unfortunately, the additional work involved in capturing data and preparing the disclosures would divert scarce funds from programmatic purposes. Diversion of funds into non-programmatic areas damages organizations' ability to raise funds. Fund raising costs rise, and every dollar raised becomes more expensive, again negatively affecting fund raising efforts.

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The proposed framework for identifying and allocating joint costs will require the Smithsonian Institution to maintain separate job cost accounting records for each material produced or event conducted that meets the criteria for joint costs. Costs will have to be collected in total and analyzed to determine which specific components of cost are joint costs. Allocation methods will have to be selected, allocations calculated, and costs reclassified into the appropriate functional categories. We would have difficulty meeting this requirement within current staffing levels.

Bias in Criteria

The rigidness of the tests of purpose, audience, and content heavily skew the classification of expenses toward fund raising. We do not understand the benefit to the reader or the not-for-profit organization of such a bias.

Potential Value of the Disclosure

We question the potential value of the disclosure to readers of not-for-profit organizations' financial statements, particularly in light of its potential cost. While disclosure of an organization's fund-raising costs is of interest to the reader, the additional footnote disclosure on joint costs seems of questionable interest, since it focuses on only a potentially minor portion of the total fund-raising expense. The suggested disclosure of costs by individual material or event is overkill, as is disclosing each allocation method used.

Reader Comprehension of New Standards

We believe the proposed rules for determining what is considered a joint cost may well result in not-for-profit organizations reporting significantly more fund-raising expenses than they have in the past. Items that were treated as joint costs in the past will not meet the new joint cost criteria.

While we understand this is the intent of the Committee in proposing these standards, we fear that the financial statement reader may misinterpret a sudden increase in fund-raising costs, when, in fact, the organization's fund-raising activities may not have changed. Explaining the new figures will likely be very difficult.

Definition of Costs to be Included

The costs to be included in a joint cost allocation need further clarification. While direct costs other than staff costs are fairly obvious, the line between indirect and direct costs is not clearly drawn. The Smithsonian Institution does not have a mechanism in place to capture staff costs by event or material produced. Capture of this information would be a significant additional burden on the employee and the Institution. We suggest that the

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language in paragraph 15 be clarified to more fully describe the types of costs that must be considered in identifying joint costs.

Summary

We urge the Accounting Standards Executive Committee (AcSEC) to seriously consider the value these disclosures add to the financial statements, and weigh that value against the cost of compliance. It will almost certainly result in increasing the very costs it is designed to disclose.

Sincerely,

Nancy D. Suttenfield

Nancy D. Suttenfield
Assistant Secretary
for Finance and Administration

001-94.LTR
as

Co. Amer Instit CPA	Co. Children's Sq.
Dept.	Phone (712) 322-3700
Fax (?02) 596-6213	Fax (712) 325-0913

(128)

Children's Square U.S.A.

BUILDING VISION, COURAGE AND WILL

The Christian Home Association/
Children's Square U.S.A.
Council Bluffs, IA 51502-3008
(712) 322-3700
Fax (712) 325-0913

January 7, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

ACCREDITED
COUNCIL ON ACCREDITATION OF SERVICES FOR FAMILIES AND CHILDREN, INC.

Accredited by
Joint Commission
on Accreditation of Healthcare Organizations

Member Agency
National Association of Homes and Services for Children

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teen-agers and their parents.

We believe that the exposure draft require additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Stan Pierce

Stan Pierce, Director
Resource Development

Carol D. Wood

Carol D. Wood, ACSW, LSW
President & CEO

sd

National Society to Prevent Blindness®

National Office: 500 East Remington Road, Schaumburg, IL 60173 708/843-2020

Post-it™ brand fax transmittal memo 7671	# of pages ▸ 1
To Joel	From Dick Hellner
Co. Tanenbaum	Co. NSPB
Dept AICPA	Phone # 708 843 2020
Fax # 212 596-6213	Fax # 708 843-8458

January 7, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The National Society to Prevent Blindness endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entitles that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

Ed Greene

Edward E. Greene
President

Richard T. Hellner
Executive Director

December 31,. 1993

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Fred Toole

Guardian Angel Home of Joliet
1550 Plainfield Road
Joliet, Illinois 60435
815-729-0930

Fred Toole, MSW, ACSW
Executive Director

December 31, 1993

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

LFrench

Dover Group Home, Inc.

Linda S. French, MEd
Executive Director

P.O. Box 99, 35 Third Street • Dover, NH 03820
Telephone 742-2963

AMERICAN CHILDREN'S HOME

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December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for- Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected.

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

Post Office Box 1288 • Lexington, North Carolina 27293-1288 • Telephone 704-352-7126
Junior Order United American Mechanics Children's Home, Inc. - Serving Children Since 1928

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3. The audience criteria does not address the situation where a broad <u>percentage</u> of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e.,5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Vernon L. Walters, Jr.
Executive Director

VLW/jj

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January 4, 1994

Florida Baptist Family Ministries

State Office
P.O. Box 8190
Lakeland, Fla. 33802
Phone (813) 687-8811

Lakeland Children's Home
P.O. Box 1870
Lakeland, Fla. 33802
Phone (813) 688-4981

Miami Children's Home
7748 S.W. 95th Terrace
Miami, Fla. 33156
Phone (305) 271-4121

Northwest Florida Children's Home
P.O. Box 325
Gonzalez, Fla. 32560
Phone (904) 968-9265

Southwest Florida Children's Home
4551 Camino Real Way
Fort Myers, Fla. 33912
Phone (813) 275-7151

Tallahassee Children's Home
8415 Buck Lake Rd.
Tallahassee, Fla. 32311
Phone (904) 878-1458

ACCREDITED
COUNCIL ON ACCREDITATION OF SERVICES FOR FAMILIES AND CHILDREN, INC.

Florida Baptist Retirement Center
P.O. Box 460
Vero Beach, Fla. 32961
Phone (407) 567-5248

Taylor Group Home
1020 S.R. 540 West
Winter Haven, Fla. 33880
Phone (813) 299-1948

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing as a member of the National Association of Homes and Services for Children. Our member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors and discouraging their giving of much-needed funds for child care.

The proposed statement of position has a number of areas that are of concern:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We recommend the exposure draft receive additional review by the Committee and that an additional comment period should follow. Thank you for considering our concerns.

Sincerely,

Richard Phillips

Richard Phillips
President

RP:bf

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BUILDING CONFIDENCE, SELF ESTEEM AND CHARACTER

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

1915

JAMES E. DAVIS, ACSW
EXECUTIVE DIRECTOR

515 WEST CAMP STREET
P.O. BOX 747
Lebanon, Indiana 46052-0747
(317) 482-5900
FAX# (317) 482-5942

THOMAS G. TEMPLE, ACSW
RESIDENTIAL DIRECTOR

GARY J. DAVIS, ACSW
DIRECTOR OF ADMINISTRATIVE SERVICES

January 3, 1994

Joel Tanenbaum, Technical Manger
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, <u>Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal</u>

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" <u>program</u>-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.
2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.
3. The audience criteria does not address the situation where a broad <u>percentage</u> of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.
4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,
INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

Gary J. Davis

Gary J. Davis, ACSW
Associate Director

GJD/jp

December 31, 1993

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

609-267-1550

THE CHILDREN'S HOME

OF BURLINGTON COUNTY

A PRIVATE RESIDENTIAL TREATMENT CENTER

WILLIAM BOYLES
Executive Director

243 Pine Street
Mount Holly NJ 08060

OFFICE OF THE PRESIDENT

January 4, 1993

136

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Steven A. Roy, SCJ

Br. Steven A. Roy, SCJ
President

St. Joseph's Indian School • Box 89 • Chamberlain, S.D. 57325-0089
An Apostolate of the Congregation of the Priests of the Sacred Heart
Serving Lakota Sioux Children Since 1927
Phone (605) 734-3300

VICE PRESIDENT
CHILD SERVICES

136 A

January 4, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

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Sincerely,

Mike Tyrell

Mike Tyrell
Vice President of Child Services

St. Joseph's Indian School • Box 89 • Chamberlain, S.D. 57325-0089
An Apostolate of the Congregation of the Priests of the Sacred Heart
Serving Lakota Sioux Children Since 1927
Phone (605) 734-3300

VICE PRESIDENT
SUPPORT SERVICES

January 4, 1993

136B

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

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Sincerely,

Dr. Keith Preheim

Dr. Keith Preheim
Vice President of Support Services

St. Joseph's Indian School • Box 89 • Chamberlain, S.D. 57325-0089
An Apostolate of the Congregation of the Priests of the Sacred Heart
Serving Lakota Sioux Children Since 1927
Phone (605) 734-3300

December 31, 1993

137

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

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Yours very truly,

Kenneth Czaplewski
1/4/94

ST. ROSE
RESIDENCE
INCORPORATED

KENNETH CZAPLEWSKI
President

3801 N. 88th Street
Milwaukee, Wisconsin 53222
(414) 466-9450

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TEXAS BAPTIST CHILDREN'S HOME

ADMINISTRATION
P.O. Box 7
Round Rock, Texas
78680-0007
(512) 255-3668

DEVELOPMENT & PUBLIC RELATIONS
P.O. Box 7
Round Rock, Texas
78680-0007
(512) 255-4496

ROUND ROCK CAMPUS
P.O. Box 7
Round Rock, Texas
78680-0007
(512) 255-3682
Fax: 512-388-3211

HEARTHSTONE
P.O. Box 50872
Midland, Texas
79710
(915) 687-3525
Fax: 915-687-3530

MIRACLE FARM
Route 2, Box 584
Brenham, Texas
77833
(409) 836-0901

An Agency
of the Baptist
General Convention
of Texas

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am concerned that the above mentioned AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care. As a member of the National Association of Homes and Services for Children (NAHSC), our agency joins many others in voicing a concern about the implications of the proposal.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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I believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Jerry T. Bradley
Executive Director

December 31, 1993

139

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

ROSEMONT SCHOOL, INC.
ALLEN L. HUNT, Exec. Dir.
597 N. DEKUM ST.
PORTLAND, OR 97217
503 - 283-2205

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

140

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

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Yours very truly,

W. Earle Frazier

W. EARLE FRAZIER, ACSW
President

Barium Springs Home for Children
Barium Springs, North Carolina 28010
Telephone: (704) 872-4157

December 31, 1993

141

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

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Yours very truly,

William R Schultz
Administrator - Boys' Village Inc.

BOYS' VILLAGE

Established 1946

WILLIAM R. SCHULTZ, JR.
Administrator

P.O. Box 518
Smithville, Ohio 44677

Tel. (216) 264-3232

142

Dedicated service to children since 1845

960 Salt Springs Road • Syracuse, New York 13224

(315) 446-6250
FAX (315) 445-2667

January 3, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, <u>Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal.</u>

Dear Mr. Tanenbaum:

I am writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care to more than 10,000 children.

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Sincerely,

Gerald L. Klaben
Executive Director

143

VERA LLOYD
PRESBYTERIAN HOME
& FAMILY SERVICES, INC.

Youth Residential Care
Family Counseling

January 3, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

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Sincerely,

Robert W. Stansell, Jr.

Robert W. Stansell, Jr.
Executive Director

RWS/sw

Residential Care: Old Warren Road • Box 680 • Monticello, Arkansas 71655 • (501) 367-9035
Family Counseling: 1501 N. University, Suite 260 • Little Rock, Arkansas 72207-9913 • (501) 666-8195 • FAX 666-8198

144

Maryhurst

A journey of hope, one youth at a time

January 3, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 .JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

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Yours very truly,

Judith Lambeth

Judith A. Lambeth, ACSW
Executive Director

A Good Shepherd Ministry
1015 DORSEY LANE • LOUISVILLE, KENTUCKY 40223-2699 • (502) 245-1576 • FAX: (502) 245-1573

United Way

December 31, 1993

145

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

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Yours very truly,

Carl E. Bloom

Serving Children Through Residential Treatment
Group Homes, Treatment Foster Families
and Specialized Adoptions

Whaley Children's Center

CARL E. BLOOM, ACSW
EXECUTIVE DIRECTOR

1201 N. GRAND TRAVERSE
FLINT, MI 48503

Whaley's children are headed home

WHALEY
CHILDREN'S
C E N T E R

How Whaley Heads a Child Home

The heavy question weighing on the mind of a child who has been removed from home is, "Am I ever going to be with a family again?"

Being continuously uprooted and shifted from agency to agency, foster family to foster family, can be tough for a troubled child. Yet all to often, this frequent uprooting is just what happens in the child care system; the child is moved from one placement to another, facing constant uncertainty.

Rarely does a single child care agency provide the complete range of treatment services that a child might need. Whaley provides the full range of treatment settings. A child can remain under our care as he or she makes the emotional and behavioral changes necessary to move back to a permanent and loving family.

The Ruth Rawlings and Charles Stewart Mott Children's Residence

Whaley provides residential care for 24 children in three, 8-bed cottages in the new Ruth Rawlings and Charles Stewart Mott Children's Residence Children between 6 and 12 years old are admitted into this program of intense therapy for an average stay of about six months.

A child's day-to-day activities are designed to provide a successful experience that can help them to feel good about themselves and to learn to socialize with other children and adults.

Kiwanis, Rotary, Optimist & Zonta Group Homes

Four group homes are located in neighborhoods near the Mott Children's Residence. In each home, six children are cared for by a child care staff. A child can be admitted directly or be moved from the Children's Residence into one of these group homes when he or she has developed the ability to function within the community in a less structured setting. If needed, the child can return temporarily to the Children's Residence.

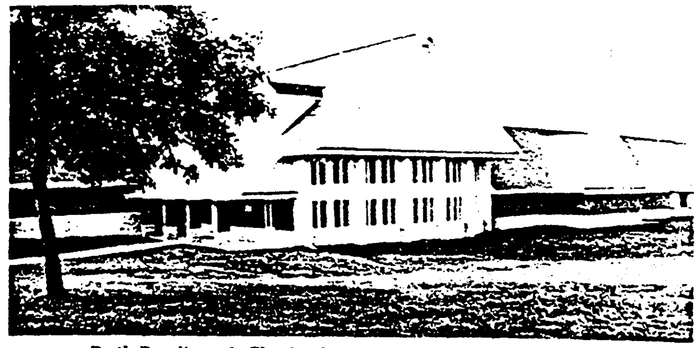
The Whaley School

In cooperation with the Flint Community Schools, Whaley Children's Center has a modern, on-grounds school to serve the children in Whaley's residential and group home care.

Whether a child attends Whaley's residential school or a public school depends on the child's capabilities and needs. Whaley offers four special education classrooms along with an arts and crafts, physical education and reading assistance programs for our children. A summer school provides enrichment classes and summer camp experience for all children.

The Treatment Foster Family Program

A specially-trained foster family is available when the child is ready to move into a family setting. This treatment family is carefully screened, intensively trained, and then with the help of the Whaley staff, provides the sensitive support that the troubled child still needs. This is the final bridge between out-of-home care and permanent placement in an adoptive family or return home.



Ruth Rawlings & Charles Stewart Mott Children's Residence

Treatment foster parents provide the child an opportunity for a meaningful role within the family. For most of these children, this experience of a secure, supportive family situation is brand new.

Most of the treatment foster parents have children of their own. A treatment family usually cares for one Whaley child at a time.

The Specialized Adoption Program

Adoption services at Whaley are specialized, too. Because our children's problems will require continued attention as they grow older, Whaley provides a specialized program to find particularly appropriate adoptive families for those children who are eligible for adoption.

The prospective adoptive family (which is often the child's treatment family) is trained to help the child and continues to receive support and training from Whaley and from fellow adoptive families after the adoption is finalized.

Support for the Child's Original Family

Forty percent of the children at Whaley still have legal family ties; Whaley's goal for them is to try to return the child to the family. The child's family is included, therefore, in Whaley's planning for the child's treatment and in Whaley's counseling services.

Since every child has lifelong emotional ties to his or her original family, Whaley includes the child's family in its support services, regardless of whether the child will ultimately return home. Whaley strongly encourages our children's relationship with brothers, sisters and other relatives.

Aftercare Services

Because the child originally comes to Whaley with considerable mental, emotional and physical problems, even after returning home or being adopted, the child and the family may continue to receive aftercare support from Whaley.

A Quality Team

Whaley's highly qualified staff and carefully trained families work together as a team to turn children's lives around.

There is very little staff turnover at Whaley. This longevity means that Whaley's children benefit from an experienced staff. A participatory management approach keeps each staff member actively involved in Whaley's programming and policies, provides continuous professional improvement and results in a team that is dedicated to the agency's missions, methods and successes.

At Whaley, everyone participates in decision-making. The theory is that when a group works together to make decisions, the decisions are better and the group's morale higher.

Whaley's treatment and adoptive families are involved in recruiting and screening prospective families, developing training programs, and planning regular support group sessions.

Whaley Children's Center is accredited by the Council on Accreditation of Services for Families and Children and is licensed by the Michigan Department of Social Services.

Our Beginning

Robert J. Whaley had been a community leader and president of Citizens Bank for forty-one years at the time of his death in 1922. In his will, Mr. Whaley bequeathed funds to build the Donald M. Whaley Memorial Home in honor of his 11 year old son, Donald, who had died in 1880. The home was to provide care for "homeless and neglected children."

The Whaley Memorial Foundation was incorporated as a private, non-profit children's home on January 26, 1924. The Whaley Trust was left to the trusteeship of the wardens and vestry of the St. Paul's Episcopal Church. A separate board of directors now provides for the daily operations at the Whaley Children's Center.

Since 1926, Whaley Children's Center has cared for our community's most needy children. While the problems that bring children to Whaley have changed since 1926, the dedication and love these children find at Whaley remains the same. Whaley will soon enter its "2nd Century of Caring" for children. Whaley is dependent on private charitable contributions for its operations. Donations, memorials and other gifts can be made by contacting our development office.

Mr. and Mrs. Whaley were prominent in their involvement and generosity in civic and religious affairs. The Whaley Historical House in Flint is the restored 20-room Victorian mansion that was the residence of the Whaley family. It, like Whaley, is open for tours or visits.

Zonta House

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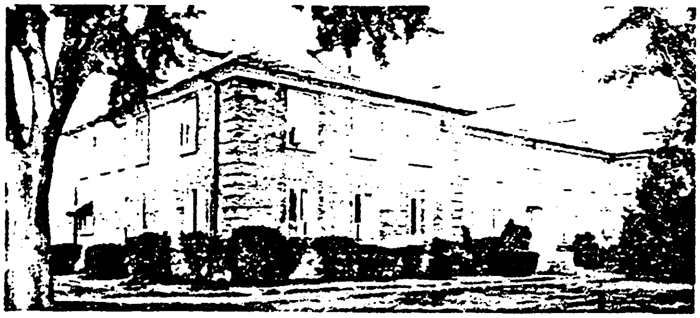

Donald McFarlan Whaley Memorial Home

WHALEY CHILDREN'S CENTER

1201 N. Grand Traverse
Flint, MI 48503-9985
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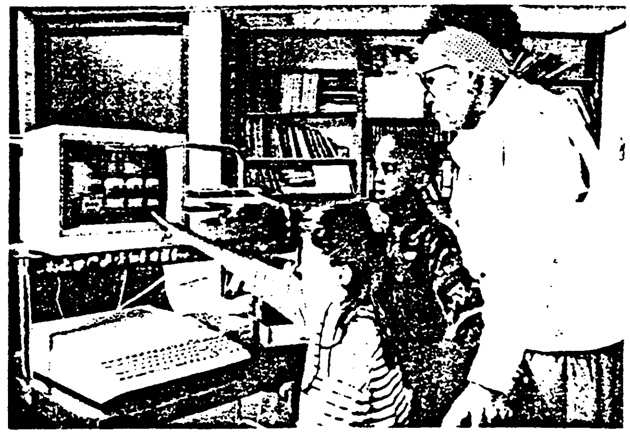
FAX (313) 232-3416



Whaley School

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146

Butterfield Youth Services Inc.

Robert (Tom) Butterfield, Founder
1940-1982

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Founded in 1963 as Butterfield Boys Ranch

John W. Carton, ACSW
Executive Director

East Ranch
Established 1963

West Ranch
Established 1971

North Ranch
Established 1976

South Ranch
Established 1985

New Homestead
Established 1987

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

John Carton

BYS

December 31, 1993

147

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

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3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

*

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

1-4-94

W247 S10395 Center Drive
Mukwonago, Wisconsin 53149

NORRIS
ADOLESCENT CENTER

DON HARRIS, ACSW

Executive Director

(414) 662-3336
FAX: (414) 662-5688

Outreach
Community Ministries
"Where All God's Children Deserve a Jubilee"
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January 3, 1994

148

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

148

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Chris Ellerman

Chris Ellerman
Executive Director

c: Brenda Russell Nordlinger

7t.joeltane.let

NEW ENGLAND
KURN HATTIN HOMES

P.O. BOX 127
WESTMINSTER, VT 05158

802-722-3336

149

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. In our opinion this is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings from program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

David J. Maysilles

David J. Maysilles
Executive Director

DJM/phr

HOLLY HILL CHILDREN'S HOME

Box 21, Route 1,
Washington Trace Road
California, KY 41007
(606) 635-0500 (606) 635-0504 Fax

150

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, <u>Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal</u>

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" <u>program</u>-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad <u>percentage</u> of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

150

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow. In an era in which funds are dwindling and costs are skyrocketing, continued changes like this which penalize not for profits directly reduce the services available for youth and families in our tumultuous society. Please reconsider this issue.

Yours very truly,

Carolyn D'Orta, Ph.D.

Carolyn D'Orta, Ph.D.
President

vp

PHONE: 753-3927

Cass County Children's Home

1339 PLEASANT HILL
LOGANSPORT, INDIANA 46947

151

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3505.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal.

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours Very Truly,

Patrick L Shively

Board President
Cass County Children's Home

PHONE: 758-3927

Cass County Children's Home

1339 PLEASANT HILL
LOGANSPORT, INDIANA 46947

151A

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3505.JA
American Institue of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal.

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours Very Truly,

Karen Schlegelmilch

Administrator,
Cass County Children's Home

THE
YOUTH CAMPUS

addressing the critical needs of children and their families since 1877

733 North Prospect Avenue, Park Ridge, IL 60068-2799, (708) 823-5161, Fax (708) 823-9291

Martin R. Sinnott
Executive Director

Barbara Dumit
President

152

31 December 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of The Youth Campus and the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

I am concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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mailing. Clearly, if some statistically valid percentage (i.e., 5% of more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

I believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Martin R. Sinnott
Executive Director

MRS:kz

December 31, 1993

153

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Gene O Kaseman

THE DAKOTA CENTER
A Lutheran Association

ACCREDITED

GENE KASEMAN
President
Dakota Boys Ranch Associatio

P.O. Box
Minot, ND

Facilities in:

December 31, 1993

154

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Jackie Barger

Ladies Union Benevolent Association (L.U.B.A.)
A CHARITABLE, NON-PROFIT CORPORATION
ESTABLISHED 1874

Jackie Barger
EXECUTIVE DIRECTOR

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MEMORIAL HOME
1120 MAIN ST.
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232-2675
OR 232-2873

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155

David A. Bosworth
Executive Director

January 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of our own agency as well as the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AIRSPACE proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

David A. Bosworth
Executive Director

BAKER HALL

150 MARTIN ROAD, LACKAWANNA, N.Y. 14218 (716) 828-9777

REV. MSGR. ROBERT C. WURTZ, P.A.
President
JAMES J. CASION
Executive Director

JOSEPH J. COZZO
Administrator
(716) 828-9777
Fax (716) 828-9767

156

Business Office:
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Fax (716) 828-9685

Day Treatment / Outpatient Clinic:
(716) 828-9700
Fax (716) 828-9745

Educational Services:
(716) 828-9737
Fax (716) 828-9798

Personnel:
(716) 828-9718
Fax (716) 828-9750

Preventive Services:
(716) 828-9755
Fax (716) 828-9685

Residential Programs:
(716) 828-9777
Fax (716) 828-9767

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting Costs of Materials and Activities for Not-For-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation

156

where a broad percentage of a given population is selected for mailing. Clearly, if some statistically valid percentage (ie., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

James M. Brennan

James M. Brennan
Comptroller

December 31, 1993

157

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Cyril A. "Skip" Barber, Ph.D.

DENVER CHILDREN'S HOME

Cyril A. "Skip" Barber, Ph.D.
Executive Director
Licensed Psychologist

1501 Albion St.
(303) 399-4890

SOS CHILDREN'S VILLAGES

7 January 1994

158

Joel Tanenbaum, Technical Manager
Accounting Standards Division, file 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Associations of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. this is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers, and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

William J. Kieffer

William J. Kieffer
National Director

SOS Childrens Villages USA • 2020 Pennsylvania Avenue NW, Box 800 • Washington, D.C. 20006 USA
Telephone: (703) 893-4767 / (800) 886-5767 • Telefax: (703) 893-4911

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EL PUEBLO BOYS' RANCH

1591 TAOS AVENUE • PUEBLO, COLORADO 81006 • (719) 544-7496 • FAX (719) 544-7705

Family Ranch Home • 225 Michigan • Pueblo, Colorado 81004 • (719) 543-9321

January 5, 1994

159

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children and of which El Pueblo Boys' Ranch is a member.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailing for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a

mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated .

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

John C Shue

John C. Shue, M.A.
Executive Director

JCS:ls
cc: NAHSC

THE CHILDREN'S BUREAU OF INDIANAPOLIS, INC.

615 NORTH ALABAMA • ROOM 426 • INDIANAPOLIS, INDIANA 46204
(317) 264-2700

Chartered 1851

160

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Kenneth L. Phelps, ACSW
Executive Director

KLP:jg

ELON
Homes for
Children

P. O. Box 157 • Elon College, North Carolina 27244 • (910) 584-0091 • FAX (910) 584-4026

RICHARD P. WALKER, MSW, ACSW
President/Chief Executive Officer

(161)

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605. JA
American Institute of Certified Public Accountants
1211 Avenue of Americas
New York, New York 10036-8775

RE: PROPOSED STATEMENT OF POSITION, <u>ACCOUNTING FOR COSTS OF MATERIALS AND ACTIVITIES OF NOT-FOR-PROFIT ORGANIZATIONS AND STATE AND LOCAL GOVERNMENT ENTITIES THAT INCLUDE A FUND-RAISING APPEAL</u>.

Dear Mr. Tanenbaum:

As a member of The National Association of Homes and Services for Children, an organization whose membership provides daily care for over 10,000 children, I am writing this letter to express concern that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

I view the following items as flaws in the proposed statement that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given

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population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

On behalf of the Board of Directors of Elon Homes for Children and the National Association of Homes and Services for Children, I urge that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Kindest Regards,

Richard P. Walker
President/CEO

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FALCON CHILDREN'S HOME, INC.

POST OFFICE BOX 39 • FALCON, NORTH CAROLINA 28342 • 919-980-1065 • FAX 919-980-1161
Wiley T. Clark, Superintendent

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

162

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional period should follow.

Yours very truly,

Wiley T. Clark

Wiley T. Clark
Superintendent

WTC/ebw

December 31, 1993

163

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

[signature] FOR

KEMMEKER VILLAGE
RR 1 BOX 12-C
ASSUMPTION IL 62510

THE
CHILDREN'S HOME
OF
NORTHERN KENTUCKY
COVINGTON

164

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

200 HOME ROAD ★ DEVOU PARK ★ COVINGTON, KENTUCKY 41011 ★ PHONE 606/261-8768 ★ FAX: 606/291-2431

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Kathryn Stephens

Kathryn Stephens
Director of Finance

HOLY FAMILY INSTITUTE
Helping Children & Families In Crisis™

8235 OHIO RIVER BOULEVA
PITTSBURGH, PA 15202-1
412/766-4030

165

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fundraising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of the National Association of Homes and Services for Children (NAHSC) whose member organizations provide daily care for over 10,000 children.

We are concerned that the ACIPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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165

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Sister Linda Yankoski

Sister Linda Yankoski
Executive Director, Holy Family Institute
NAHSC Member Agency

SLY/sls

Crossroad

2525 LAKE AVENUE, P.O. BOX 5038, FORT WAYNE, IN 46895-5038 • 219/484-4153, FAX 219/484-2337

166

4 January 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Please feel free to contact me if additional comments would be helpful. Thank you for your consideration of my concerns.

Sincerely,

Imogene Nusbaum-Snyder

Imogene Nusbaum-Snyder
Executive Director

INS/kw

167

TEEN RANCH, INC.
Working To Preserve Families

2861 Main Street
Marlette, Michigan 48453
517/635-7511

January 4, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing in behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Ray Zavada

Ray Zavada, M.A.
Associate Executive Director

rm

Edgar County Children's Home

300 S. Eads Ave. • Paris, IL 61944 • (217) 465-6451
Dale R. Anderson, M.S., Executive Director

168

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York, 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum,

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1) "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4) The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers, and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Dale R. Anderson, M.S.
Executive Director

DRA:ejd

169

CAMBRIDGE HOUSE, INC.

424 West Jackson St. - Muncie, IN 47305 - 317/289-2802

January 05, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Debra L. Gray, M.A.

December 31, 1993

170

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Verlyn Wenndt, ACSW / LICSW
Director of Children's Services

VOLUNTEERS OF AMERIC

VERLYN WENNDT, ACSW
DIRECTOR OF CHILDREN'S SERV

22426 ST. FRANCIS BLVD
ANOKA, MINNESOTA 55303

PHONE (612) 753-2500

Boys' & Girls' Homes of Maryland, Inc.

9601 colesville road, silver spring, maryland 20901 ⌂ (301) 589-8444 ⌂ fax (301) 495-0923 ⌂ TDD (301) 251-4030

December 31, 1993

171

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, **Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal**

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

171

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Quanah F. Parker

Quanah F. Parker
Executive Director

QFP/dmm

Good Will-Hinckley

Home for Boys and Girls

Member Agency
National Association of Homes and Services for Children

Founded in 1889

(172)

December 31, 1993

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

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Hinckley, Maine 04944 • (207) 453-7335 • Fax (207) 453-2515

172

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

James Hennigar
Executive Director

JH:jep

METHODIST HOME

173

January 3, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Jack Kyle Daniels
President

Joe Bailey
Vice President
Finance

Bobby Gilliam
Vice President
Child Care

Ty Herring
Vice President
Development

Tom Strother
Vice President
Church and Community Relations

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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1111 Herring Avenue
Waco, Texas 76708
817/753-0181

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Jack Kyle Daniels

Jack Kyle Daniels

JKD/sm

Patrick Henry Boys and Girls Plantation, Inc.

Patrick Henry Girls Home — Bedford
Patrick Henry Boys Home — Brookneal
Patrick Henry Boys Home — Cluster Springs
Patrick Henry Girls Home — Rustburg
Patrick Henry Family Counseling Center — Brookneal

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ROUTE 2, BOX 125
BROOKNEAL, VIRGINIA 24528-9303
PHONE (804) 376-2006
FAX (804) 376-3003

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Robert W. McCullough

Robert W. McCullough
Executive Director

"A Financial Statement is available with the State Division of Consumer Affairs"

December 31, 1993

175

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Eric J Staples MS LPC

ERIC J. Staples, M.S., L.P.C

SHELTERWOOD
A Division of Doulos Ministries, Inc.

Eric J. Staples, M.S., L.P.C.
Branson Director

HCR 4, Box 2212
Branson, MO 65616

Office: (417) 334-2773
Home: (417) 334-7553

ELIADA HOMES, INC.

A New Tomorrow For Today's Families

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January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund Raising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of Eliada Homes, Inc. that provides care for over 900 children annually.

We are concerned that the AICPA proposal will have the effect of overstating fund raising costs and understating program costs, thus misleading potential donors of much needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program related materials included in fund raising appeals are treated as fund raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost conscious not-for-profit management.

3. The audience criteria does not address the situation where

Since 1906, A testimony to the faithfulness of God.

2 Compton Drive • P.O. Box 16708 • Asheville, N.C. 28816 • Phone (704) 254-5356 • Fax (704) 259-5384

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a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

J. Stewart Humphrey
Executive Director

JSH/pfd

Children's Harbor

J.C. Dollar
President/CEO

1 Our Children's Highway
Children's Harbor, Alabama 35010-9537

Phone
(205) 857-2133

177

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of Children's Harbor and the National Association of Homes and Services for Children (NAHSC). Children's Harbor serves hundreds of children and families each year and the member organizations of NAHSC collectively serve tens of thousands daily.

I am concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child and family care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

I believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

J. C. Dollar

J. C. Dollar

Where a Child's Light Begins to Shine

HOYLETON

(178)

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I would like to personally voice my opposition to the proposed statement regarding accounting for costs of materials and activities of Not-for-Profit Organizations that include a fund-raising appeal.

Such organizations must prove themselves accountable to the public by demonstrating low fund-raising costs. How is an accurate record achieved when fund-raising costs are accelerated through such a change in position.

Not-for-Profits have been bombarded by rising postal rates, a difficult economy, and natural disasters. Competition and changing trends in corporate and individual giving affects such organizations as well.

I would urge the Committee to review their work to date.

Sincerely,

Deborah A. Kleiboeker

Deborah A. Kleiboeker, CFRE
Vice-President

Join us in the celebration of Hoyleton's first 100 years of service! Many children, youth, and families have begun a new life by entering our portal and passing under the rosette window of the original home, and the archway of our present facility. We have combined the two entrances as a symbol for our century celebration and the continuing portal Hoyleton will be for countless children and families to come.

CELEBRATING!

100 YEARS OF MINISTRY TO CHILDREN & FAMILIES 1895 1995

Hoyleton Children's Home Foundation
350 North Main Street
Hoyleton, IL 62803-0218
(618) 493-7575
FAX (618) 493-6390

Hoyleton Youth and Family Services
350 North Main Street
Hoyleton, IL 62803-0218
(618) 493-7382
FAX (618) 493-6390

Alaska Baptist
Family Services

1600 O'Malley Rd. • Anchorage, Ak. 99516 • Phone (907) 349-2222

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December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Connie Maxwell Children's Home
Post Office Box 1178
Greenwood, South Carolina 29648-1178

(180)

January 4, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Home and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Jimmy McAdams

Jimmy McAdams
President

JM:mg

December 31, 1993

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Ellen Vance
Development Director
Lutheran Child & Family

LUTHERAN CHILD AND FAMILY SERVICES OF INDIANA / KENTUCKY
1525 N. RITTER AVENUE
INDIANAPOLIS, INDIANA 46219 (317) 359-5467

ELLEN VANCE
Development Director

Vanderheyden Hall

Serving
Children & Families
Since 18

POST OFFICE BOX #219, WYNANTSKILL, NEW YORK 12198 PHONE (518) 283-

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January 6, 1994

RICHARD A. DESROCHERS
Executive Director

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed State of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Your very truly,

Richard A. Desrochers

Richard A. Desrochers
Executive Director

2 Greenleaf Woods Drive
'nwood Building, Suite 101
Portsmouth, NH 03801

603-433-8596

ODYSSEY HOUSE, INC.
Executive Offices.

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January 5, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division, File 3605-JA
American Institute of Certified Public Accounts
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

RE: PROPOSED STATEMENT OF POSITION, ACCOUNTING FOR COSTS OF MATERIALS AND ACTIVITIES OF NOT-FOR-PROFIT ORGANIZATIONS AND STATE AND LOCAL GOVERNMENT ENTITIES THAT INCLUDE A FUND-RAISING APPEAL

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care of over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understanding program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

Odyssey House®

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Mr. Joe Tanenbaum
Page 2

3. The audience criteria does not address the situation where a broad percentage of a given population (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Margaret D. Desfosses
Chief Financial Officer

MD:lpp

Odyssey House®

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BROOKLAWN
Youth Services
2125 Goldsmith Lane
Louisville, Kentucky 40218
(502) 451-5177

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Standards of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

David A. Graves
Executive Director

Serving children and youth since 1851.

/ SOURCE
/ CHILD CENTER
P.O. Box 191
Mountlake Terrace. WA 98043
(206) 771-7241

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

January 7, 1994

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e. 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely yours,

Maury Douthit

Maury Douthit
Director

St. Colman's Home
Watervliet, N. Y. 12189

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January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

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4. The content would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

Telephone (518) 273-4911 • FAX (518) 273-3312

St. Colman's Home
Watervliet, N. Y. 12189

186

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours Very Truly,

Lauren Fields

Lauren Fields
Finance Director

Telephone (518) 273-4911 • FAX (518) 273-3312

P.O. BOX 727
703-236-5578

Joy Ranch, Inc.
HOME FOR CHILDREN

HILLSVILLE, VA 24343

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January 6, 1994

Joel Tanenbaum
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Accounting for Costs of Fundraising Appeals

Dear Mr Tanenbaum:

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors.

Certain flaws are obvious:

1. Incidental program-related materials included in fund-raising.

2. Requiring seperate mailings for program materials. This will be a waste of money.

3. The content criteria would exclude slogans.

Please take note of these suggestions for changes in the draft.

Please keep us informed of any action or inaction taken on behalf of our stated concerns.

Sincerely,

David F. Brugger
Office Manager
Joy Ranch, Inc.,
Home for Children

The Presbyterian Child Welfare Agency
One Buckhorn Lane
Buckhorn, Kentucky 41721-9989 (606) 398-7245 Fax (606) 398-7912

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The Presbyterian Child Welfare Agency includes Buckhorn Children's Center • Dessie Scott Children's Home • Presbyterian Community Services
Children's Property Company • Buckhorn Children's Foundation

January 4, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

Brenda Nordlinger, Executive Director of the National Association of Homes & Services for Children (NAHSC), recently informed me of an AICPA proposed position statement which may negatively impact not-for-profit agencies. Our concern is that the proposed statement would overstate fund-raising costs and understate program costs, thus leading donors and potential donors to think excessive funds are allocated to fund-raising.

Donations, of course, are the life-blood of private, non-profit agencies; and any perception among potential donors that funds are misspent can seriously reduce the resources available to the vulnerable people served by non-profit agencies.

This Agency, like many other non-profits and all members of NAHSC, uses charitable gifts first, for service to children and second, for reimbursment of our fund raising costs. Some other non-profits which only provide information and provide no other service should perhaps so report to the public. Agencies such as ours will be damaged by such reporting.

Thank you for thoughtfully considering the concern expressed herein.

Sincerely,

Charles L. Baker
President/CEO

cc: Brenda Nordlinger
Dan Urra
Martha Eades

United Methodist Children's Home

1712 Broad Street
Post Office Box 859
Phone (205) 875-7283
FAX (205) 875-5161
SELMA, ALABAMA 36702-0859

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January 5, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing to express concerns about the AICPA proposal pertaining to the above. While I am not completely familiar with the proposal I have been informed by the National Association of Homes and Services for Children as to several items we wish to bring to your attention. My overall concern is that including certain printing costs that may have program content that is actually used to inform donors about services as we seek to raise funds may lead to misleading information regarding the cost of fund raising.

More specific concerns which need attention and correction are:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is

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selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We respectfully request that the committee working on these issues reconsider the concerns mentioned and that an additional comment period be created. Thank you for your attention concerning these matters.

Sincerely,

Roy McLaughlin

Roy McLaughlin
Executive Director

RMcL:db

December 31, 1993

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Larry J. Rose

LARRY J. ROSE, ACSW
EXECUTIVE DIRECTOR

Presbyterian
CHILDREN'S HOME
of THE HIGHLANDS, INC.

(703) 228-2861 FAX (703) 228-8154
P.O. Box 545, US Highway 21 South, Wytheville, Virginia 24382

EPWORTH VILLAGE
a family care center
402 362-3353 • FAX 402 362-3248 • 21st & Division • Box 503 • York, NE 68467
Providing Education, Guidance and Growth For All of God's Children

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December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

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The proposed statement of position has a number of flaws that need to be corrected:

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

EPWORTH VILLAGE, INC.

Thomas G. McBride
Executive Director

LA SALLE SCHOOL · ALBANY · NEW YORK · FOUNDED 1854

La Salle School

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391 Western Avenue, Albany, New York 12203-1491   (518) 489-4731   FAX (518) 437-1330

January 6, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, <u>Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal</u>

Dear Mr. Tanebaum:

We are concerned that the AICPA proposal, referenced above, will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" <u>program</u>-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Lawrence V. Martone

Lawrence V. Martone
Director of Development

NEW BEGINNINGS

EVANGELICAL CHILDREN'S HOME

CENTRAL OFFICE:
8240 St. Charles Rock Rd.
St. Louis, MO 63114
(314) 427-3755
FAX (314) 426-0764

5100 Noland Road
Kansas City, MO 64133
(816) 356-0187
FAX (816) 356-4172

193

January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State & Local Government Entities That Include a Fundraising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fundraising costs and understating program costs, thus misleading potential donors of much-needed funds for child care. The proposed statement of position has a number of flaws that need to be corrected.

1. "Incidental" program-related materials included in fundraising appeals are treated as fundraising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious non-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Robert A. Baur
Executive Director

RAB/ms

THOMPSON CHILDREN'S HOME Where Miracles Happen

194

January 7, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605. JA
American Institute Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum,

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected.

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Faithfully yours,

William B. Moore Jr.

William B. Moore, Jr.
Executive Director

kbm

December 31, 1993

195

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Joseph W. Corrigan

BETHEL GROUP HOME

"Because we care"

P.O. Box 385
Bethel, AK 99559
(907) 543-2846

The Children's Home of Wheeling, Inc.

14 Orchard Road • Wheeling, West Virginia 26003
Telephone: 233-2585 / 233-2587

Executive Director: Alvin Schafer

196

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Alvin Schafer

Alvin Schafer
Executive Director

December 31, 1993

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Michael C. Blackwell
BAPTIST
Baptist Children's Homes of N.C.
THOMASVILLE 27360
Thomasville, N.C. [illegible]

Florida Sheriffs Youth Ranches, Inc.

OFFICE OF THE PRESIDENT

Harry K. Weaver
President
Boys Ranch, FL 32060
(904) 842-5501

January 6, 1994

198

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers, and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Harry K. Weaver
President

HKW/pb

Grandfather Home for Children, Inc.
P.O. BOX 98
Banner Elk, N. C. 28604

January 6, 1994

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 100366-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of the Grandfather Home for Children whose organization provides daily care for North Carolina's abused and neglected children.

I am concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

I believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Jim Swinkola
Executive Director

200

Nome Receiving Home

Box 1033
Nome, AK 99762
(907) 443-2154

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Kathy L. Hall

Kathy L. Hall
Executive Director

/kh

AUNT MARTHA'S
YOUTH SERVICE CENTER, INC.

201

January 6, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Daniel A. Strick
Business Manager

DS/cp

ADMINISTRATIVE OFFICE
4343 Lincoln Highway
Suite 340
Matteson, IL 60443
(708) 747-2701

23485 S. Western Ave.
Park Forest, IL 60466
(708) 747-2780

50 S. Locust
Aurora, IL 60506
(708) 896-7900

140 East Jefferson
Joliet, IL 60431
(815) 727-3002

15020 S. Cicero Ave.
Oak Forest, IL 60452
(708) 535-2934

233 West Joe Orr Road
Chicago Heights, IL 60411
(708) 754-1044

187 S. Schuyler Ave.
Kankakee, IL 60901
(815) 937-8100

224 Blackhawk Drive
Park Forest, IL 60466
(708) 747-5750

JULIA DYCKMAN ANDRUS MEMORIAL
1156 North Broadway, Yonkers, New York 10701
914/965-3700, Fax 914/965-3883

202

January 6, 1994

Joel Tannenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tannenbaum:

We are writing in behalf of the Julia Dyckman Andrus Memorial whose member organizations provide daily care for 80 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours truly,

Gary O. Carman, PhD
Executive Director

GOC:gc

La Salle School

391 Western Avenue, Albany New York 12203-1491 (518) 489-4731 FAX (518) 437-1330

203

January 6, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanebaum:

We are concerned that the AICPA proposal, referenced above, will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% more) of a given population is selected as an audience, a multi-purpose audience should be validated.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Thomas Giaquinto
Director of Finance

PRESBYTERIAN
HOME for CHILDREN

905 Ashland Highway
P. O. Drawer 577
Talladega, AL 35160
Administrative Office 205/362-2114
Social Services Office 205/362-6601
FAX 205/362-0120

BENJAMIN S. BOOTH, LL.D.
President

TRANSITIONAL CENTER
306 East Second Street
P. O. Box 2388
Sylacauga, AL 35150
205/245-7079
FAX 205/245-7074

204

January 3, 1994

Joel Tanenbaum, *Technical Manager*
Accounting Standards Division, File 3605.JA
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the *National Association of Homes and Services for Children,* whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA Proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e. 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

At a time when not-for-profit agencies like ours across this nation are being asked to provide care for increasingly disturbed children with fewer public (and private) dollars, it would appear to us that this initiative, if approved without additional study and changes, will adversely affect not only what we do, but how we do it. We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Your very truly,

Benjamin S. Booth

Benjamin S. Booth,
President

Our Lady of Victory Infant Home

790 Ridge Road / Lackawanna, N.Y. 14218 / (716) 828-9500
Fax (716) 828-9526

REV. MSGR. ROBERT C. WURTZ, P.A.
President

JAMES J. CASION
Executive Director

Affiliate of Our Lady of Victory Homes of Charity

205

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting Costs of Materials and Activities for Not-For-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for

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mailing. Clearly, if some statistically valid percentage (ie., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

James M. Brennan

James M. Brennan
Comptroller

December 31, 1993

(206)

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

James E. Dumm Jr.

Tara Hall
HOME FOR BOYS

Jim Dumm
Director

Post Office Box 955
Georgetown, SC 29442
(803) 546-3000

DAVID A. LUNDBERG, MSW: EXECUTIVE DIRECTOR

Covenant
Children's Home and Family Services

502 Elm Place • P.O. Box 518 • Princeton, IL 61356 • (815) 875-1129

January 4, 1994

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Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

I am concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected.

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purposed criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

I believe that the exposure draft requires additional work by the Committee and that an additional work by the Committee and that an additional comment period should follow.

Sincerely,

David A. Lundberg, M.S.W.
Executive Director

Frances E. Willard Home, Inc.

1616 North Gilcrease Museum Road - Tulsa, OK 74127-2101
Phone: (918) 583-9506
Fax: (918) 583-2093

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January 3, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs Materials and Activities of Not-for-Profit Organizations and State and Local Government Entitites that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing as administrator of a small residential child care facility serving approximately 60 adolescent girls per year.

We are required by state licensing to have an audit conducted annually. The cost of this audit has increased from $ 2,000 for 1986 to over $ 6,000 for 1992. That is a 300% increase in six years, all of the increase due to increasing federal and AICPA standards. The relative size of this program and budget has not increased in that period of time.

And now the AICPA proposal recommends that "incidental" program material used in a fund-raising appeal should be counted as fund-raising cost. I believe this will have the effect of overstating fund-raising costs and understating program costs. The impact will then be to mislead potential donors of much-needed funds for child care to believe that large amounts of money are being diverted from program to fund-raising.

I believe that another statement in the proposed position is also flawed. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management. It also requires a distinction between potential donors and potential service recipients, a distinction that is academic at best.

It seems to me that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Respectfully,

Anna-Faye Rose

Anna-Faye Rose, ACSW, LSW
Administrator

United Way

UNITED METHODIST · CIRCLE OF CARE ·

Thornwell
Home & School for Children

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January 4, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statements of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

On behalf of the National Association of Homes for Children, whose member organizations provide daily care for over 10,000 children, I am writing to you concerning the AICPA proposal.

We are gravely concerned that the proposal will have the effect of overstating fund-raising costs and understating program costs, which could be misleading to potential donors of much needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected. Such as:

1) "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2) The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3) The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4) The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their families.

We believe the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Zane M. Moore

Zane M. Moore
President

ZMM/db

Post Office Box 60, Clinton, South Carolina 29325-0060 • (803)833-1232 • FAX(803)833-7721

Thornwell
Home & School for Children

210

January 4, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statements of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

On September 30, 1993, I retired from public accounting. I spent over 36 years with Ernst & Young, starting in the Audit Department and serving as a managing partner of offices for 26 years. During that time, I served several clients in the not-for-profit area. Upon retiring from Ernst & Young, I accepted a position with Thornwell Home for Children as Vice President -Finance and Administration. We are committed to providing programs and services within the context of residential care for children, while seeking to extend our services to the families to which many of the children will return. In order for our ministry to be as successful as it can be, we must continue to depend on fund-raising from churches, foundations and individuals.

I believe the AICPA proposed statement of position will have an improper effect of overstating fund-raising costs and understanding program costs, thus misleading potential donors as to the actual cost of raising funds for much needed child care in today's society where problems are monumental.

The proposed statement of position has a number of flaws that need to be corrected:

1) "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2) The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

Post Office Box 60, Clinton, South Carolina 29325-0060 • (803)833-1232 • FAX(803)833-7721

3) The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4) The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their families.

I believe the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Carl Harper

Carl B. Harper
Vice President - Finance and Administration

CBH/db

December 31, 1993

2 I.F.

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Donald A. Uelker

December 31, 1993

212

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

December 31, 1993

(213)

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Suzanne Sipe, PhD

December 31, 1993

214

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

December 31, 1993

(215)

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

6 Jan. 1994

[signature]

Ex. Director BOYS TOWN
Boys Town NE 68010

December 31, 1993

216

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Thom D. Williamson

December 31, 1993

217

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

December 31, 1993

R- 1-11-94

218

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, <u>Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal</u>

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" <u>program</u>-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Michael [illegible] Evans
Director of Development

SUNNY Ridge FAMily Center
Sunny Ridge Family Center
2S426 Orchard Rd
Wheaton, IL 60187
(708) 668-5117

December 31, 1993

R 1-11-94
219

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Toutle River Boys Ranch

Stephen Watters
Executive Director

2232 S. SILVER LAKE ROAD
CASTLE ROCK, WA 98611 • (206) 274-6611

Longview
Niagara

Formerly the Protestant Home for Children
Serving Children and Families Since 1917

Niagara Day Care Center
Family Counseling
Family Day Care
Group Homes
Consultation

L 1-11-94

220

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

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3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

ANDERSON YOUTH ASSOCIATION

JOHN KOPPELMEYER, MSW, LISW
Executive Director

TELEPHONE 225-1628 — 219 COUNTY HOME ROAD
POST OFFICE BOX 5255
ANDERSON, SOUTH CAROLINA 29623

SHELDON L. MITCHELL
Administrator

JAN 11 1994

221

January 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Ref: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

221

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

John Koppelmeyer, LISW, MSW
Executive Director

JAN 11 1994

Burlington United Methodist Family Services, Inc.

Administrative Offices and Residential Programs

Burlington United Methodist Family Services, Inc.

P.O. Box 96, Burlington, WV 26710-0096

(304) 289-3511 FAX (304) 289-3903

January 3, 1994

222

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fundraising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fundraising costs and understating program costs, thus misleading potential donors of much needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fundraising appeals are treated as fundraising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

222

We believe that the exposure draft requires much additional work by the Committee and that an additional comment period should follow.

Grace and Peace,

Rev. I. Lynn Beckman
Vice President for Development

ILB/slb

December 31, 1993

JAN 11 1994

223

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Charles B. Burrell

SCHENECTADY COMMUNITY ACTION PROGRAM, INC.
237 State Street, Schenectady, New York 12305

CHARLES B. BURRELL
Assistant Executive Director

(518) 374-9425
(518) 374-9181

JAN 11 1994

224

[redacted]

1100 CLIFF DRIVE • EL PASO, TEXAS 79902

TIM BROWN, LMSW-AP
EXECUTIVE DIRECTOR

OFFICE .... (915) 544-8777
FAX .... (915) 532-1368

January 3, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Government Entities That Include a Fundraising Appeal.

Dear Mr. Tanenbaum:

I am writing to you as a representative member of the National Association of Homes and Services for Children, whose membership organizations collectively care for approximately 10,000 abused, neglected and troubled children on a daily basis.

I am concerned that current language of the AICPA proposal will in effect result in an overstatement of fund-raising costs and an understatement of program costs. This could become misleading to donors upon whom we rely and depend for operational dollars for the child care programs and services we provide.

This proposed statement of position as it exists currently has a number of flawed statements that need to be corrected.

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. We believe this to be improper accounting and that it should be changed to permit these costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This does not appear to be good stewardship for cost-conscious, not-for-profit management.

224

3. The Audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, If some statistically valid percentage (i.e., 5% or more) of a given population is selected, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

I believe that the exposure draft requires some additional attention and modification by the Committee and that an additional comment period should follow.

Yours very truly,

Tim Brown, LMSW
Executive Director

tb

Saint Joseph's children's home
P.O. BOX 1117 TORRINGTON, WYOMING 82240 PH. 307-532-4197

JAN 11 1994

225

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8776

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-fo-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e. 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teen-agers and their parents.

225

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Gregory J. Smith

Gregory J. Smith
Executive Director

GJS/jm

Bellewood Presbyterian Home
Box 23309 • Anchorage, Kentucky 40223 • Telephone (502) 245-4171

JAN 11 1994

226

January 5, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for costs of materials and activities of Not-for-Profit organizations and State and Local Government entities that include a Fund-raising appeal

Dear Mr. Tanenbaum,

I am writing on behalf of the National Association of Homes and Services for Children of which this agency is a member and whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not good or appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

226

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be most effective when dealing with small children, teenagers, and their parents.

I believe that the exposure draft requires additional scrutiny and work by the Committee and that an additional comment should follow.

Sincerely,

Greg Mathews

Greg Mathews
Executive Director

CHRISTIAN CHURCH
CHILDREN'S CAMPUS
O F D A N V I L L E

JAN 11 1994

227

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for gram materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

P.O. Box 45 - 1151 Perryville Road
Danville, Kentucky 40423-0045
(606) 236-5507 FAX (606) 236-7044

Affiliated with The Christian Church Homes of Kentucky, Inc.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Your very truly,

James L. Burgess

James L. Burgess
Administrator

IDAHO YOUTH RANCH

P.O. Box 8538, Boise, ID 83707 (208) 377-2613 FAX (208) 377-2819

January 3, 1993

JAN 11 1994

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Mike Jones
President

Missouri Baptist Children's Home

11300 St. Charles Rock Rd.
Bridgeton, MO 63044
(314) 739-6811

JAN 11 1994

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January 5, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children, and Missouri Baptist Children's Home who provides care for over 3,000 children annually.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Raymond R. Kenison

Raymond R. Kenison
President

RRK/bl
c: Brenda Russell Nordlinger
Executive Director
N.A.H.S.C.

December 31, 1993

JAN 11 1994

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

JAN 11 1994

231

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

As a CPA and treasurer of Children's Harbor, I am writing on behalf of Children's Harbor and the National Association of Homes and Services for Children (NAHSC). Children's Harbor serves hundreds of children and families each year and the member organizations of NAHSC collectively serve tens of thousands daily.

I am concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child and family care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

I believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Tom Lamberth

Tom Lamberth

RUSSELL LANDS

Russell Lands, Inc.

Tom Lamberth
Executive Vice President and

JAN 11 1994

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January 5, 1994

California Society Certified Public Accountants

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: File 3605.JA- Exposure Draft of Proposed Statement of Position: Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-raising Appeal

Dear Mr. Tanenbaum:

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants (AP&AS Committee) has discussed the Exposure Draft of the proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-raising Appeal, and has developed comments on that Exposure Draft.

The AP&AS Committee is the senior technical committee of the California Society of Certified Public Accountants. The 1993/94 Committee comprises 46 members, of which 17% are from national CPA firms, 52% are from local or regional firms, 20% are sole practitioners in public practice, 4% are in industry, and 7% are in academia. Five current or former members of the AICPA Accounting Standards Executive Committee serve on the Accounting Principles and Auditing Standards Committee.

In general, the AP&AS Committee understands and supports the intent of the Exposure Draft to provide guidance on cost allocation in an area where actual practice creates a wide variety of results. The proposed Exposure Draft attempts to provide assurance for contributors that the amounts stated as program and fund-raising costs will not be skewed in favor of programs costs. The draft focuses on the needs of the contributor and seems to meet those needs. The flow chart in Appendix B is clear and helpful.

However, the needs of the smaller not-for-profit organizations are not addressed; we have significant concerns about the increased problems the Exposure Draft would create for small, not-for-profit organizations: preparing financial statements will be more difficult and costly, and costs of securing audits will increase. Thus, these new guidelines will increase the gap between large and small organizations and make the costs of audited

330 North Brand, Suite 710
Glendale, CA
91203-2308
(818) 246-6000
FAX: (818) 246-4017

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financial statements onerous for small organizations. Additionally, organizations that might elect to report expense by function, but are not yet required to use this method, may decide to use a different, less informative, method to avoid the burdens of this Exposure Draft. Thus, we feel the changes will not be cost/beneficial for smaller not-for-profit organizations; a simpler, less judgmental, allocation methodology might overcome these problems for the smaller organization.

The AP&AS Committee would be pleased to discuss any of our comments at your convenience.

Very truly yours,

David C. Wilson, Chairman
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

Virginia Home for Boys
in Richmond founded 1846
8716 West Broad Street • Richmond, Virginia 23294-6206
Telephone (804) 270-6566
"Equal Opportunity Facility"
Fax Number:
(804) 270-6574

January 11, 1994

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Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed statement of Position, Accounting Costs of Materials and Activities of Not-for-Profit Organizations.

Dear Mr. Tanenbaum:

I am writing on behalf of the Virginia Home for Boys who has been serving children with special needs since 1846. We served 347 children in our various programs of care in 1993.

We have grave concerns regarding the proposed statement of position by the AICPA. Donors are concerned about administrative and fund raising costs. We feel that this proposal will overstate fund raising costs and understate direct program costs which will mislead donors and potentially decrease their support and/or contributions.

We feel that the proposed statement of position has several issues that need to be addressed: 1) Content criteria would seek to exclude slogans of any kind whereas slogans are an effective means to serve children and their parents. 2) "Incidental" program related materials included with fund-raising appeals are considered as fund raising costs rather than program costs. 3) Along these lines the proposal would require separate mailings for program materials to validate this purpose. We operate on very tight budgeting guidelines and it would be poor stewardship to have separate mailings.

We seek your assistance in respecting that the exposure draft be re-worded to address these concerns and that an additional comment period should follow.

Yours in the service of children,

Tod Balsbaugh
Tod Balsbaugh
Executive Director

TB:tb

cc: Brenda Russell Nordlinger, MSW Executive Director

01-12 04:28PM P03

United Way
of South Hampton Roads

Chesapeake • Norfolk • Portsmouth • Suffolk • Virginia Beach

January 5, 1994

JAN 11 1994

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Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental entities that Include a Fund Raising Appeal".

Dear Mr. Tanebaum:

This letter comments on the referenced Exposure Draft. The mission of our organization is to provide funding for over sixty (60) local agencies. We sometimes use multi-purpose materials as a cost-effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we and many of our agencies would report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U.S. Supreme Court in Riley v. National Federation of the Blind of North Carolina, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87.2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87.2 should be retained.

Regional Office
100 Main Street
Post Office Box 2896
Norfolk, VA 23501-2896
Telephone: (804) 629-0500
Fax: (804) 626-3669

Chesapeake Office
1033 Greenbrier Parkway, S.
Chesapeake, VA 23320
Telephone: (804) 547-8454

Portsmouth Office
708 London Boulevard
Portsmouth, VA 23704
Telephone: (804) 629-0556

Suffolk Office
2769 Godwin Boulevard
Suffolk, VA 23434
Telephone: (804) 539-1498

Virginia Beach Office
4441 South Boulevard
Virginia Beach, VA 23452
Telephone: (804) 629-0550
Fax: (804) 490-7504

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Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of a audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgement of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization and to many of our agencies that do not have funding for staff and must rely on volunteers.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is directly infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("For Some Its The Only Way, United Way").

A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose to which the content relates.

This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87.2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,

Lawrence L. Piper

Lawrence L. Piper
Vice President,
Finance and Administration

joeltan

MADD

Mothers Against Drunk Driving

P.O. Box 9285 • Columbus, Georgia 31908 • Telephone: (706) 322-MADD

JAN 11 1994

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Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Ref: File 3605.JA Jan. 7, 1994

Dear Mr. Tanenbaum:

It is our understanding that the AICPA is revising the standard for accounting for costs of materials and activities that include a fund raising appeal. The Columbus, Georgia area MADD chapter relies almost exclusively on telemarketing as a cost-effective means to increase public awareness concerning drinking and driving, obtain participation in our efforts to eliminate drunk driving, and raise funds for our operations. We are very concerned about the effects this proposal would have on our organization's public awareness programs.

Since 1985, we have been actively involved with the local community to eliminate drinking and driving. As a direct result of telemarketing and direct mail campaigns, we have been able to show the public the concequences of drinking and driving.

Other benefits which we have received from these campaigns include volunteering by many individuals to assist victims of drunk drivers, to serve as court watchers, and to help operate our chapter. In addition, our operating funds have been provided by donors, large and small, as a result of these campaigns.

The arbitrary rules contained in the draft proposal threaten the very exsistence of our vital programs. We know we have substantial programs in place to aid victims of drunk drivers. Many of these programs have been implemented through our telemarketing and direct mail campaigns. Drunk drivers have proved to be equal opportunity killers. Anyone, rich or poor, young or old, driver, pedestrian, can be a victim. We do not believe that arbitrary rules about purposes, audiences, and contents of multi-purpose activities are justifiable when they could result in program costs being called fund raising costs.

Our organization deals with extremely limited resources. We cannot afford to comply with arbitrary rules. We do not believe that these rules will properly reflect how our resources are used to anyone who is truly interested in the vital services we provide to our local community. We also do not believe it is appropriate for the AICPA to establish rules that would require us to generate unfair and misleading financial reports for public distribution.

We urge the AICPA to reconcider the arbitrary rules in the proposal. Let the organizations that deliver services to the community decide what programs they wish to pursue and limit the accounting rules to reporting the costs of these services fairly and accurately.

Sincerely

Deena Johnston
President
Columbus Area Chapter MADD
Columbus, Ga.

MADD

JAN 11 1994

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Mothers Against Drunk Driving

P.O. Box 23363 • Tigard, Oregon 97281-3363 • (503) 284-7399 • FAX: (503) 625-2195
OREGON STATE OFFICE

January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
 Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Ref: File 3605.OA

Dear Mr. Tanenbaum:

I have been asked by Jeanne Canfield, Chair of Mothers Against Drunk Driving in Oregon, to write this letter. My background in MADD: Chapter founder, ten years on Chapter Board and various executive offices, including president for five years; Chapter representative for MADD state organization since 1982, active in state legislative work, including Chair of MADD Legislative Committee in Oregon since 1987. I am currently our state organization vice-chair, and am writing on behalf of the ten MADD Chapters of Oregon.

It is our understanding that the AICPA is revising the standard for accounting for costs of materials and activities that include a fund raising appeal. Oregon MADD chapters rely heavily on telemarketing as a cost-effective means to increase public awareness concerning drinking and driving, obtain participation in our efforts to eliminate drunk driving, and raise funds for our operations. We are very concerned about the effects this proposal would have on our organization's public awareness programs.

MADD chapters began forming in Oregon in 1982 with rapid expansion throughout the state. Each chapter has been actively involved with the local community to eliminate drinking and driving. However, it was not until we contracted telemarketing that we were able to reach the public effectively. Direct mail campaigns enhance that effectiveness. Because of these informational campaigns, we have dramatically changed the public's attitudes about drinking and driving. Alcohol-related traffic deaths in Oregon have decreased to 43.5% from 50.9% in the past decade.

The arbitrary rules contained in the draft proposal threaten the very existence of our vital programs. We know we have substantial programs in place to aid victims of drunk drivers. Many of these programs have been implemented through our telemarketing and direct mail campaigns. Drunk drivers have proved to be equal opportunity killers. Anyone, rich or poor, young or old, driver, passenger, or pedestrian, can be a victim. We do not believe that arbitrary

- more -

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rules about purposes, audiences, and contents of multi-purpose activities are justifiable when they could result in program costs being called fund raising costs.

Our organization deals with extremely limited resources. We cannot afford to comply with arbitrary rules. We do not believe that these rules will properly reflect how our resources are used to anyone who is truly interested in the vital services we provide to our local community. We also do not believe it is appropriate for the AICPA to establish rules that would require us to generate unfair and misleading financial reports for public distribution.

MADD of Oregon urges the AICPA to reconsider the arbitrary rules in the proposal. Let the organizations that deliver services to the community decide what programs they wish to pursue, and limit the accounting rules to reporting the costs of these services fairly and accurately.

Sincerely,

Barbara J. Stoeffler

Barbara J. Stoeffler
Vice-Chair, MADD of Oregon
Chair, Oregon Legislative Committee

JAN 11 1994

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NORTHWOOD CHILDREN'S HOME

714 College St., Duluth, MN 55811 • 218/724-8815 • FAX 218-724-0251

January 6, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the americas
New York, New York 10036-8775

Re: Proposed Statement of Position, <u>Accounting for Costs of Materials and Activities of Not-for-profit Organizations and State and Local Government entities that include a fund-raising appeal.</u>

Dear Mr. Tanenbaum:

I am writing to express my concern about the implications of a proposed AICPA standard regarding the treatment of certain public relations costs. When we send out newsletters or print brochures our primary purpose is informational. The brochures are crucial tools in communicating with clients, counties, and insurance companies. We also may use them to help solicit funds. If these costs cannot be apportioned, but instead must be assigned to a fundraising account this will skew, not clarify, the representation of our expenses. Although each of our newsletters includes an invitation to donate, the large majority of our mailing goes to people with an interest in our services but no prospect of giving (such as social workers who might refer students to our care.) The purpose of the newsletter is to provide ongoing information about Northwood. If we have to assign the full cost of the Newsletter to fundraising instead of apportioning it, our fundraising costs might ofter surpass our receipts from fund-raising.

Other criteria you propose for determining whether the cost should be defined as a fund-raising cost look difficult to administer. For instance a content criteria which excluded slogans would require us to scrap our exisiting letterhead and throw out our newsletter masthead. Slogans are important in positioning an agency within a community.

Please do not adopt the proposal in its current form, but take your input from active non-profits to heart.

Sincerely,

NORTHWOOD CHILDREN'S HOME

John W. Hawley

John W. Hawley
Business Manager

FOUNDED IN 1883 • OVER 100 YEARS OF CARING

ACCREDITED BY THE COUNCIL ON ACCREDITATION OF SERVICES FOR CHILDREN AND FAMILIES

PURDUE UNIVERSITY

JAN 11 1994

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VICE PRESIDENT
FOR BUSINESS SERVICES
AND ASSISTANT TREASURER

January 6, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Sir:

Purdue University would like to comment concerning your Exposure Draft of a proposed Statement of Position titled "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal."

Purdue University is a land grant university located in West Lafayette, Indiana. Purdue has an enrollment of over 60,000 students attending classes on 4 campuses throughout the state. Purdue's current revenue for 1992-93 was approximately $762 million. Gift income included in this total was approximately $20 million (2.6%). Expenses reported for development and fund raising as institutional support in accordance with the AICPA audit guide was less than .5% of total University expenditures. With this background, we do not believe allocating joint costs for fund-raising activities as described in this SOP would improve financial reporting for higher education.

Currently, direct fund-raising costs are reported as Institutional Support. Allocating joint fund-raising costs would allocate an immaterial amount from one portion of the financial report to another. This would not improve reporting, especially when considering the administrative efforts necessary to capture transactions at this detailed level.

Application of this SOP to higher education is questionable when considering the nature of fund accounting. A donor who restricts a gift for a specific purpose is assured that 100% of their gift is spent for the intended purpose. The only gifts that would be used for fund raising would be gifts unrestricted to the extent that fund-raising costs meet the gift restrictions. Therefore, even in this case, 100% of the gift is spent in accordance with donor intentions.

1033 FREEHAFER HALL • WEST LAFAYETTE, IN 47907-1033 • (317) 494-9706

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We believe donors are more concerned that their donations are spent for their intended purpose, rather than if the amounts of fund-raising costs are presented fairly. As described above, current higher education accounting practices accommodate information concerns of donors.

We believe higher education should be exempted from this SOP. The costs of compliance would far exceed the benefits and implementation would be impractical.

Sincerely,

Kenneth P. Burns
Vice President for
Business Services and
Assistant Treasurer

01/11/94 11:54 FAX 7028702474

JAN 11 1994

ALS ASSOCIATION
Hope through research
Support through caring

(239)

National Office

The Amyotrophic Lateral Sclerosis Association

21021 Ventura Blvd., Suite 321
Woodland Hills, CA 91364
Telephone: 818/340-7500
FAX: 818/340-2060

Howard B. Levy, CPA
Treasurer and Chief Financial Officer
1956 Cove Lane
Clearwater, FL 34624
Telephone: 813/536-8449

January 10, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Joel:

The ALS Association is a voluntary health organization whose primary mission is to find the cause and cure of the devastatingly deadly neuromuscular disorder commonly known as "Lou Gehrig's Disease", thereby unlocking a 125-year old mystery.

This organization, with an annual budget approximating $3,000,000, takes great pride in the efficient way it manages its limited resources for the ultimate achievement of its mission. We depend significantly on our public awareness and health care professional education programs, and likewise, on a steady stream of fundraising activities, mostly mail campaigns, to achieve our objectives. Like many small charities and other not-for-profit organizations, our financial effectiveness (our operational efficiency, if you will) depends largely on our use of multi-purpose campaigns to get the most value from our printing and postage budget.

Accordingly, we disagree in significant respect to the principal conclusions of the exposure draft proposed statement of position (SOP), *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governments that Include a Fund-Raising Appeal.* We believe the proposed SOP, if adopted in (or near) its present form, would necessarily force us, and many other similarly situated organizations, to choose between materially increasing our aggregate expenditure level for these two functions, or curtailing our fundraising activity. Either way would have the undesirable effect of reducing funds available for other program activities, including scientific research and patient services. In addition, these operational changes would unjustly and adversely affect key performance ratios of smaller charities and put them at a severe disadvantage as they compete vigorously for donors' dollars with larger organizations (which would not be significantly affected by the proposed SOP) -- and would threaten the very existence of many. And some of the best charitable work in this country is done by smaller organizations.

We believe this forced effect on our operational practices, and those of countless other organizations, would be entirely inappropriate and unfortunate -- a "tail wagging dog" situation -- and a serious disservice both to our donors and those afflicted with the dreaded ALS.

Although we would support a revision to SOP 87-2 that would continue its basic philosophy and accounting requirements and afford improved guidance for the consistent application of the purpose, audience and content criteria, we firmly believe the proposed SOP is an extreme overreaction to grossly overstated and unsubstantiated claims of abuses of a few overzealous regulators and watchdog groups.

Functional Allocations

We also firmly believe the proposed SOP's criteria for classifying program costs and expenses are ill-conceived, arbitrary, unreasonable and inherently biased; consequently, we believe they would virtually preclude both the classification of expenses in accordance with their true purpose and economic substance, as required under Statement of Financial Accounting Standards (SFAS) No. 117, and the exercise of sound accounting judgment as to such matters. Therefore, we believe the proposed SOP would result in misleading financial statements, and also would constitute a draconian "accounting penalty", causing irreparable harm, primarily to smaller organizations that try to allocate their limited resources most efficiently and get the "biggest bang for the [donor's] buck."

While we certainly recognize the importance of consistent and reliable financial reporting, we also recognize the value of applying sound judgment in the process. Despite the importance of reliable financial reporting, we believe our not-for-profit organizations should be evaluated primarily on their achievements, rather than their expenditures. Consequently, we believe the entire issue of cost and expense allocations to have been completely blown out of proportion. As with any for-profit organization, the way to best achieve an organization's goals should be a function of management, not one of regulators and watchdog groups.

Moreover, we recognize the high level of integrity of the overwhelming majority of financial statement issuers among our country's dedicated not-for-profit organizations (whose primary motivations are their eleemosynary missions) -- and that of their auditors. To suggest that the proposed SOP is need to stop a growing tendency and trend among such groups to mislead donors and other financial statement users is quite ludicrous. We deplore both attempts to discredit them by regulators and "watchdogs" and actions that tend to penalize the overwhelming majority of honest issuers (and users) to prevent the actions of the very few who might be tempted to intentionally misstate their expenditures.

Disclosure

We also object to the proposed disclosure requirements in the last three bullets of paragraph 35 (the allocation method, amount allocated and the portion allocated to each functional category) and the suggestion in paragraph 36 that additional disclosures should also be included "if practical."

As with the proposed allocation criteria, as well as disclosure requirements of SOP 87-2 (which we also found to be excessive), we believe the demand for these disclosures to be motivated primarily by unfounded distrust on the part of regulators (some of which insist on such disclosures without regard to materiality) and watchdog groups, and a futile desire to be able to "second guess" the informed judgments of issuers and their auditors (rather than to provide relevant and useful information to users). We believe that regulators may request any information they wish in their regulatory reports but that this "police" function is beyond the legitimate needs of general purpose financial statement users and, therefore, should not be embraced by generally accepted accounting principles.

We also believe that singling out such minutia for detailed disclosure to the exclusion of others exaggerates their significance and impairs both the users' ability to understand the financial statements as a whole and, consequently, the financial statements' ability to achieve the objectives set forth in SFAS No. 117.

* * * * *

We urge the Not-for-Profit Organizations and Accounting Standards Executive Committee to heed the cries of the nation's smaller not-for-profit organizations and seriously rethink and substantively revise its proposal.

Sincerely,
The AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION

Howard ~~B. Levy, CPA,~~ Treasurer
and Chief Financial Officer

01/11/94 11:53 FAX 7028702474 PBTK 002

HOWARD B. LEVY, CPA*, Chartered

Accounting, Auditing and Financial Management Consulting

956 Cove Lane
Clearwater, FL 34624

813/536-8449

Member, American Institute of Certified Public Accountants, Division for CPA Firms, SEC and Private Companies Practice Sections

* Licensed to practice Florida, Nevada, New York

JAN 11 1994

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January 10, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Joel:

I am pleased to respond on behalf of my firm and its not-for-profit clients to the exposure draft proposed statement of position (SOP), *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governments that Include a Fund-Raising Appeal*.

Like many small charities and other not-for-profit organizations, my clients depend significantly on public awareness programs, and likewise, on a steady stream of fundraising activities, mostly multi-purpose mail and telephone campaigns, to achieve their objectives.

Accordingly, we disagree in significant respect to the principal conclusions of the exposure draft proposed statement of position (SOP), *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governments that Include a Fund-Raising Appeal*. We believe the proposed SOP, if adopted in (or near) its present form, would necessarily force our clients, and many other similarly situated organizations, to choose between materially increasing their aggregate expenditure level for these two functions, or curtailing their fundraising activity. Either way would have the undesirable effect of reducing funds available for other program activities. In addition, these operational changes would unjustly and adversely affect key performance ratios of smaller charities and put them at a severe disadvantage as they compete vigorously for donors' dollars with larger organizations (which would not be significantly affected by the proposed SOP) -- and would threaten the very existence of many. And some of the best charitable work in this country is done by smaller organizations.

We believe this forced effect on our clients' operational practices, and those of countless other organizations, would be entirely inappropriate and unfortunate -- a "tail wagging dog" situation -- and a serious disservice both to our client's donors and those who would benefit from its program services.

Although we would support a revision to SOP 87-2 that would continue its basic philosophy and accounting requirements and afford improved guidance for the consistent application of the purpose, audience and content criteria, we firmly believe the proposed SOP is an extreme overreaction to grossly overstated and unsubstantiated claims of abuses of a few overzealous regulators and watchdog groups.

Functional Allocations

We also firmly believe the proposed SOP's criteria for classifying program costs and expenses are ill-conceived, arbitrary, unreasonable and inherently biased; consequently, we believe they would virtually preclude both the classification of expenses in accordance with their true purpose and economic substance, as required under Statement of Financial Accounting Standards (SFAS) No. 117, and the exercise of sound accounting judgment as to such matters. Therefore, we believe the proposed SOP would result in misleading financial statements, and also would constitute a draconian "accounting penalty", causing irreparable harm, primarily to smaller organizations that try to allocate their limited resources most efficiently and get the "biggest bang for the [donor's] buck."

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Moreover, we recognize the high level of integrity of the overwhelming majority of financial statement issuers among our country's dedicated not-for-profit organizations (whose primary motivations are their eleemosynary missions) -- and that of their auditors. To suggest that the proposed SOP is need to stop a growing tendency and trend among such groups to mislead donors and other financial statement users is quite ludicrous. We deplore both attempts to discredit them by regulators and "watchdogs" and actions that tend to penalize the overwhelming majority of honest issuers (and users) to prevent the actions of the very few who might be tempted to intentionally misstate their expenditures.

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We also believe that singling out such minutia for detailed disclosure to the exclusion of others exaggerates their significance and impairs both the users' ability to understand the financial statements as a whole and, consequently, the financial statements' ability to achieve the objectives set forth in SFAS No. 117.

• • • • •

We urge the Not-for-Profit Organizations and Accounting Standards Executive Committee to heed the cries of the nation's smaller not-for-profit organizations and seriously rethink and substantively revise its proposal.

Sincerely,

Howard B. Levy, CPA

Enclosure

JAN 11 1994

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RUSSELL LANDS, INC. 1 WILLOW POINT ROAD ALEXANDER CITY, AL 35010 (205) 329-0835

GENE DAVENPORT
PRESIDENT AND CHIEF OPERATING OFFICER

January 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

As an officer and member of the Board of Directors of several not-for-profit organizations, I am writing on behalf of Children's Harbor and the National Association of Homes and Services for Children (NAHSC). Children's Harbor serves hundreds of children and families each year and the member organizations of NAHSC collectively serve tens of thousands daily.

I am concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child and family care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

I believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Gene Davenport

Gene Davenport

VED/wp

Florida Sheriffs Youth Ranches, Inc.

OFFICE OF THE PRESIDENT

Harry K. Weaver
President
Boys Ranch, FL 32060
(904) 842-5501

PROGRAMS

Boys Ranch
Boys Ranch, FL 32060
(904) 842-5555

Youth Villa
P.O. Box 1380
Bartow, FL 33830
(813) 533-0371

Youth Ranch
3180 County Rd. 102
Safety Harbor, FL 34695
(813) 725-4761

Youth Camp
P.O. Box 1000
Barberville, FL 32105
(904) 749-9999

Caruth Camp
P.O. Box 10
Inglis, FL 34449
(904) 447-2259

Youth Ranch
P.O. Box 9571
Bradenton, FL 34206
(813) 776-1777

FIELD OFFICES

Fort Lauderdale Office
5100 N.W. 33rd Avenue
Suite 143
Fort Lauderdale, FL 33309
(305) 486-5992

Stuart Office
P.O. Box 1666
Stuart, FL 34995
(407) 286-4289

Fort Myers Office
3443 Hancock Bridge Parkway, Suite 401
North Fort Myers, FL 33903
(813) 656-1117

January 7, 1994

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Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position regarding Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

Florida Sheriffs Youth Ranches, Inc., (FSYR) is an organization duly chartered under Florida Statutes as a corporation not-for-profit and which has been granted tax-exempt status under IRC Section 501(c)(3). FSYR has provided residential child care, child and family counseling, and follow-up services to Florida's troubled youth for over 35 years. The financial resources available to our organization comes primarily from fund-raising appeals directed to the general public and from deferred gifts through wills and estates.

Since most of our funding comes from public support, our fund-raising costs are considerably higher than those incurred by organizations that receive a substantial part of their funding from governmental sources, United Way, or endowment funds. Any proposals by the AICPA that will tend to increase the portion of joint costs allocated to fund-raising costs will serve to unfairly increase ratios already considered excessive by the uninformed donor.

We believe that the AICPA proposal may be detrimental to the fund-raising efforts of non-profit organizations such as FSYR for the following specifics reasons:

1. Fund-raising costs will be improperly increased due to the inclusion of incidental program-related materials costs.

2. Strict adherence to the proposed standards could require separate mailings for program materials and appeals for funds.

3. Issuance of the Statement of Position in its present form will give the U.S. Postal Service further ammunition in its continuing efforts to increase costs of mailings by non-profit organizations.

We request that the exposure draft not be issued in its present form and that the Committee solicit and carefully consider input from those organizations directly impacted by any change in current requirements.

Sincerely,

C.T.

C. T. O'Donnell II
President-In-Transition

/pb

Lourdesmont
Good Shepherd Youth & Family Services
537 Venard Road, Clarks Summit, PA 18411-1298
(717) 587-4741 FAX (717) 586-0030

JAN 12 1994

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John A. Antognoli, Executive Director

January 6, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

John Antognoli
Executive Director

BOYS' HOME ASSOCIATION
BUILDERS OF MEN SINCE 1914

2354 UNIVERSITY BOULEVARD, NORTH
JACKSONVILLE, FLORIDA 32211
TELEPHONE: (904)/743-3611

JAN 12 1994

(244)

ROBERT G. BROWN, JR.
EXECUTIVE DIRECTOR

January 4, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Robert G. Brown, Jr.
Executive Director

RGB/th

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

JAN 12 1994
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Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

JAN 12 1994

(246)

TULSA BOYS' HOME

P.O. Box 1101 • Tulsa, Oklahoma 74101-1101
AC 918-245-0231 FAX 918-241-5031

ROSALIE DEUTSCH
Executive Director

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

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We believe that the exposure draft requires additional work by the Committee and that a additional comment period should follow.

Yours very truly,

1918-1993
75 Years of Service

A Total Family Support Center
Eagle Village
8500 S. 170th Avenue
Hersey, Michigan 49639-9736
Tel: (616) 832-2234 • Fax: (616) 832-2470

JAN 12 1994

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- Residential Treatment
- Intensive Foster Care
- Community Service
- Alternative Programs
- Family Support Programs

January 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of CPA
1211 Avenue of the Americas
New York NY 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

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We believe that the exposure draft requires additional work by the Committee and than an additional comment period should follow.

Sincerely,

Kermit R. Hainley

Kermit R. Hainley
Founder

JAN 12 1994

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December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Mary Roth MARY ROTH

Executive Director PLEASANT RUN CHILDREN'S HOM

Pleasant Run Childrens Homes

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

JAN 12 1994

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Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

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Yours very truly,

NANCY HUNGERFORD
Nancy P. Hungerford
Director, Natchez Children's Home
NATCHEZ

JAN 13 1994

American Red Cross

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National Headquarters
Washington, DC 20006

January 6, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division File, 3605.JA
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

We concur with the efforts of the AICPA to reexamine SOP 87-2 after six years of practical implementation experience. Paragraphs 1 through 13 of the exposure draft provide an excellent framework for defining the problem. Paragraphs 14-16 provide helpful definitions. However, the criteria enumerated in paragraphs 17 through 37 are extremely onerous and, for all intents and purposes, suggest that with few exceptions the cost of a mailing with any fund raising materials included will generally be allocated 100% to fund raising. This is due to the stringent guidance associated with the purpose, audience and content criteria, all of which must be met in order to allocate any costs to bona fide program or management general functions. Following are some specific concerns:

1) the purpose criterion should be primarily weighed against tangible evidence of activities as noted in paragraph 26e. This would include the items listed as well as specific definitions of program service and management and general activities contained in the organization's Federal Form 990 or Annual Report. Attempting to impose somewhat less objective and relevant criteria to verify program purpose (i.e. paragraph 26b, evaluating the performance of the activity, and 26d, qualifications and duties of personnel associated with performing the activity), introduces factors in the purpose criteria that do not affectively answer the question "Does this literature support, inform and motivate the individual being

contacted to change behavior or participate in the program activity?"

2) introducing a criteria that specifies the medium in which the program purpose and/or fund raising message is delivered as shown in paragraphs 25 and 26c has little relevance regarding whether a program message is being delivered in a mailing that includes a fund raising appeal. These two indicators should be eliminated.

3) the audience criteria enumerated in paragraphs 27 through 29 would effectively eliminate the likelihood of allocating any costs to program or management and general services for the vast majority of activities that include a fund raising appeal.

This criteria actually appears to go beyond the old "primary purpose" rule. It would be an inefficient use of organizational resources to include a fund raising appeal in a mailing that was not in some way linked to an audience that was selected principally on its ability or likelihood to contribute. We believe the audience criterion should be significantly modified to allow for at least equal weighing of audience selection by ability or likelihood to contribute as well as the audience's need for the program or its ability to assist the entity in meeting its program goals by referring entity services to other individuals or assisting the entity in providing such services.

Similarly, applying a subjective criteria that would include the source of names and characteristics of the audience before one can determine whether the audience was selected principally on its ability or likelihood to contribute is unreasonable. Someone might conclude that an audience composed of individuals over the age of 60 would have no program relevance to an organization raising money for birth defects research. Although that audience may be less relevant than an audience of age 40 and below, it may be argued that senior citizens would be equally concerned about birth defects as it relates to their grandchildren, therefore justifying allocation of costs to program services.

In conclusion, the exposure draft fails to recognize that certain non-profit materials and activities may have equally valid fund raising and program purposes. SOP 87-2 addressed this situation and allowed non-profits to allocate the costs associated with joint materials and activities to the appropriate program and supporting service functions. Although the guidance may not have been as specific as it should have been with respect to allocating certain costs, we believe that the exposure draft is unnecessarily harsh and basically reverts back to the old primary purpose rule. For the most part, the exposure draft only allows allocation of costs to programs

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where the fund raising message is clearly incidental to the program message being delivered in the mailing. Instead of a balanced approach to allocating joint costs of fund raising and program materials in the same mailing, the exposure draft dictates harsh criteria when, if satisfied, allows only a portion of the cost of the mailing to be allocated to fund raising, whereas if any criteria is not met the entire cost of the mailing must be allocated to fund raising. This severely penalizes smaller organizations that combine promotion of name recognition and program service activities as well as providing for a sound financial fund raising base.

It is our recommendation that the AICPA abandon the complete rewrite of SOP 87-2 and, instead, issue some clarification of the existing SOP 87-2 to provide more specific guidance on how to allocate joint costs.

Sincerely,

John D. Campbell

John D. Campbell
Vice President
Finance/Comptroller

BLINDED VETERANS ASSOCIATION

477 H STREET, NORTHWEST • WASHINGTON D.C. 20001-2694 • (202) 371-8880

January 7, 1994 JAN 13 1994

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Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and Local Governmental Entities that Include a Fundraising Appeal"

Dear Mr. Tanenbaum:

We urge the American Instiitute of Certified Public Accountants (AICPA) to reconsider the focus of its exposure draft which will supersede the AICPA's Statement of Position (SOP) 87-2. We feel the content of the exposure draft is in response to criticisms by some states' attorney generals of the manner in which some organizations allocate joint costs. The AICPA has indicated these criticisms are based on too liberal allocation of costs to program expenses, particularly to educating the public, by some organizations. We believe the criticism is aimed at how the joint allocation is done rather than whether the joint allocation is appropriate. Consequently, we beseech you to direct your efforts to developing guidelines for allocations of joint costs in SOP 87-2 instead of a new standard for employing allocations of joint costs.

The Blinded Veterans Association (BVA) was founded in 1945 by a group of veterans who were blinded during World War II. Thirteen years later, BVA received its charter from the United States Congress. Ever since, the Association has worked to accomplish the mission expressed in our Congressional Charter. Our mission is to promote the welfare of blinded veterans so they might take their rightful place in the community, preserve and strengthen a spirit of fellowship among blinded veterans, and maintain and extend the institution of American freedom.

The Blinded Veterans Association is the only veterans service organization exclusively dedicated to helping blind and visually impaired veterans rebuild their lives through such programs as the Field Service Program. This program employs Field Service Representatives who are blinded veterans themselves. They travel throughout the United States finding and counseling blinded veterans and their families. They encourage fellow veterans to take charge of their lives and link veterans with services, rehabilitation training and other benefits. When blinded veterans are ready to go back into the work force, Field Reps can help them find jobs.

Each year BVA Field Representatives contact an increasing number of blinded veterans. There are more blinded veterans now than when our nation was at war. The number of blinded veterans is increasing rapidly as World War II veterans age.

We use multipurpose materials, including direct mail as a cost-effective means of funding our vital programs and operations. We are extremely concerned about the effect the proposed new standard would have on the way we report the costs involved. The proposed new standard would require in many situations that we must report all costs as fundraising costs even when some are clearly identifiable as program or management and general. This will not lead to proper accounting but misleading financial statements. We are also alarmed that the proposed new standard will dictate the content of our programs and fundraising appeals and the audiences with whom we communicate.

The exposure draft retains the purpose, audience and content criteria of SOP 87-2. Although we think these criteria are appropriate, we think the guidance for implementing these criteria should be refined. Furthermore, we feel the tests for each of the criteria presented in the exposure draft should be eliminated or drastically altered.

For the Purpose criterion, the test proposed for compensation, evaluation, and "with/without" appeal are seriously flawed. Our programs are the activities that result in goods and services being distributed to our program beneficiaries. None of the proposed tests can tell us whether any of our materials or activities have served a program purpose. The proposed test would instead determine a program purpose was not met based solely on the form of compensation to the fundraising consultant.

In addition, the proposed test is not economically efficient. Multi-purpose materials and activities often allow us to conduct our operations in the most cost effective manner possible.

We strongly believe the exposure draft should require verifiable documentation as the primary test of whether or not a material or activity including a fundraising appeal serves program purposes. This is the guidance in SOP 87-2 and should be retained.

The exposure draft tests for Audience criterion are flawed.

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The tests require determination of a single rather than multiple reasons for audience selection. The mailing, however, could be conducted for multiple reasons. In addition, such a test would subsitute the judgement of an auditor for that of an experienced fundraiser in the selection of lists. We cannot believe this was intended.

The Content criterion requires that the call for specific action by the recipient further the charity's mission but be unrelated to providing financial or other support. This would disqualify many calls to action that support the organization itself. Examples are donating goods or services or volunteering.

The test also requires a detailed description of the action to be taken. A slogan would not suffice. Slogans generally contain the aims or goals of the organization. Disallowing slogans as call to action is a direct infringement on how a charity seeks involvement from its audience.

A more appropriate Content criterion would require the multi-purpose materials or activity to serve the charity's program purpose. It would also contain action steps or calls to action audiences can take to help accomplish the purpose or purposes which relate to the content.

The exposure draft is biased. For example, if an organization uses a public relations firm to develop a program package with a fundraising appeal, costs could be jointly allocated to program and fundraising. However, if an organization uses a fundraising firm to develop the same package and pays that firm a fee based on amounts raised, all costs, even program costs, would have to be allocated to fundraising.

We believe the draft in its current form would result in misleading financial statements. It requires all costs of materials and activities to be reported as fundraising costs, including costs clearly identifiable as program costs, if its criteria are not met. Many of these criteria are unrelated to determination of whether program purposes are actually served. We do not believe the proposal would improve our accounting reporting. It is arbitrary and biased and would require our auditors to second guess our management and board. We feel organizations will take steps to counteract the bias created by these arbitrary criteria.

We urge you to direct your efforts to refining SOP 87-2 rather than creating arbitrary and biased standards.

Please keep us informed about the status of this exposure draft.

251

Sincerely,

Ronald L. Miller

Ronald L. Miller
Executive Director

JAN-12-94 WED 15:59 NATL PSORIASIS FDN 5032450626 P.01

NATIONAL PSORIASIS FOUNDATION

JAN 13 1994

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January 12, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The National Psoriasis Foundation endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

Gail M. Zimmerman

Gail M. Zimmerman
Executive Director

6600 S.W. 92nd • Suite 300 • Portland, Oregon 97223 • (503) 244-7404 • FAX (503) 245-0626

Post-it™ brand fax transmittal memo 7671	# of pages ▸ 1
To Joel Tanenbaum	From Richard Drasen
Co.	Co. The ALS Association
Dept.	Phone # 818-340-7500
Fax # (212) 596-6213	Fax # 818-340-2060

JAN 1 3 1994

(253)

ALS ASSOCIATION

Hope through research
Support through caring

The Amyotrophic
Lateral Sclerosis
Association

21021 Ventura Blvd., Suite 321
Woodland Hills, CA 91364-2206
Telephone: 818/340-7500
FAX: 818/340-2060

January 13, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605, JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The ALS Association endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

Richard F. Drasen

Richard F. Drasen
Vice President Communications

RFD/tn

CRAY YOUTH AND FAMILY SERVICES, INC.

321 NORTH JEFFERSON ST. • NEW CASTLE, PA 16101

(412) 654-5507

January 5, 1994

JAN 13 1994

254

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds of child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

David Copper
Director

Home On The Range

HC 1, BOX 41 ✦ SENTINEL BUTTE, NORTH DAKOTA 58654
PHONE: 701-872-3745 ✦ FAX: 701-872-3748

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Winston E. Satran

Winston E. Satran
Executive Director

December 31, 1993

JAN 13 1994

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Sr. Camille Collini 1-4-94

A Home with a heart...

Telephone (912) 489-8526

JOSEPH'S HOME FOR BOYS

A non-profit Residential Group Home licensed by State of Ga.–Governed by Board of Directors.

115 Dodd Circle
Statesboro, Ga. 30458

Sr. Camille Collini
Director

Children's Aid Society of Mercer County
A Private, Non-Profit Agency Serving Children and Families Since1889

350 West Market Street, P.O. Box 167
Mercer, PA 16137
412-662-4730

January 6, 1994

JAN 13 1994

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Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

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2. The purpose criteria would require separate mailing for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and than an additional comment period should follow.

Sincerely,

Claudia Leyde

Mrs. Claudia Leyde
Executive Director

CL/mr

SVS
ST VINCENT'S SERVICES
SINCE 1869

JAN 13 1994

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Frederick DeMatteis
Chairman of the Board

Rev. Msgr. Robert M. Harris, ACSW
President and Chief Executive Officer

January 6, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: PROPOSED STATEMENT OF POSITION, ACCOUNTING FOR COSTS OF MATERIALS AND ACTIVITIES OF NOT-FOR-PROFIT ORGANIZATIONS AND STATE AND LOCAL GOVERNMENT ENTITIES THAT INCLUDE A FUND RAISING APPEAL

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1) "Incidental" program-related materials included in fund raising appeals are treated as fund raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2) The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3) The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

66 Boerum Place • Brooklyn, New York 11201 • (718) 522-3700

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4) The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers, and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Rev. Msgr. Robert M. Harris

RMH:pmp

a circle of care
Chaddock

JAN 13 1994 259

205 South 24th Street, Quincy, IL 62301-4492

(217) 222-0034 FAX (217) 222-3865

January 5, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Not-for-Profit Accounting of Costs for Program Materials and Fund Raising Appeals

Dear Mr. Tanenbaum:

As the President of an Illinois, not-for-profit child care agency that serves severely troubled children and the families, I am deeply concerned about an AICPA proposal regarding the accounting costs for program materials and fund raising appeals.

My concern is that the proposal overstates fund-raising costs and understates program costs, thus could create unnecessary expenses for cost-conscious organizations who depend upon donated funding.

Please consider the following principles in addressing this issue:

1. Program-related materials are included in fundraising appeals for significant reasons beyond the appeal itself. The appeal is an avenue for distributing educational materials to prospective donors. Materials which could impact their personal lives or increase their understanding of critical social issues which are addressed by the not-for-profit organization. To insist that these materials be mailed in separated mailings would create added costs for the agency.

2. The audience criteria of the current proposal does not address the situation where a broad percentage of a given population is selected for a mailing.

3. Slogans, as a matter of practical reference, are effective when dealing with small children, teenagers and their parents. Therefore, materials using slogans will be more effective in communicating primary points to an audience.

I urge further work on the current proposal, including additional input from not-for-profit organizations. Together, I believe we can address the concerns you have, without jeopardizing the essential needs of those served through the not-for-profits.

Sincerely,

Gene Simon

Gene Simon
President

GS:MOB:lfg

ABBOTT HOUSE

100 North Broadway, Irvington-on-Hudson, NY 10533-1246
914-591-7300

JAN 13 1994

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January 5, 1994

Executive Director & CE
Denis J. Barry

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum,

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Denis J. Barry
Executive Director & CEO

DJB:cal

NEW YORK STATE SOCIETY
OF
CERTIFIED PUBLIC ACCOUNTANTS
530 FIFTH AVENUE
NEW YORK, NY 10036-5101
(212) 719-8300
FAX (212) 719-3364

nysscpa

January 10, 1993

JAN 14 1994

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Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position titled: "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal", dated September 10, 1993

Dear Mr. Tanenbaum:

The New York State Society of Certified Public Accountants is pleased to submit its comments on the subject Exposure Draft. The comments represent the combined views of the Society's Financial Accounting Standards Committee and Accounting for Not-For-Profit Organizations Committee (the Committee).

PRINCIPAL CONCLUSION

The Committee is sensitive to the needs of external users who, as expressed in paragraph 2 of the draft, want assurance that the amounts entities spend to solicit contributions are fairly stated. The Committee also acknowledges that SOP 87-2 needs implementation guidance and the consistent application thereof.

However, it is the Committee's unanimous conclusion that the proposed SOP should not be issued. While the SOP's goal is commendable, the guidance provided is arbitrary in several respects and the allocation methods discussed so complex in their implementation that the proposed SOP only makes a bad situation worse. There is a feeling that GAAP, in this area, should be broadly stated without attempting to provide a cookbook for every conceivable circumstance.

In lieu of issuance of this SOP, the AICPA Not-For-Profit Committee should add these matters to its consideration of joint costs and other cost issues.

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SPECIFIC CONCLUSIONS

More specifically, the Committee members noted the following:

(1) A main objection is a perceived built-in bias arising from the conclusion in the first sentence of paragraph 19, which sentence modifies the guidance in paragraph 15 of SOP 87-2 (¶ 10,420.15), to add the following underlined words: "All costs of materials and activities that include a fund-raising appeal should be reported as fund-raising costs, including costs that are otherwise clearly identifiable with program or management and general functions, unless it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds."

The perceived bias is towards over-reporting fund-raising costs. At its extreme, merely including a remittance card for donors requires all costs to be fully charged to fund-raising, leading to an expectation that fund-raising expenses may result in overstatement - a benefit to no one.

A further example is in paragraph 23 which requires an arbitrary treatment of costs as fund-raising or not depending solely upon the method of compensation of the fund-raising consultant. Given the similarity of the basic facts in Illustrations 5 and 6, the bias becomes even more obvious.

(2) Expanded discussion and terminology clarification are needed in discussing the following:

(a) Purpose - Rather than targeting paragraphs 21 through 26 towards addressing perceived abuses, a more positive approach could be used. Under that approach, positive answers to each of the following questions would indicate a bona fide program or management and general activity has been conducted.

- Does the program component justify the tax-exempt status of the organization (i.e., does it contribute to the organization achieving its mission)?
- Is the program or management and general component conducted without the fund-raising appeal?
- Can program results of the activity be identified or measured?
- Do the items indicated in paragraph 26e provide evidence that the activity accomplishes program or management and general objectives?
- Do the individuals or entities performing the activity have credentials or experience in carrying out the program or management and general function?

(b) Audience - Illustration 2 incorrectly gives the impression that using lists of prior donors would automatically preclude meeting the audience criterion.

(c) Content - Content seems closely aligned with purpose and perhaps could be merged with the latter. Paragraph 30a, footnote 5b identified a "call for action" as including a requested questionnaire". If the results of the questionnaire help the entity achieve its mission." It is not clear what sort of questionnaire would not help the entity achieve its mission.

(d) Disclosure - Allocation method terminology used in paragraph 34 is unlikely to be meaningful to users because of their lack of familiarity with accounting jargon. Perhaps the illustrative note in paragraph 37 could be expressed as follows:

In 19XX, the organization conducted four activities that included appeals for funds as well as having [program] [management and general] components. These activities included direct mail campaigns, two special events and a telethon. In conducting these activities, certain costs, totaling $310,000, were incurred that are not specifically attributable to a particular component of the activities (joint costs). Accordingly, these joint costs were allocated to the specific components of the activities and reported in the following functional classifications in the accompanying financial statements.

Fund Raising	$ 180,000
Program A	80,000
Program B	40,000
Management and general	10,000
Total joint costs allocated	$ 310,000

(3) OTHER MATTERS INCLUDE:

(a) Terminology - The use of the term "function" in lieu of "particular cost objective" (paragraph 18) whenever the phrase appears would avoid anticipated confusion.

(b) Flowchart - An obviously typographical error eliminated the "yes" and "no" directions in Appendix B.

(c) Scope - The scope of consideration of this project should explicitly include activities which are essentially fund-raising, even if those activities do not include an appeal. Examples are the cultivation of prospective donors and capital campaign feasibility studies. Additionally, the guidance developed should address the allocation of entity-level indirect or overhead costs commonly classified as management, such as executive salaries and administrative facilities costs.

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If you wish to further pursue the comments herein, please let us know and we will arrange for someone from the Committee to contact you.

Very truly yours,

Robert Kawa, CPA
Chairman, Financial Accounting Standards Committee

Walter M. Primoff, CPA
Director, Professional Programs

RK/WMP/jz

cc: Financial Accounting Standards Committee
Accounting and Auditing Chairmen
John Burke, CPA

JAN 14 1994

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January 10, 1994

Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal"

Dear Mr. Tannenbaum:

I am writing to respond to the above referenced proposed statement of position (SOP 87-2).

Michigan Special Olympics currently conducts both direct mail and telemarketing programs as a vehicle to educate the public on the services we offer to individuals with mental impairments, and to offer volunteer and contribution opportunities. We agree that a standard criteria must be established to ensure accurate reporting of the operations of such programs, however we believe that the proposed criteria as written would not achieve this desired end result.

It is imperative that not-for-profits have a cost effective means of measuring any program's call to action and public educational value. It would be impossible financially and is senseless to send two pieces of correspondence to the same individual to achieve our objectives, as suggested by one of the tests of criterion. To send an appeal to a specific audience selected on their ability to contribute or on their ability to help our program is impossible, as many would be able and willing to do both. Again, financially it would be impossible to have different appeals, one for public education and one for fund raising. It is important to our organization to ensure our message is reaching the general public. Every appeal conducted by or on behalf of Michigan Special Olympics

Michigan Special Olympics • Central Michigan University
Mt. Pleasant, Michigan 48859 • (517) 774-3911 • FAX: (517) 774-3034

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has our message within the contents of the letter to educate the public about our mission. Thus, an allocation of some costs to public education is justifiable.

In conclusion, I trust that the narrow criteria in the proposed SOP will be reviewed and adjusted to accurately reflect what the goals and objectives of a not-for-profit organization has as an obligation to inform the public of the services they offer, and an opportunity to support its efforts.

Respectfully,

Elizabeth Fortino

Elizabeth Fortino
Associate Director

cc: Lois Arnold
Paul Velaski

National State Auditors Association

JAN 14 1994

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January 10, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of CPA's
1211 Avenue of the America's
New York, NY 10036-8775

RE: File 3605.JA - Proposed SOP
Accounting for Costs Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

On behalf of the National State Auditors Association (NSAA), I hereby submit to you these comments regarding the proposed SOP, *Accounting for Costs Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal* The views of some members may not fully be in concert with all comments presented here. Individual state auditors may wish to comment on this proposed concepts statement separately.

Based on comments received from NSAA members, there is no objection to provisions of the proposed SOP. Many respondents believe that the SOP will not have a significant impact on state colleges and universities. Many of these organizations use educational foundations for fund-raising efforts. Since the foundations do not have direct responsibilities for programs, allocations of costs is not as complex.

The proposed SOP appears to clarify provisions of SOP 87-2 and provide better guidance for identifying fund-raising costs. We support any effort to improve financial reporting, in this case, complete disclosure of fund-raising costs.

NSAA appreciates the opportunity to provide this response to the Board. If you have any questions about our comments, please feel free to call Arthur Hayes, Chairman, NSAA Audit Standards and Reporting Committee, at (615)741-3697.

Very truly yours,

R. H. Attmore

Robert H. Attmore
President

SOPFR941.2

Relmond P. Van Daniker, Executive Director for NASACT
2401 Regency Road, Suite 302, Lexington, Kentucky 40503, Telephone (606) 276-1147,
Fax (606) 278-0507 and 444 N. Capitol Street, NW, Washington, DC 20001
Telephone (202) 624-5451, Fax (202) 624-5473

CPA

JAN 14 1994

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PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

100 Pine Street, Suite 275 • Harrisburg, Pennsylvania 17101-1206 • (717) 232-1821 • FAX (717) 232-7708

January 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
AICPA
1211 Avenue of the Americas
New York, New York 10036-8776

The exposure draft adequately addresses one of the major problems facing not-for-profit accountants. Contributors want to know the amount spent by these entities for soliciting contributions as well as for management and general expenses. This draft, by requiring disclosures about the activities for which joint costs are allocated and their amounts, clarifies this issue. This should result in more uniform implementation for various not-for-profits. The illustrations and explanations of alternative allocation methods will be most helpful to practitioners.

Sincerely,

Daniel L. Kovlak, CPA
Chairman

DLK:wm

1608 Walnut Street, Third Floor • Philadelphia, Pennsylvania 19103-5445 • (215) 735-2635 • FAX (215) 735-3694
1105 Grant Building • 310 Grant Street • Pittsburgh, Pennsylvania 15219-2301 • (412) 261-6966 • FAX (412) 391-2033

ILLINOIS CPA SOCIETY & FOUNDATION

JAN 14 1994

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December 15, 1993

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of The Americas
New York, New York 10036-8775

The Accounting Principles Committee of the Illinois CPA Society ("Committee") with the assistance of the Non-Profit Organization Committee, is pleased to have the opportunity to comment on the Exposure Draft of the Proposed Statement of Position, **Accounting for Costs of Materials and Activities of Not-for-Profit organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal** ("Proposed Statement"). The organization and operating procedures of the Committee are reflected in the Appendix to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any of the members of the Committee and of the organizations with which they are associated.

We strongly support AcSEC's goal of clarifying existing literature, which some believe is inadequate, difficult to implement and inconsistently applied in practice. However, we believe that the Proposed Statement contains too much detailed guidance, which makes the proposal difficult to understand and will prompt entities to devise strategies to circumvent the detailed guidance. Accordingly, we believe that the proposed Statement should be streamlined and simplified by providing general principles for accounting for costs of materials and activities that include a fund raising appeal. Once the general principles are established, the flowchart and list of examples included in the Proposed Statement can be used to illustrate the application of the general principles to specific situations. We believe that this approach will accomplish AcSEC's goal while making the Proposed Statement easier to understand and to implement on a consistent basis.

In addition, we believe that it is necessary to label each branch of the flowchart as Yes/No so that there is no confusion on the part of users as to the intended course of action recommended by the flow chart.

222 SOUTH RIVERSIDE PLAZA
SUITE 1600
CHICAGO, IL
60606-6098
TEL: 312-993-0393
FAX: 312-993-9954

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If AcSEC believes that the detailed guidance provided in the existing Proposed Statement is the appropriate level of detail to provide in the final SOP, we have a number of recommendations that should be considered:

1. We believe that "fund raising" may not be adequately defined and accordingly recommend that a definition of "fund raising" be included in the definitions section of the Proposed Statement.

2. Move paragraph 21, which merely describes the flowchart, to Appendix B. This will eliminate much of the redundancy contained in the Proposed Statement.

3. Paragraph 34 describes various cost allocation methods; however, it is confusing because each cost allocation method includes a discussion why the method might be misleading. We believe that each cost allocation method should be described in positive terms providing examples of situations when the method is appropriate. After all allocation methods are described, a separate paragraph should caution users that in specific situations a certain allocation method may be misleading and provide examples illustrating this point.

4. Once consistent principles for allocating fund raising costs are established, it becomes less important to require detailed footnote disclosures. Accordingly, we do not believe that any disclosures, other than those that may be required in an accounting policy footnote, should be required. If significant, the accounting policy footnote would require disclosure that fund raising costs have been allocated and the allocation method(s) used by the entity.

We would be pleased to discuss our comments with members of AcSEC or its staff.

Very truly yours,

Bernard Revsine

Bernard Revsine
Chairman
Committee on Accounting Principles

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APPENDIX

ILLINOIS CPA SOCIETY
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES

1993 - 1994

The Accounting Principles Committee of the Illinois CPA Society (the Committee) is composed of 27 technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to 15 years. The Committee is a senior technical committee of the Society and has been delegated the authority to issue written positions, representing the Society, on matters regarding the setting of accounting principles.

The Committee usually operates by assigning a subcommittee of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting principles. The subcommittee ordinarily develops a proposed response which is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which, at times, includes a minority viewpoint.

MADD®

Mothers Against Drunk Driving

JAN 14 1994

(266)

P.O. Box 274 • Harrodsburg, KY 40330 • (606) 734-0090
KENTUCKY STATE OFFICE
Kentucky State Executive Director - Paula B. Freeman

January 10, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York, 10036-8775

RE: File 3605:JA (SOP Exposure Draft on 87-2)

Dear Mr. Tanenbaum:

Recently, the MADD Kentucky State Office was advised that the AICPA is revising the standard for accounting for costs of materials and activities that involve an organization's appeal for financial support. As you know, MADD is a grass-roots volunteer organization whose very heart and soul has been devoted to ending the tragedy of drinking and driving and its ultimately violent consequences. Its very backbone over the past decade has consisted primarily of the families of those injured and killed by drunk driving, and I would venture to say that 98% of these dedicated volunteers have very little experience in promoting widespread public awareness and education concerning the dangers of drinking and driving and in soliciting support for our very important programs. Our manpower is limited and most of our volunteers have focused primarily upon keeping the problem of drinking and driving in the public's mind through our annual public awareness campaigns and in providing loving care and support for those whose lives have been touched by the tragedy of the consequences of this very senseless and violent crime.

Naturally, the programs MADD provide require financial support and because of our limited manpower resources and primary focus upon ending tragedy and providing support and assistance to those who have been victimized, we have had to rely upon experts in the field of telemarketing to keep our message and our programs alive. MADD is a very frugal organization and MADD Kentucky devotes a great deal of time and effort to victims assistance and criminal justice advocacy. Daily, from across the Commonwealth, we received calls for help from individuals who have no where else to turn and no idea of how to cope with the tragedy of victimization and the bewilderment of a criminal justice process. I would venture to say that at least 80% of my time as State Director is really as serving as a State Advocate, and it has been a lifesaver for our State Organization to be able to depend upon the telemarketing provided over the last few years to spread MADD's message in the most effective and meaningful way throughout the Commonwealth. Our limited staff (one full-time director and one part-time assistant) and volunteer corp could not

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Mr. Tannenbaum
January 10, 1994
Page two

survive without the financial support and assistance in providing public awareness in any other way than we are currently doing at this time.

I admit that I truly do not understand all of the complicated issues your Division faces in developing policies that are fair and just and in the best interest of society, but I do know the very heart and soul of MADD, and I can attest to the fact that our best interest is in asking you to consider our very special situation in developing your proposal for limitations and restrictions on our form of telemarketing. Drunk driving will affect two out of five Americans and once you have been touched by the tragedy, you will certainly realize what our motivation and goal has always been. The human services we provide are both unique and unmatched because we care. Our profit from the service is in having a peace of mind that we are making a difference in society through outreach and support to those who are hurting and who need a helping hand. If your proposal restricts our ability to continue to promote public awareness and support on such a widespread basis, it is not only going to affect us, it may also someday affect you and your staff and loved ones.

So, on behalf of the thousands of Americans who have been affected by drinking and driving or who may in the future be affected if our methods of providing public awareness and assistance are restricted, I plead with you to allow us to continue to use telemarketing and direct mail to keep the message about the dangers of drinking and driving alive in the mind of the public. We can't do it alone, and if we are forced to fold, who will take up the banner?

Thanks for your consideration.

Sincerely,

Paula B. Freeman
State Executive Director

PBF: sf
cc: MADD National Office

PRESBYTERIAN CHILDREN'S SERVICES
(Formerly United Presbyterian Homes)
P.O. Box 637 • Waxahachie, Texas 75165
Metro (214) 299-5022 • Fax (214) 937-5181
(214) 937-1319

January 7, 1994

JAN 14 1994

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Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of
Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

Presbyterian Children's Services is a non-profit, charitable corporation which serves over 100 youth each year in a residential group care setting. I fear that the AICPA proposal will cause overstatement of fund-raising costs and understatement of program costs, which will make our cause less attractive to potential donors.

My biggest concern is that program-related materials included in fund-raising appeals should not be accounted for as fund-raising costs. Frequently, our inserts are used for public relations, placing agents such as parents, guardians and state DPRS caseworkers, as well as fund-raising appeals. As I understand the proposed criteria, it would require separate mailing for program materials to validate the purpose. This would be a tremendous waste of money, and I would no longer be able to include such inserts that let our donors know more about our program of care for dependent and needy youth.

Slogans are a simple and effective way to let people know what your program is about. They should not be required to be excluded.

I believe that the exposure draft requires additional work and an additional comment period should follow.

Very truly yours,

Ann Byers

Ann Byers
President

AB/sc

"A Work In Christian Citizenship"

Arlin E. Ness, ACSW, LLD.
President

JAN 14 1994

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STARR COMMONWEALTH SCHOOLS
Albion, Michigan • Detroit, Michigan • Van Wert, Ohio • Columbus, Ohio

January 7, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 organizations.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understanding program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Very truly yours,

Christopher L. Smith

Christopher L. Smith
Treasurer

Board of Trustees

Starr Leadership

Arlin E. Ness, A.C.S.W., LL.D.
President
Martin L. Mitchell, Ed.D.
Vice President of Program
Gary R. Faircloth, B.A.S.W.
Vice President of Development
Christopher L. Smith, B.B.A., C.P.A.
Treasurer

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

JAN 14 1994

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

YOUTH HAVEN
JOHN PAUL WILLIAMS, M.ED.
EXECUTIVE DIRECTOR

P.O. Box 7007
Naples, Florida 33941-7007

Telephone (813) 774-290-
FAX (813) 774-080-

JAN 14 1994

(270)

Children's Square U.S.A.

BUILDING VISION, COURAGE AND WILL

The Christian Home Association/
Children's Square U.S.A.
Council Bluffs, IA 51502-3008
(712) 322-3700
Fax (712) 325-0913

January 7, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

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Mr. Joel Tanenbaum, Technical Manager
January 7, 1994
Page Two

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We believe that the exposure draft require additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Stan Pierce

Stan Pierce, Director
Resource Development

Carol D. Wood

Carol D. Wood, ACSW, LSW
President & CEO

sd

Children's Home Society of West Virginia

1422 KANAWHA BOULEVARD, EAST, P.O. BOX 2942
CHARLESTON, WEST VIRGINIA 25330
TELEPHONE 304-346-0795
FAX 304-346-1062

JAN 14 1994

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January 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York, 10036-8775

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Susan Mollohan

Susan Mollohan
Director of Administrative Services

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

JAN 14 1994

(272)

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Yours very truly,

1/7/94

Orchards
Children's Services
Strengthening the Community
One Child at a Time

Gerald L. Levin
Chief Executive Officer/ Executive Vice President
Phone: (313) 433-8600
Fax: (313) 258-0487

30215 Southfield Rd.
Southfield, MI 48076

2990 W. Grand Blvd.
Suite 400
Detroit, MI 48202

THOMAS T. POTTERFIELD, PRESIDENT
T. DAVID TRIBBLE, EXECUTIVE DIRECTOR

ESTABLISHED 1740

Bethesda Home for Boys

MRS. WALDO W. BRADLEY
VICE PRESIDENT
J. WILEY ELLIS
SECRETARY

OPERATED BY BETHESDA UNION SOCIETY OF SAVANNAH, INC.
ORGANIZED 1750
P. O. BOX 13039 - SAVANNAH, GEORGIA 31499

MRS. CHARLES L. SPARKMAN
TREASURER

JAN 14 1994

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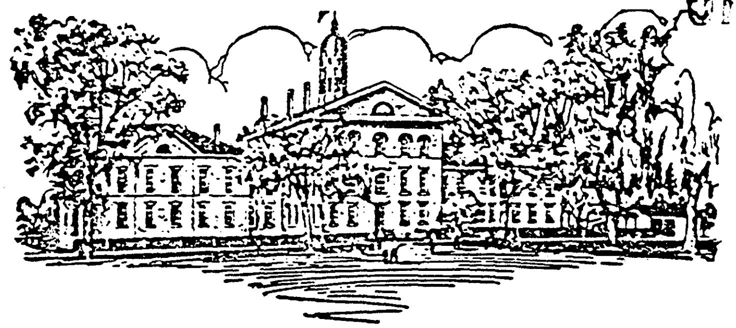

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

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We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

T. David Tribble, D. Min.
Executive Director

TDT/tl

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

274

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

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Yours very truly,

United Methodist Youthville Inc.
900 West Broadway
P.O. Box 210
Newton, KS 67114
(316) 283-9540 (Fax)
(316) 283-1950

H. Kent Craft
Vice President for Development

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

JAN 14 1994

275

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

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Yours very truly,

[signature], CPA
Allendale Association
P.O. Box 1088

ERNST & YOUNG

787 Seventh Avenue
New York, New York 10019

Phone 212 773 3000

January 17, 1994

JAN 17 1994

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Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Proposed Statement of Position
"Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal"

Dear Mr. Tanenbaum:

We support the overall objectives of the proposed Statement of Position (SOP) referred to above which include establishing financial accounting standards for identifying joint costs and determining the circumstances in which the costs of materials and activities that include fund-raising appeals should be allocated, and we believe that the guidance in the SOP would improve present practice. Accordingly, we support the issuance of the SOP.

We have the following suggestions that we believe should be incorporated in the final SOP.

Criteria

While we support the requirement to meet the purpose, audience, and content criteria for costs to be allocated, we recommend revisions to the audience and content criteria.

Audience—The proposed SOP would require organizations to evaluate why a particular audience was selected for the materials or activities. If the audience was selected based principally on its ability or likelihood to contribute, the audience criterion would not be met and all costs would be charged to fund-raising. If the audience was selected principally based on its need for the program or because it could assist the entity in meeting its program goals other than by financial support, the audience criterion would be met. We believe that this evaluation will be difficult to implement in practice because of the subjectivity inherent in evaluating management's intent when selecting the audience. We believe that by definition the audience for a fund-raising appeal must have been selected, at least in part, on the ability and/or intent of the audience to contribute. In our view, the audience's ability and/or intent to contribute should be a presumption. Accordingly, we believe that the criterion should be based on whether the characteristics of the audience that *receives* the appeal (based on geographic, demographic, or other factors) indicates that it is likely they will benefit from the program.

ERNST & YOUNG

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Content—In order to meet the content criterion, the materials or activity included with a fund-raising appeal must support bona fide program or management and general functions. In that regard, paragraph 30 of the SOP states that materials or activity "must call for specific action by the recipient." Footnote 6 to paragraph 31 states that some educational messages have an *implied* message to motivate an audience to action, but does not state whether implied messages would satisfy the content criterion. We recommend that the SOP clearly state that implied messages can satisfy the content criterion by incorporating the concept in footnote 6 of paragraph 31 in the first sentence of paragraph 30a.

Disclosures

The proposed SOP would require disclosure only of the amount of joint costs that have been allocated in accordance with the provisions of the SOP. In our view, restricting the disclosure only to joint costs allocated will be of limited value to users of financial statements because joint costs allocated are just one component of the total costs of a joint activity. Disclosure of only joint costs allocated may present an incomplete picture. Therefore, we recommend that the disclosures required by the SOP be extended to also include the total costs of joint activities.

To illustrate, assume the costs of a mailing that met the three criteria to allocate consist of:

Joint costs allocated	$60,000
Costs charged directly to fund-raising	30,000
Costs charged directly to programs	30,000
	$120,000

If the criteria were not met, the entire $120,000 would be charged to fund-raising and no separate disclosures would be required. However, if the criteria were met, it would be more useful to users to be informed that the joint costs allocated of $60,000 were part of joint activities totaling $120,000.

* * * * *

We appreciate the opportunity to present our views on the SOP and would be pleased to discuss any aspect of our letter with AcSEC or its staff at your convenience.

Very truly yours,

Ernst + Young

WEDGWOOD CHRISTIAN YOUTH & FAMILY SERVICES

3300 36TH STREET SE, P.O. BOX 88007, GRAND RAPIDS, MI 49518-0007 616-942-2110 FAX 616-942-0589

RICHARD D. GRITTER,
EXECUTIVE DIRECTOR

January 10, 1994

JAN 18 1994

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Joel Tanenbaum
Technical Manager
Accounting Standards Division, File 3605, JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed statement of position, accounting for costs of materials and activities of not-for-profit organizations and state and local government entities that include a fund-raising appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations daily provide care for over 10,000 children.

We are concerned that the AICPA Proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much needed funds for child care. This attempt at a cure for seeming abuses seems heavy for those who seek to make a reasonable determination of cost breakdown.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs. It seems that if costs incurred are fulfilling the mission of the agency, they are program-related even though they incidentally may be educational and/or informative.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management. To correct perceived abuses by increasing the already escalating mailing costs defeats our stewardship philosophy.

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page 2 (continued)

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (I.E., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the committee and that an additional comment period should follow.

Sincerely,

Gary J. Raterink

Gary J. Raterink
Director of Finance

kr

JAN 1 8 1994

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St Joseph's Villa

8000 Brook Road
Richmond, Virginia 23227-1338
Tel: (804) 266-2447

January 11, 1994

Joel Tannenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tannenbaum:

We are writing on behalf of the National Association of Homes and Services or Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to e corrected.

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Ramon E. Pardue
Executive Director

REP:as

THROUGH CHALLENGE ... GROWTH

Children's Farm Home

4455 NE Highway 20
P.O. Box 1028
Corvallis, OR 97339-1028
503-757-1852
FAX 503/757-1944

Robert L. Roy
Executive Director

JAN 18 1994

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January 11, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Robert L. Roy, ACSW
Executive Director

Albany Youth Care Center
729 Seventh Ave., SW
Albany, OR 97321
928-4084

Lakeside Shelter
P.O. Box 1028
Corvallis, OR 97339-1028
757-1890

Hawthorne Manor
320 NW Ninth
Corvallis, OR 97330
758-0588

Leake & Watts

Caring for Children and Families Since 1831

JAN 18 1994

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January 10, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, <u>Accounting for Costs of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal</u>

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" <u>program</u>-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad <u>percentage</u> of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

The Leake and Watts Children's Home, Inc.
(914) 963-5220 463 Hawthorne Avenue, Yonkers, New York 10705 FAX (914) 963-7048
Day Care • Preventive Services • Foster Home Care • Adoption • Group Homes • Residential Treatment • Special Education •
Independent Living • AIDS Programs •

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

James J. Campbell

James J. Campbell
Executive Director

CHILDREN'S
HOME OF YORK
77 SHOE HOUSE ROAD
YORK, PENNSYLVANIA 17406
Telephone (717) 755-1033
FAX (717) 755-9993

JAN 18 1994

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January 10, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

I am writing on behalf of the Children's Home of York, a not-for-profit residential treatment center that has been serving troubled children and their families for over 128 years.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

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Mr. Joel Tanenbaum
Page Two
January 10, 1994

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Sincerely,

Richard Harris

Richard Harris
Executive Director

RH/dw

Eldon R. Holland
Executive Director

Alternative Homes for Youth
3000 Youngfield St., Suite 157
Lakewood, CO 80215
(303) 233-0041 FAX: 233-9399

December 31, 1993

JAN 18 1994

(282)

Joel Tanenbau
Accounting S
American Ins
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

We fully agree with the NAHSC position

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

JAN 1994

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Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

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4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Stephen L. Harris Director, The

GIBAULT
FOUNDATION, INC.
STEPHEN L. HARRIS
Director
Supporting Excellence
In Child Care
6301 South U.S. Highway 41
P.O. Box 2316
Terre Haute, Indiana 47802-0316
Phone (812) 299-1156
Fax (812) 299-1156 ext. 435

JAN 1 8 1994

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St. Anne Institute
LOVING • CARING • PROTECTING
160 North Main Ave. | Albany, NY 12206

RALPH F. FEDULLO
EXECUTIVE DIRECTOR

January 11, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605 JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statemtn of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Government Entities Taht Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of Saint Anne Institute and the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position, in our view, has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.
2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.
3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.
4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Ralph Fedullo

Ralph Fedullo
Executive Director

"A Design for Personal Growth"
Griffith Center
Founded in 1927 by Emily Griffith
Residential Treatment
for
Children and Adolescents

JAN 18 1994

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Treatment Facility
P.O. Box 95
Larkspur, Colorado 80118
(303) 681-2400

Business Office
1546 Cole Blvd., Suite 145
Denver West Office Park
Golden, Colorado 80401
Phone (303) 233-8180

January 12, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost -conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers, and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Howard P. Shiffman
Acting Chief Executive Officer

HUNTINGTON'S DISEASE SOCIETY OF AMERICA
140 W. 22nd Street, New York, NY 10011 (212) 242-1968 FAX (212) 243-2443

JAN 18 1994

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January 12, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605 JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The Huntington's Disease Society of America endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

Stephen E. Bajardi
Executive Director

SEB:ca

cc: Martin Bailey
Joe Isaacs

FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314
TELEPHONE (904) 224-2727 • FAX (904) 222-8190

JAN 18 1994

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December 20, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 3605.JA

Dear Mr. Tanenbaum:

This comment letter sets forth the views of the Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the Committee) on the AICPA's Proposed Statement of Position, "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal" (the SOP).

The comments in this letter were derived from a discussion of the SOP in a recent meeting attended by ten members of the Committee. The members who participated in this discussion collectively possess a broad knowledge of issues involving not-for-profit organizations. We also received comments from members of the Not-for-Profit Accounting Conference committee of the Florida Institute of Certified Public Accountants.

GENERAL COMMENTS

In general, the Committee endorses the SOP as a significant improvement over the guidance contained in SOP 87-2. Except for one major objection noted below, the SOP defines terms and provides specific guidance that should lead to greater consistency in application. The illustrations and flowchart in the appendices should prove valuable to understanding the provisions of the SOP and to its application.

MAJOR OBJECTION

Of the ten members participating, four had no major objection to the basic provisions of the SOP. The other six were concerned that the inclusion of clearly identifiable program or management and general costs (PMG costs) in fund-raising costs when the criteria for allocation were not met would unnecessarily overstate fund-raising costs in some cases. It was argued that an audience selected for their fund-raising potential should be able to receive program services along with a fund-raising appeal without an "accounting penalty" to the NFP.

Illustration 2 of the SOP is a good example. Since the disease that XYZ informs the public about could afflict the prior contributors just as much as any other segment of the population, they are just as worthy of receiving the information as any other audience. Sound financial management of XYZ would seem to call XYZ to serve the prior donor audience since it can be done less expensively once the decision to incur the costs of the fund-raising materials had been made. Should XYZ be put in the situation of not serving this portion of the public because these clearly identifiable costs may put them over some regulatory ratio of fund-raising costs to total costs?

The six dissenters of the Committee agree that if the criteria have not been met, all joint costs should be allocated to fund-raising. The dissenters do not agree that clearly identifiable PMG costs should be charged to fund-raising in all cases where the criteria have failed. There should be a separate set of criteria for clearly identifiable PMG costs. It seems that this standard will harm many NFPs conducting bonafide program services in order to eliminate the potential for a few NFPs to misrepresent their cost structure.

Illustrations 4 and 6, also provide examples where clearly identifiable costs may be appropriately charged to program services. Illustration 8, however, provides an example where the dissenters agree that clearly identifiable costs should be charged to fund-raising. In illustration 8, there is clearly no program service being performed.

OTHER SPECIFIC COMMENTS

1. The scope of the SOP should address joint costs of activities that do not include a fund-raising appeal. There are often joint costs of materials and activities that include more than one program function or a program function and the management and general function. It appears that this SOP could expand its scope to address the allocations of these costs.

2, The Committee questions why disclosure of joint costs of each activity is optional in paragraph 36 instead of required. We do not see how the information required to make these disclosures would be costly to acquire. The added information could only help to inform the users. We therefore disagree with the final statement in paragraph 45. It would seem that the joint costs of each activity would be necessary in order to make the allocations and therefore, would be readily available.

3. Some illustrations could be enhanced by additional explanation. For example, illustration 1 does not clearly relate the "same medium" concept in paragraph 25 to the illustration. There are no examples where the "same medium" concept is not met. Perhaps a final paragraph to illustration 1 could explain how the purpose criterion may not be met because of significantly different medium being used. In addition, this illustration should include a specific reference to paragraph 25 as further assistance in understanding the concepts of the SOP.

4. Another illustration which could be enhanced is illustration 3. Explanation is given concerning the audience criteria but none is given regarding the purpose criteria. What part of the discussion in the SOP relates to illustration 3. It appears that the purpose criteria is met based on tangible evidence of activities (paragraph 26.e.). Additional explanation would be helpful.

5. Appendix B should include more yes and no indications on decision path lines.

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CONCLUSION

We expect that this exposure draft will receive many impassioned responses supporting one or another provision. We hope that our comments are helpful in evaluating the issues related to this SOP. Representatives of this Committee are available to discuss the contents of this letter with the AICPA.

Sincerely,

Stephen H. Kattell, MBA, CPA
Chairman, Committee on Accounting Principles and Auditing Standards
Florida Institute of Certified Public Accountants
(904)486-5340

Committee Members:

Michael F. O'rourke, Vice-Chairman
Steven M Berwick
Robert T. Fahnestock
Kevin R. Kenny
Audrey W. Lewis
Paul H. Munter
Javier Nunuz
William J. Odendahl, Jr.
John F. Rizzo
Francis E. Scheuerell, Jr.
Mary C. Scribner
Dan Spivak
Eddie F. Thomas
H. C. Warner

South Carolina Special Olympics

2615 DEVINE STREET • COLUMBIA, S.C. 29205 • (803) 254-7774 • FAX (803) 254-7668

JAN 18 1994

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January 10, 1994

Joel Tannenbaum
Technical Manager
Accounting Standards Division File 3605.JA
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tannebaum,

As a state chapter accredited by Special Olympics International and incorporated as a 501(C)(3) non profit in the State of South Carolina, I am writing in regard to the proposed statement of position being considered by the American Institute of Certified Public Accountants. It is my understanding that the position is concerned with the cost of materials and activities of non profit organizations that include a fund raising appeal.

Our organization currently uses both direct mail and telemarketing in order to educate the public about Special Olympics in our state as well as Special Olympics programs in general. In addition, we use these two programs to also raise funds to run our programs.

While we agree a standard of criteria must be set up in order to accurately report the operations of these programs we believe that the criteria in the proposed SOP would not allow us or any other non profit to provide accurate reporting. It seems that the proposed criterion makes it very difficult to prove any public education value to our mailings or phone calls because there is no cost effective way to measure any program call to action such as a request to volunteer for our special Olympics programs. We do not have the financial resources to initiate separate appeals, one without a fund raising appeal and one with a fund raising appeal, as suggested by one of the tests of the criterion. While the fund raiser's fee might be based on the amount of income raised, it does not mean that an extensive package to educate the public about our mission is not included in our appeal. Therefore, some of the costs of our appeal are certainly able to be allocated to the public education factor.

It also appears that the audience criterion is very difficult to meet because its definition is much too narrow. Most of our direct mail and telemarketing calls are targeted to an audience that could potentially meet both sides of the criterion, contribute and help our program meet its other goals. We can not afford to separate our appeals and make

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South Carolina Special Olympics

2615 DEVINE STREET • COLUMBIA, S.C. 29205 • (803) 254-7774 • FAX (803) 254-7668

our program cost effective so that more funds can be spent on our athletes as intended. Since our appeals do include both public education and fund raising we feel we should be able to allocate cost between the two.

We believe that as long as our appeal contains substantial public education about our mission in addition to requests for contributions it should not matter that all of our messages have a fund raising appeal, or that our audience came from a list of an organization that may not be entirely similar to ours. We believe that everyone we reach in South Carolina is a potential volunteer as well as a potential donor if we educate them properly.

It is our understanding that SOP 87-2 came about to replace the old "primary purpose rule" in order that organization such as ours could properly account for public education. The narrow criterion in the proposed SOP seem to move in the direction of the "primary purpose rule", which would not allow us to report our actual efforts to educate the public about Special Olympics in addition to raising money.

I hope you will take our concerns into consideration prior to the implementation of proposed changes to SOP 87-2.

Sincerely,

William J. Keesling
Executive Director

cc: Paul J. Velaski
Director Finance Administration
Special Olympics International

AMERICAN CANCER SOCIETY® NATIONAL OFFICE

JAN 19 1994

(289)

January 11, 1993

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

I have read the exposure draft dated September 10, 1993, proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal.

Prior to release of the final SOP, I would suggest a critical review of existing authoritative literature...particularly Financial Accounting Standards Board Statement 117; and Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations. There are apparent discrepancies between FASB 117 and the Exposure Draft. For example, the tests applied to and standards for determining whether or not bonafide program activities exist can be interpreted as different between the Exposure Draft and FASB 117. At a minimum all authoritative literature should be consistent one with the other.

I understand that this project was initiated to address reported abuses in applying the existing "joint costs" rules. In reality, no set of rules can legislate morality in financial reporting. The intent of detailed rules can often be frustrated more easily than broader principles. I believe that the members of the AICPA within their audit function could apply considerable leverage to ensure fair reporting by not-for-profits when opining on financial statements which clearly show abuse of the joint costs allocation rules. I believe the current rules are adequate for those inclined to apply good faith in their application. On the other hand no rules will suffice for those not so inclined.

Sincerely,

Patrick J. Yogus

Patrick J. Yogus
VP Financial Svs & Audit

AMERICAN CANCER SOCIETY, INC.
1599 CLIFTON ROAD, N.E., ATLANTA, GEORGIA 30329-4251 • 404-320-3333

Cystic Fibrosis Foundation

JAN 19 1994

(290)

January 13, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The Cystic Fibrosis Foundation endorses the National Health Council's position on the Proposed Statement of Position on <u>Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal</u> (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and work to ensure that the current requirements of SOP 87-2 are properly applied.

Thank you for this opportunity to respond.

Sincerely,

Robert J. Beall, Ph.D.
President and CEO

Foundation Office
6931 Arlington Road Bethesda, Maryland 20814
(301) 951-4422 1-800-FIGHT CF

Veterans of Foreign Wars National Home

3573 South Waverly Road
Eaton Rapids, Michigan 48827
(517) 663-1521

JAN 25 1994

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January 10, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected.

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as programs costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that any additional comment period should follow.

Sincerely,

Sue C. Woodard

Sue C. Woodard
Development and Information
Services Manager

cc: Susan Shoultz, Executive Director

ERNST & YOUNG

787 Seventh Avenue
New York, New York 10019

Phone 212 773 3000

JAN 19 1994

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January 17, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Proposed Statement of Position
"Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal"

Dear Mr. Tanenbaum:

We support the overall objectives of the proposed Statement of Position (SOP) referred to above which include establishing financial accounting standards for identifying joint costs and determining the circumstances in which the costs of materials and activities that include fund-raising appeals should be allocated, and we believe that the guidance in the SOP would improve present practice. Accordingly, we support the issuance of the SOP.

We have the following suggestions that we believe should be incorporated in the final SOP.

Criteria

While we support the requirement to meet the purpose, audience, and content criteria for costs to be allocated, we recommend revisions to the audience and content criteria.

Audience—The proposed SOP would require organizations to evaluate why a particular audience was selected for the materials or activities. If the audience was selected based principally on its ability or likelihood to contribute, the audience criterion would not be met and all costs would be charged to fund-raising. If the audience was selected principally based on its need for the program or because it could assist the entity in meeting its program goals other than by financial support, the audience criterion would be met. We believe that this evaluation will be difficult to implement in practice because of the subjectivity inherent in evaluating management's intent when selecting the audience. We believe that by definition the audience for a fund-raising appeal must have been selected, at least in part, on the ability and/or intent of the audience to contribute. In our view, the audience's ability and/or intent to contribute should be a presumption. Accordingly, we believe that the criterion should be based on whether the characteristics of the audience that *receives* the appeal (based on geographic, demographic, or other factors) indicates that it is likely they will benefit from the program.

Content—In order to meet the content criterion, the materials or activity included with a fund-raising appeal must support bona fide program or management and general functions. In that regard, paragraph 30 of the SOP states that materials or activity "must call for specific action by the recipient." Footnote 6 to paragraph 31 states that some educational messages have an *implied* message to motivate an audience to action, but does not state whether implied messages would satisfy the content criterion. We recommend that the SOP clearly state that implied messages can satisfy the content criterion by incorporating the concept in footnote 6 of paragraph 31 in the first sentence of paragraph 30a.

Disclosures

The proposed SOP would require disclosure only of the amount of joint costs that have been allocated in accordance with the provisions of the SOP. In our view, restricting the disclosure only to joint costs allocated will be of limited value to users of financial statements because joint costs allocated are just one component of the total costs of a joint activity. Disclosure of only joint costs allocated may present an incomplete picture. Therefore, we recommend that the disclosures required by the SOP be extended to also include the total costs of joint activities.

To illustrate, assume the costs of a mailing that met the three criteria to allocate consist of:

Joint costs allocated	$60,000
Costs charged directly to fund-raising	30,000
Costs charged directly to programs	30,000
	$120,000

If the criteria were not met, the entire $120,000 would be charged to fund-raising and no separate disclosures would be required. However, if the criteria were met, it would be more useful to users to be informed that the joint costs allocated of $60,000 were part of joint activities totaling $120,000.

* * * * *

We appreciate the opportunity to present our views on the SOP and would be pleased to discuss any aspect of our letter with AcSEC or its staff at your convenience.

Very truly yours,

Ernst + Young

Boysville
WHERE FAMILIES BEGIN AGAIN.

JAN 19 1994

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December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Edward J. Overstreet

Edward J. Overstreet
Associate Director

Office of Community Resources, 17117 W. Nine Mile, Ste. 445, Southfield, MI 48075 (313) 569-6630 Fax (313) 569-8171

C.O.A. Accredited

JAN 19 1994

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LAKESIDE

3921 Oakland Drive / Kalamazoo, Michigan 49008 / (616) 381-4760 / (FAX) 381-4765

January 13, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal.

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understanding program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% of more) of a given population is selected as an audience, multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by Committee and that an additional comment period should follow.

Your very truly,

Fred C. Kapelle

Fred C. Kapelle, ACSW
Executive Director

FK/dd

rec'd 1/20/94

January 14, 1994

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Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed revision of SOP 87-2

Dear Mr. Tanenbaum:

As attorneys in active practice in the not-for-profit field, we are responding to the Exposure Draft "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include A Fund Raising Appeal" issued for public comment by the American Institute of Certified Public Accountants (AICPA) on September 10, 1993.

The cost allocation procedures proposed in the Exposure Draft (ED) would chill a not-for-profit organization's ability to exercise its constitutionally protected speech right to fund raise. As the ED's title makes clear, activities and materials "that include a fund raising appeal" alone are singled out for the detailed allocation criteria provided therein.

These criteria attempt to reinforce a flawed concept of fund raising costs which figured in three major cases of constitutional law decided by the United States Supreme Court over the past 13 years, and reject the analysis of the Court in these widely-publicized cases. The approach of the Court is indicated in its statement in *Riley v. Federation of the Blind of North Carolina*:

> ". . . where the solicitation is combined with advocacy and dissemination of information, the charity reaps a substantial benefit from the act of solicitation itself. Thus a significant portion of the fundraiser's "fee" may well go toward achieving the charity's objectives even though it is not remitted to the charity in cash."
>
> "In addition the net "fee" itself benefits the charity in the same way that an attorney's fee benefits the charity or the purchase of any other professional service benefits the charity." (in footnote to opinion)

In *Riley* and other cases the steadfast approach of the Court has been to consider the educational value of the fund raising function. The method of the ED is to prescribe detailed criteria in order to substantiate a "bona fide" program or management and general function. Cost allocation is permitted only when a "bona fide" function, as defined by these criteria, is found to exist.

Thus, the ED makes "bona fide" program the operative surrogate of the "educational value" of the Court's analysis. In effect, the ED provides that where the specific criteria outlined do not establish a "bona fide" program, then the activities being considered have no educational value for the purposes of accounting cost allocation. Since the intended effect of applying these criteria is to give the financial report reader a purportedly professional opinion as to the genuineness and extent of benefit of the efforts of a not-for-profit organization, the substance of the ED criteria are of particular interest:

1. Cost allocations for identical materials and activities would be permitted or not, depending on the method of compensation used or the nature of supervision. (Pages 9 and 10 of the ED)

2. Perhaps the most egregious intrusion of the ED into protected speech is its assertion (footnote 5 on page 15) that "a general call to prayer is too vague to satisfy the criterion of action" called for in the ED and requiring that

"what is to be prayed for such as the occurrence of a specific event" be "specifically stated."

3. The criterion providing that an organization's speech be directed to a "population that is able to perform actions to help achieve the program objectives " (other than by contributing funds) is an example of the restraint imposed on not-for-profit organizations' speech if they are to avail themselves of cost allocations. Under this criterion an appeal for

Sickle Cell Anemia, a disease that affects principally people of color, would, if mailed to whites, be ineligible for allocation (as not a "bona fide" program -- or having no educa-tional value for accounting purposes)

4. The criterion which would make accounting educational value for materials or activities involving past donors contingent on whether they had personally participated in programs of the not-for-profit in the past, runs counter to a major premise of education, i.e. that it is a continuing function, rather than a one-time event.

These are only a few of the provisions of the ED which by its stated intention to make cost allocation depend on the content of fund raising speech, the audience to which it is directed, and the purpose of the speech, applies major restraints to not-for-profit organizations' constitutionally protected activities.

While these restraints are by their nature repugnant to the freedoms guaranteed by the U.S. Constitution, they are also operative on a significant practical level. The not-for-profit organization does not, in practice, have a choice as to whether it will or will not apply the criteria in the ED, if adopted. Registration for permission to raise funds in various States is frequently conditioned on the filing of audited statements compiled "in accordance with Generally Accepted Accounting Principles (GAAP);" adoption of the ED and its final clearance would establish it in the hierarchy of authoritative literature that constitutes GAAP.

Consequently fund raising organizations would have no choice but to make available to government regulators, to donors and to the public generally statements of its costs and finances compiled according to principles diametrically opposed to the principles that underlie the analysis of the highest court in our country.

On page 7 of the ED, the AICPA notes that "external users of financial statements, including contributors, creditors, accreditation agencies and regulators want assurance that the amounts entities spend to solicit contributions as well as the amounts for program and management and general functions, are fairly stated." Under the provisions of the ED, such amounts would not be fairly stated.

The exposure draft should be withdrawn and substantially revised to prevent dissemination of misleading material.

Respectfully submitted,

Barbara A. Ash, Esq.
Philadelphia, PA

Thomas P. Heckman, Esq.
General Counsel
The Philanthropy Monthly
New Milford, CT 06752

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National Society to Prevent Blindness®
National Office: 500 East Remington Road, Schaumburg, IL 60173 708/843-2020

JAN 20 1994

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January 7, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The National Society to Prevent Blindness endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entitles that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

Ed Greene

Edward E. Greene
President

Richard T. Hellner
Executive Director

rec'd 1/24/94

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31 December 1993

Mr. Joel Tanenbaum, CPA
Technical Manager
Accounting Standards Division
FILE 3605.JA

American Institute of Certified Public Accountants
1211 Avenue of the Americans
New York City, NY
10036 - 8775

REF: SOP 87-2 Revision 10/Sept./93

Dear Mr. Tanenbaum:

Thank you for the opportunity to comment on the revisions to SOP 87-2 "Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that include a Fund-Raising Appeal". My comments and recommendations are attached.

Sincerely,

James C. Boakes, ~~CPA~~, CISA
Treasurer, Stage Door Productions, Inc.

ENCL.

J. C. Boakes
Certified Public Accountant, C.I.S.A., Notary Public

74 Oakcrest Lane
Westampton, N.J.
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James C. Boakes, CPA, CISA   Comments Issued: 31/Dec./93

#1 Page 7, INTRODUCTION   Point #2

The SOP does not explain to the reader, the underlying reason that these "joint costs" should be identified and allocated, as discussed in the methodology of the 10/Sept./93 Revision. I feel that a statement should be inserted at this point, to explain the reason and causality of such allocations (i.e., to provide the reader of these Financial Statements with a clear understanding of the costs of the organization and it's Fund Raising efforts). Consider the following example:

(in Thou.)	CASE "A" PROG.	FD.R.	GEN.	TOTALS	CASE "B" PROG.	FD.R.	GEN.
REVENUE	5000	5000	0	10,000	5000	5000	0
DIR.EXP.	4000	500	500	5,000	4000	500	500
JT.ALC.		4000	0	4,000	2000	1500	500
TOT.EXP.	4000	4500	500	9,000	6000	2000	1000
CR.-DR.	1000	500	<500>	1,000	<1000>	3000	<1000>

ANALYSIS:

CASE "A" In this case, PROGRAM OPERATIONS appear to be effectively "self funding". FUND RAISING activities are therefore deemed to be applied exclusively to ADMINISTRATIVE Overhead and GENERAL Operations. The ability or inability to execute a successful Fund Raising Effort would be considered by the reader of these Financial Statements to have little impact of the primary focus of the organization's activities.

CASE "B" In this case, PROGRAM OPERATIONS are operated at a deficit. FUND RAISING activities are therefore critical to PROGRAM, as well as to GENERAL Operations. The ability or inability to execute a successful Fund Raising Effort would a major consideration of the reader of these Financial Statements, because the inability to generate funds from not-program activities would severely impact the organization's ability to conduct it's PROGRAM Function.

Creditors would assume that the organization shown in CASE "B" was a greater risk than the one shown in CASE "A".

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James C. Boakes, CPA, CISA Comments Issued: 31/Dec./93

#2 Page 8, SCOPE Point #8

Given the administrative and audit costs associated with the compliance with this SOP, I recommend that the Committee grant a blanket exemption to all organizations which have GROSS REVENUES (from all sources including gross receipts from Fund Raising Activities) less than $ 25,000. While voluntary compliance should be encouraged, my experience indicates that Financial Statements Readers would not be materiality impacted, either favorably or unfavorably, by the allocations of Joint Costs as proposed in this SOP, with respect to organizations of this size. Given the insignificant amount of money involved, the perceived cost/benefit ratio for such sums is very low. Most State Reporting Entities and the Internal Revenue Service, no longer require detailed reporting by organizations which receive less that $ 25,000 in gross "support", and granting this exemption would fall within these guidelines.

#3 Page 16, ALLOC. METHOD Point #33
Page 19, ALLOC. METHOD Point #44

In promulgating this SOP, the Accounting Standards Division must give clear and definitive guidance to: the Accounting Profession, the User Community, and to the Effected Industry Group. I feel that this high premise is seriously compromised, when the SOP fails to declare one "Cost Allocation Method" as superior, to others as discussed. Since no guarantees can be made with respect to the effectiveness or value added, of a Fund Raising Campaign; nor that Joint Fund Raising Costs are proportional to the Applied Direct Expenses; therefore I recommend that the PHYSICAL UNITS METHODOLOGY (as discussed in Point #34, Page 16) should be adopted as the recommended (default) allocation method, unless one of the other methods is clearly more appropriate, based on the circumstances. Such methodology should be documented in the transaction Journal Entries, which are posted to the entity's Financial Records, and also in the footnotes of those resulting Financial Statements.

#4 Page 29, APPENDIX "B"

(a) The presented flowchart is missing several "YES" Operands, which have been noted on the enclosed copy - please made the necessary adjustments.

(b) I recommend a general reorientation of the flowchart from a vertical position, to an "L" configuration. The "AUDIENCE" related activities should be moved to be in the upper left corner of the flowchart, while the "PURPOSE" related activities should be moved to be in the upper right corner. This will provide more space at the bottom of the flowchart, so that "CONTENT" can be more effectively presented.

"JUST SAY NO" INTERNATIONAL

Rec'd 1/25

JAN 25 1994

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STEPHEN M. DELFIN
VICE PRESIDENT
EXTERNAL RELATIONS

January 24, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: File 3605 J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fund-Raising Appeal"

Dear Mr. Tanenbaum:

"Just Say No" International is a leader in empowering children and teenagers to lead healthy, productive, drug-free lives. Founded and headquartered in Oakland, California, "Just Say No" International has established over 25,000 "Just Say No" Clubs reaching one million children and teenagers in all fifty (50) states and twelve (12) foreign countries. A regional office network and external relations office in Washington, D.C. provide local support and assistance.

A recent survey of youth serving professionals and volunteers, conducted by "Just Say No" International, found that over one-third of children and teenagers could potentially succumb to drug use and related dysfunctional behavior. These same young people, according to those surveyed, are unprepared to meet the basic challenges of the workplace, family, and citizenship.

"JUST SAY NO" INTERNATIONAL
9302 LEE HIGHWAY, SUITE 900
FAIRFAX, VA 22031-1207
703 691-7700

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"Just Say No" International researches, develops, and designs materials, training, and activities for nationwide implementation and expanded community involvement across the country. Our regional office network works to ensure program excellence by providing locally-based training, technical assistance, and support to communities. Part of the success of "Just Say No" International is demonstrated by the pervasiveness of the *"just say no"* slogan in popular culture. In public service announcements, conversations, and elsewhere, *"just say no"* is commonly heard.

In 1993, we launched ***Youth Power***, a program designed to develop skills that allow young people to resist influences for destructive behavior, such as drug use. The program focuses on young peoples' resiliency rather than simply on the risks they face. Our experience and research conducted on our behalf by Far West Laboratory for Educational Research and Development show that drug use is entangled in a web of behavioral, academic, emotional, and social adjustment problems. Furthermore, today's young people face challenges significantly different from previous generations. Their world is characterized by rapid communications, high mobility, decaying infrastructure, uprooted communities, growing poverty, staggering violence and crime, increasing competition, and pressures at all levels of society.

Our research identifies four attributes which consistently describe the resilient child. These are social competence, problem-solving skills, autonomy, and a sense of purpose. Using materials developed by "Just Say No" International, local *Youth Power* programs foster the development of these attributes through projects promoting academic achievement, self-esteem, positive relationships, skill-building, a sense of belonging, the opportunity to contribute to their environment, and the ability to understand and cope with change.

Services provided by "Just Say No" International in support of these programs include:

- **Information assistance and consultation.** "Just Say No" International maintains two toll-free telephone lines to provide free consultation and information to *Youth Power* projects and schools, communities, or individuals wishing to start or expand a program.

- **Training.** Comprehensive training teaches youth and adult participants how to successfully design and implement *Youth Power* projects and how to train others.

- **Evaluation.** "Just Say No" International has developed a innovative, cost effective, participant-driven evaluation method called "threshold gating". This approach uses self-corrective feedback with which project participants can continuously monitor their progress and effectiveness.

- **Public Education Outreach and Advertising.** "Just Say No" International has developed a national advertising campaign with print public service announcements. Produced by Young & Rubicam San Francisco, the campaign educates the public about the *Youth Power* program and how to participate.

- **National Promotions.** "Just Say No" International works with a number of prominent companies to provide promotional and fund-raising opportunities for *Youth Power* projects.

I recognize that our introduction was rather lengthy. I believe it is important, however, to help enable you to understand our concerns regarding the exposure draft issued by the American Institute of Certified Public Accountants (AICPA) which will supersede the AICPA's Statement of Positions (SOP) 87-2. Based upon our understanding of the exposure draft, we believe implementation will adversely effect the programs of "Just Say No" International.

Therefore, we urge to Committee to revise the exposure draft to:

- Provide clear guidance to determine when materials or activities have met a program purpose rather than when they do not.

- Provide clear guidance as to allocation methods, their application, and when it is appropriate to us certain measurement methods.

- Recognize that their are legitimate reasons for conducting a multi-purpose direct marketing campaign including program related and fund-raising reasons.

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- Let not-for-profit organizations decide how to best motivate their audiences to action and eliminate the slogan provision.
- Clarify what call to action is required, if any, when educational materials meet an identified need of the audience receiving the materials.
- Limit the scope of the revision to joint costs.

The Purpose Criterion

Rather than focusing on whether our materials or activities serve a program purpose, the exposure draft establishes a series of tests, a compensation test, a "with/without" appeal test, and an evaluation test. These appear to have nothing to do with determining the program purpose accomplished by our program efforts.

The compensation test would require us to determine whether compensation or fees paid are based substantially on funds raised or if the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds. If so, then the compensation test is not met and all costs of the activity including those clearly identifiable as program costs are charged to fund-raising expense. We do not believe that the method used by a not-for-profit organization to compensate a person, internal or external to the organization, for performing an activity establishes whether a program purpose was met. Furthermore, any not-for-profit organization that takes its stewardship responsibility seriously, would evaluate the effectiveness of the party performing a multi-purpose activity in meeting the objectives of the activity, including fund-raising. Also, you have provided no description as to the methods which should be used by an organization to document that a party was not evaluated substantially on their effectiveness in raising funds. How then can not-for-profit organizations determine if they have met your test?

We also do not understand how "substantially" is defined. Does this mean a percentage or some other measurement? Are you referring to a quantitative or qualitative approach?

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If the compensation test is not met, we are then subjected to a "with/without" appeal test which requires conducting the same activities in the same media without fund-raising appeals on a scale greater than or equal to the activities that include a fund-raising appeal. This plan is unrealistic and places unnecessary financial and manpower burdens on organizations.

If the "with/without" appeal test is not met, the only way the purpose criterion can then be met is through an evaluation test. The evaluation test requires that an organization have a process to identify and evaluate program results and accomplishments and measure program results. How do you measure whether a child or teenager has chosen not to use drugs because of your program efforts? Does this mean that we are required each year to bear the costs of nationwide surveys and extensive research? Again, the exposure draft is silent on how meeting such a requirement is documented or how extensive such an evaluation must be to met the requirement.

We do not believe that the tests under the purpose criterion can tell us if our programs can meet the criterion, only if they do not. Therefore, we do not believe the guidance provided by the exposure draft improves SOP 87-2. None of the tests of this criterion actually establishes whether a program purpose is met by materials or an activity. We believe that the purpose criterion should retain the criteria in SOP 87-2 and use verifiable indicators to determine whether a program purpose was met.

The Audience Criterion

The audience criterion in the exposure draft indicates that if the reason we selected the audience for our materials or activities was principally on that audience's ability or likelihood to contribute, then we fail the audience criterion. However, if we selected the audience principally based on the need for the program or because it can assist us in meeting our program goals other than by providing financial support to us, then we meet the audience criterion.

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We are concerned that the criterion in the exposure draft forces a choice concerning the principal reason we select our audience for materials or activities. There is no provision concerning the multiple attributes our audience posses. The problems which are involved in drug use are found in a wide range of ages for children and teenagers. Furthermore, they are found in all geographic areas, all socioeconomic levels, and all educational levels. Part of the success of "Just Say No" International has been in comprehensive efforts to reach all segments of the population to change to conditions which lead to devastation, family and societal, resulting from drug-abuse. Consequently, any individual which we contact is subject to the problems of drug or alcohol-abuse.

Next, the exposure draft tests for the audience criterion more narrowly define a target audience for a multi-purpose campaign. The tests discuss broad segments of the population, a population specifically in need of the program, or a population that is able to perform actions. In the context of "Just Say No" International, serious conditions are encountered in broad segments of the population.

We believe that our audiences meet the criterion of the exposure draft, however, we believe that the exposure draft should retain the audience guidance that is in SOP 87-2. We believe that the audience criterion should be based on the audience's need for, or interest in the material or activity.

<u>The Content Criterion</u>

The exposure draft test for the content criterion requires the material or activity to call for specific action by the recipient that will help accomplish the entity's mission. That action must be unrelated to providing financial or other support to the entity. This test appears to disqualify program related calls to action that support the organization itself. Volunteers are crucial to many of our community based programs. Such a test could substantially curtail the programs of our organization.

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The content criterion of the exposure draft requires that the call for action contain sufficient detail describing the action to be taken. The exposure draft specifically precludes "providing a slogan" from meeting this requirement. With regard to slogans, the exposure draft indicated that specific methods, instructions, references, and available resources should be suggested: a simple admonition such as "Do not use alcohol or drugs" is too vague to be considered a motivating factor. We disagree. We believe the incorporation of *"just say no"* into popular vocabulary demonstrates the success of our educational efforts to raise the consciousness of the American public to the problems of drug-abuse.

We recently conducted a national survey among 200,000+ youth service providers including school principals, drug-abuse coordinators, teachers, PTA presidents, youth agency directors, and "Just Say No" Club leaders and found that the phrase *"just say no"* is almost universally recognized as an anti-drug slogan. That same survey concluded that the phrase *"just say no"* is widely regarded as a key image strength for "Just Say No" International. We view our slogan *"just say no"* as a direct request which benefits society and helps empower children and teenagers to lead healthy, productive, drug-free lives.

Our slogan has been an integral component of our "Just Say No" Club program. As stated earlier in this letter, we have established over 25,000 Clubs involving over one million children and teenagers in all 50 state and 12 foreign countries. A 1992 *National Evaluation Report* of the "Just Say No" Club program based on a study by the University of California reports that Club program and slogan have increased children's confidence in their ability to resist pressure to use drugs; enhanced their self-esteem; increased their sense of belonging; broaden their horizons; provided opportunities to make a difference in their communities; and provided them lasting decision-making skills and self-confidence. We attribute a large measure of our success to our slogan.

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Our slogan has been in use since the first "Just Say No" Club was founded in 1985 and has gained national and international recognition as a rallying cry to stop the erosion of our society from drug use. It's popularity has helped make it socially acceptable for young people to visibly and proudly participate in anti-drug activities and resist peer pressure to use drugs and alcohol. Under the exposure draft, however, we receive no credit for any program success. We are very concerned about how this provision would affect our organization. Consequently, we believe the section in the exposure draft regarding slogans should be revised.

Focus of Exposure Draft

In the exposure draft, the AICPA has stated that there are criticisms resulting from the belief that some not-for-profit organizations have been too liberal in their allocation of costs to program expenses, especially those costs incurred to educate the public. This criticism appears to be directed at the issue of how allocation of joint costs is done rather than whether allocation of joint costs is appropriate.

The focus of the exposure draft is on redefining the conditions under which cost allocation is appropriate. Illustration I of the exposure draft concludes, for example, that since the conditions of the exposure draft for cost allocation are met, "joint costs should be allocated based upon a 'reasonable' method." No definitions are provided for a "reasonable" method.

If the concern if for how costs are being allocated, we believe your efforts should be directed toward developing guidance for allocations of joint costs in SOP 87-2 rather than creating new standards for when allocations of joint costs are appropriate.

Because of the confusing and adequate guidance in the exposure draft, and because the purpose criterion does not have anything to so with determining whether a program purpose was met, we believe that the requirement -- from the failure to meet the criteria, to charge all costs of materials or activities, including those costs that are clearly identifiable as program costs -- is unfair and will result in misleading financial information. It is clear to us that an organization could have a well documented program consistent with its stated mission and yet fail the exposure draft criterion. We believe the scope of the exposure draft should be restricted to joint costs consistent with SOP 87-2.

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The expansion of the guidance to determine when allocation is appropriate and the increase in scope to costs of all materials and activities that include a fund-raising appeal will not reduce the diversity in practice associated with cost allocations. Expanding the guidance into unknown areas such as compensation and evaluation tests and the use of such poorly defined terms as "substantially" and "incidental" will more than likely create a wider diversity of practice. We are concerned with this prospect for two major reasons.

First, this exposure draft in its present form may impose very real and substantial cost on our organization. This burden will fall disproportionately on us and organizations similar to us. Organizations which do not raise funds by direct solicitation will not have this burden.

Second, we do not believe that the ongoing cost of implementation and compliance with the requirements in the exposure draft will result in commensurate benefits in terms of financial reporting of costs of materials and activities associated with a fund-raising appeal. In fact, we question whether there are any real benefits to resource providers, society at large, or the philanthropic community.

The conclusions to the exposure draft state that, for practical reasons, costs of materials and activities that include a fund-raising appeal should presumed to be fund-raising costs unless there is a bonafide program or management and general function. This belief is considered necessary to prevent potential abuses in financial reporting. Presumably this is one of the benefits of the rules in the exposure draft. However, the exposure draft does not identify the extent or the nature of abuses which have occurred or the potential abuses which will be avoided. How then can the significance of such abuses be considered? Where is the research study documenting the extent and evaluation of such abuses?

Since the alleged and potential abuses are not identified, there is no basis to conclude whether the standards in the exposure draft will likely prevent them. We are concerned that the lack of specific guidance discussed above coupled with the expanded scope of the exposure draft will create greater rather than less diversity in practice between organizations in accounting for multi-purpose materials and activities. Consequently, state attorneys general and other agencies will likely increase their complaints after implementation of the exposure draft.

In conclusion, we urge the AICPA to reconsider the focus of this exposure draft. Rather than improving information for the readers and users of financial statements, we believe the draft in its current form would result in misleading financial statements. As discussed above, many of these criteria are unrelated to determining whether program purposes are actually served. Thus, we do not believe the proposal would improve accounting practice.

We appreciate this opportunity to contribute to the discussion of the evolution of any important component of generally accepted accounting principles for not-for-profit organizations.

Sincerely,

Stephen M. Delfin
Vice President
External Relations

Rec'd 1/25/94

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STATE AUDITOR OF MISSOURI

JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

(314) 751-4824

January 18, 1994

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

Enclosed are our comments on the proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal.

If you have any questions about our comments, please call Myrana Gibler, Audit Manager, of my staff at (314) 751-4213.

Sincerely,

Margaret Kelly

Margaret Kelly, CPA
State Auditor

MK:sb

Enclosures

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COMMENTS - PROPOSED STATEMENT OF POSITION, ACCOUNTING FOR COSTS OF MATERIALS AND ACTIVITIES OF NOT-FOR-PROFIT ORGANIZATIONS AND STATE AND LOCAL GOVERNMENTAL ENTITIES THAT INCLUDE A FUND-RAISING APPEAL

The Office of Missouri State Auditor appreciates the opportunity to comment on the proposed Statement of Position (SOP). We support the issuance of the SOP for three major reasons:

1. The document's scope is broader than that of SOP 87-2, Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal.

2. The document addresses issues for which guidance in SOP 87-2 was unclear or lacking.

3. The document concludes that costs of activities including a fund-raising appeal should be presumed to be fund-raising costs unless it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds. We believe this conclusion will help prevent abuses in financial reporting of fund-raising costs.

During our review of the proposed SOP, however, we noted several items that we believe could be improved; these items are discussed below. In addition, we have enclosed a draft marked with suggested editorial changes.

CONCLUSIONS

Flowchart

paragraph 17 - We suggest this paragraph be deleted since paragraph 21 adequately introduces the flowchart in appendix B.

Bona Fide Program or Management and General Function

paragraph 21 - We question the need for footnote 4. Since paragraph 20 refers to the detailed discussions in paragraphs 22-31, it should be obvious to the reader (particularly one who is accustomed to the format of accounting and auditing publications) that the flowchart in appendix B and the related description in paragraph 21 are not intended to replace the detailed conclusions. (This comment also applies to the note at the bottom of the flowchart on page 29.)

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Purpose

paragraph 26.c. - Unlike paragraphs 26.a. and 26.b., this paragraph does not indicate whether the purpose criterion is met in the situation discussed.

paragraph 26.d. - An example regarding third parties would be helpful in the first subparagraph, as well as consistent with the information provided in the second subparagraph regarding entity employees.

Content

paragraph 30.a., footnote 5 - Not all items listed in part b. are consistent in content and format. For example, the first, second, and sixth items identify a specific object of the actions. Also, the second and sixth items are not followed by additional information regarding the content of the calls to action. Finally, the fourth and fifth items are not stated in the form of instructions. Part b. might be revised as follows:

b. Calls for action that benefit society, such as the following:

- Write or call. The party to communicate with and the subject matter to be communicated should be specified.

- Volunteer. The nature or location of the volunteer effort should be specified.

- Protest. The object and specific method of protest, such as a time and place to demonstrate or an entity to communicate with, must be described; a general call to protest against something is too vague to satisfy the criterion of action.

- Pray. What is to be prayed for, such as the occurrence of a particular event, must be specified; a general call to prayer is too vague to satisfy the criterion of action.

- Complete and return the enclosed questionnaire. The results of the questionnaire must help the entity achieve its mission.

- Boycott. The particular product or company to be boycotted should be specified.

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APPENDIX A

Illustration 3 - Conclusion

Unlike the other illustrations, this illustration does not end with a statement regarding the proper treatment of costs.

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TABLE OF CONTENTS

Note: On subsequent pages, the symbol means "delete." Also, explanations for the suggested editorial changes are circled in black.

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PROPOSED STATEMENT OF POSITION

ACCOUNTING FOR COSTS OF MATERIALS AND ACTIVITIES OF NOT-FOR-PROFIT ORGANIZATIONS AND STATE AND LOCAL GOVERNMENTAL ENTITIES THAT INCLUDE A FUND-RAISING APPEAL

When the subject is an expression such as "two-thirds of," "a majority of," "a percentage of," "a portion of," or "the rest of," use a plural verb when a plural noun follows "of" (i.e., "costs") or is implied.

INTRODUCTION

1. Some not-for-profit organizations (NPOs) and state and local governmental entities (referred to as *entities* throughout this SOP), such as governmental colleges and universities and governmental hospitals and other health care providers, solicit support through a variety of fund-raising activities, including direct mail, telephone solicitation, door-to-door canvasing, telethons, and special events. Sometimes an activity serves more than one function, such as fund-raising, program, or management and general. Generally, on these occasions, a portion of the costs of the activity is are clearly identifiable with a particular function. However, other costs, referred to as joint costs, also generally exist that are not clearly identifiable with any one particular function.

2. External users of financial statements, including contributors, creditors, accreditation agencies, and regulators, want assurance that the amounts entities spend to solicit contributions, as well as the amounts spent for the program and management and general functions, are fairly stated. NPOs subject to the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*, as well as those that follow SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, and that receive significant amounts of contributions from the public are required to report separately the costs of the fund-raising, program, and management and general functions. Entities subject to the AICPA Audit and Accounting Guide *Audits of Providers of Health Care Services* are required to separately disclose fund-raising expenses. Entities subject to the AICPA Audit and Accounting Guide *Audits of Colleges and Universities*, as amended by SOP 74-8, *Financial Accounting and Reporting by Colleges and Universities*, are required to report fund-raising as part of the "Institutional Support" function.[1] Proper identification and allocation of joint costs may be a significant factor in measuring the costs of activities by function.

3. This SOP establishes financial accounting standards for identifying joint costs and determining the circumstances in which costs of materials and activities that include fund-raising appeals may be allocated. In addition, this SOP requires financial statement disclosures about the nature of the activities for which joint costs have been allocated and the amounts of joint costs, and provides explanations and illustrations of some acceptable allocation methods.

---

[1] Paragraph 26 of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*, requires NPOs to report expenses by function. FASB Statement No. 117 is effective for annual financial statements for years beginning after December 15, 1994, except for organizations with less than $5 million in total assets and less than $1 million in annual expenses, in which case it is effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

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SCOPE

4. This SOP establishes accounting standards for all NPOs and state and local governmental entities that report expenses or expenditures by function. (Footnote 3 on page 11 discusses the application of this SOP concerning entities that report expenses or expenditures by function but have a functional structure that does not include *fund-raising, program,* or *management and general.*) It amends the following:[2]

- AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*
- SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*
- AICPA Audit and Accounting Guide *Audits of Certain Nonprofit Organizations*

This SOP supersedes SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal.*

5. This SOP applies only to costs of materials and activities that include a fund-raising appeal. Allocations of other costs are permitted under existing authoritative literature.

Consider using past tense since SOP 87-2 will be superseded by the proposed SOP.

BACKGROUND

6. Paragraph 6.11 of Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations,* which is amended by SOP 87-2, states, in part:

was

> The cost of printed material used should be charged to program service, management and general, or fund-raising on the basis of the use made of the material, determined from the content, the reasons for distribution, and the audience to whom it is addressed.

7. Paragraph 97 of SOP 78-10, which is amended by SOP 87-2, states:

was

> If an organization combines the fund-raising function with a program function (for example, a piece of educational literature with a request for funds), the costs should be allocated to the program and fund-raising categories on the basis of the use made of the literature, as determined from its content, the reasons for its distribution, and the audience to whom it is addressed.

8. In 1987, the AICPA issued SOP 87-2. It provided more detailed guidance than did Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* and SOP 78-10. SOP 87-2 required that all circumstances concerning informational materials and activities that include a fund-raising appeal be considered and that the following criteria be applied:

Audit and Accounting Guide — phrase used in paragraph 2

---

[2] As discussed in paragraph 2, certain AICPA pronouncements, such as Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations,* SOP 78-10, Industry Audit Guide *Audits of Providers of Health Care Services,* Audit and Accounting Guide *Audits of Colleges and Universities,* and SOP 74-8, include guidance for reporting fund-raising. Entities that are required to follow the guidance in those pronouncements should follow the guidance in this SOP for reporting the costs of materials and activities that include a fund-raising appeal.

This word does not appear in AUD Section 10,420.15, AICPA Technical Practice Aids.

- All...*joint costs*...should be reported as fund-raising expense if it *cannot be demonstrated that a program or a management and general function has been conducted in conjunction* with the appeal for funds (paragraph 15) (emphasis added)

hyphenated in AUD Section 10,420.16

non-fund

- Demonstrating that a bona fide program ~~or~~ management ~~and general function~~ has been conducted...requires *verifiable indications* of the reasons for conducting the activity. *Such indications include the content* of the nonfund-raising portion of the activity; the *audience targeted*; *the action*, if any, *requested* of the recipients; *and other corroborating evidence*, such as written instructions to parties outside the organization who produce the activity, or documentation in minutes of the organization's board of the organization's reasons for the activity. (paragraph 16) (emphasis added)

- Most fund-raising appeals include descriptions of the causes for which the entities exist and the planned uses of the funds, to inform prospective donors why funds are needed and how they will be used. Unless an appeal is *designed to motivate its audience to action* other than providing financial support to the organization, all costs of the appeal should be charged to fund-raising. (paragraph 17) (emphasis added)

- In order to accomplish their basic missions, some organizations educate the public in the attainment of their missions by telling people what they can or should do about particular issues. Those organizations should allocate joint costs to program activities *if* the informational *materials or activities further those program goals.* (paragraph 18) (emphasis added)

These additional words appear in AUD Section 10,420.18

and seek the involvement of the public

Present Practice

9. The activities of some entities raise consciousness and stimulate action; others are primarily educational. Those activities are often done in conjunction with fund-raising. Many entities allocate the joint costs of those activities primarily to educational programs, based on the content of the materials distributed or the activities conducted. These entities believe that their primary programs are to educate the public or stimulate action and that such activities or the distribution of such materials helps accomplish those program goals.

10. Other entities allocate costs to fund-raising, program, or management and general based on the purpose of the material or activity, determined by the reason for its distribution, the audience to whom it is addressed, and its content.

11. Some believe the guidance in SOP 87-2 is inadequate to determine whether fund-raising appeals, such as those that also list the warning signs of a disease, are designed to motivate their audiences to action other than to provide support to the organization and whether appeals that merely repeat slogans are designed to help the entity attain its mission by educating the public in a meaningful manner. It is unclear what attributes the targeted audience should possess in order to conclude that an educational program function is being conducted.

12. SOP 87-2 has been difficult to implement and inconsistently applied in practice, because of the following:

- The second sentence of paragraph 1 of SOP 87-2 states that "some of the costs incurred by such organizations are clearly identifiable with fund-raising, such as the cost of fund-raising consulting services." It is unclear whether activities that would otherwise be considered program activities may continue to be characterized as program activities if they are performed or overseen by professional fund-raisers. It is also unclear whether activities would be reported differently (for example, program versus fund-raising)

Consider adding a transitional word.

299 cont'd

depending on whether the fund-raising consultant is compensated by a predetermined fee or by some other method, such as a percentage of funds raised.

- SOP 87-2 is unclear about whether allocation of costs to program expense is permitted if the activity for which the costs were incurred would not have been undertaken were the activity not intended to raise funds.
- SOP 87-2 defines joint costs through examples, and it is unclear what kinds of costs are covered by SOP 87-2.
- SOP 87-2 is unclear concerning whether salaries and indirect costs can be joint costs.

13. Furthermore, SOP 87-2 does not address the issue of how to allocate joint costs. Some believe that guidance should be provided on the subject, possibly through illustrations of the use of acceptable allocation methods.

Consider adding a transitional word.

DEFINITIONS

Joint Activities

14. For purposes of this SOP, joint activities are activities that are part of the fund-raising function and one or more of the following functions:

- Program
- Management and general

This phrase sounds awkward; it could be eliminated by rewriting the sentence: "However, for some entities, it is impracticable to measure and allocate the portion of those costs that are joint costs."

Joint Costs

15. For purposes of this SOP, joint costs are the costs of conducting, producing, and distributing materials and activities that include both a fund-raising appeal and a bona fide program or management and general component and that are not specifically attributable to a particular component. Joint conducting and producing costs may include the costs of salaries, facilities rental, contract labor, consultants, paper, and printing. Joint distribution costs may include costs of postage, telephones, airtime, and facility rentals. Some costs, such as utilities, rent, and insurance, commonly referred to as indirect costs, may be joint costs. However, for some entities, the portion of those costs that are joint costs are impracticable to measure and allocate.

16. Costs that are specifically attributable to a particular cost objective, such as fund-raising, program, or management and general, are not joint costs. For example, some costs incurred for printing, paper, professional fees, and salaries to produce donor cards, are not joint costs, though they may be incurred in connection with conducting a joint activity. However, as discussed in paragraphs 18 and 19, accounting for such costs is covered by this SOP if they are incurred for joint materials and activities. even though the costs are not joint costs

Delete—redundant

CONCLUSIONS

Flowchart

17. The flowchart in appendix B on page 29 of this SOP illustrates the decision-making process for applying the conclusions in this SOP to determine whether a bona fide program or management

and general function has been conducted and to which function costs of an activity should be charged. The flowchart is explained in paragraph 21.

Joint Materials and Activities

18. The cost of joint materials and activities may include both joint costs and costs that are clearly identifiable with a particular cost objective (function), such as fund-raising, program, or management and general.

19. All costs of materials and activities that include a fund-raising appeal should be reported as fund-raising costs, including costs that are otherwise clearly identifiable with program or management and general functions, unless it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds. However, if this can be demonstrated, costs that are clearly identifiable with a particular cost objective should be charged to that cost objective and joint costs should be allocated between fund-raising and the appropriate program or management and general function.[3] (Paragraphs 20 to 31 discuss the criteria for determining whether a bona fide program or management and general function has been conducted in conjunction with the appeal for funds.) For example, the costs of materials that otherwise accomplish program goals and that are unrelated to fund-raising, such as the costs of an educational pamphlet included in a joint activity, should be charged to program if it can be demonstrated that a bona fide program function has been conducted in conjunction with the appeal for funds. However, if the pamphlet is used in fund-raising packets and it cannot be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, the costs of the pamphlets should be charged to fund-raising.

Bona Fide Program or Management and General Function

20. In order to conclude that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, all of the following criteria, which are discussed in paragraphs ~~21~~ 22 to 31 and illustrated in appendix A, must be met:

- Purpose
- Audience
- Content

2) The discussion begins in paragraph 22 with "purpose."

21. The flowchart in appendix B on page 29 illustrates the decision-making process for determining whether the criteria in paragraph 20 have been met, as follows:[4]

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[3] Some entities that report expenses or expenditures by function have a functional structure that does not include fund-raising, program, or management and general. Paragraph 2 of this SOP discusses a number of such entities. Though this SOP applies to all entities that report expenses or expenditures by function, it is not intended to require reporting the functional classifications of fund-raising, program, and management and general. Rather, those functional classifications are discussed throughout this SOP for purposes of illustrating how the guidance in this SOP would be applied by entities that use those functional classifications. Entities that do not use those functional classifications should apply the guidance in this SOP for purposes of accounting for joint activities, using their reporting model.

[4] Though the flowchart and the following description of it illustrate the general decision process for applying the conclusions in this SOP, they are not intended to be substitutes for the detailed conclusions.

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When the subject includes both singular and plural words connected by "or," "either...or," "neither...nor," or "not only... but also," the verb agrees with the nearer part of the subject (i.e., "activity").

a. If substantially all compensation or fees for performing the activity are based on amounts raised, the purpose criterion is not met (paragraph 23) and all costs of the joint activity should be charged to fund-raising.

b. If the method of compensation under item a does not lead to the conclusion that all costs of the joint activity should be charged to fund-raising, determine whether the program or management and general component is conducted on a similar scale using the same medium without the fund-raising appeal. If it is conducted on a similar scale using the same medium without the fund-raising appeal, the purpose criterion is met (paragraph 25) and the audience and content criteria should be considered to determine whether all three criteria in paragraph 20 have been met. If it is not conducted using the same medium without the fund-raising appeal, consider the indicators in item c to determine whether the purpose criterion has been met.

c. If the purpose criterion is not met under item b, it may be met based on an evaluation of indicators (paragraph 26). If the purpose criterion is not met based on an evaluation of those indicators, all costs of the joint activity should be charged to fund-raising. If the purpose criterion is met based on an evaluation of those indicators, the audience and content criteria should be considered to determine whether all three criteria in paragraph 20 have been met.

d. If the audience is selected principally on its ability or likelihood to contribute (paragraphs 27 to 29), the audience criterion is not met and all costs of the joint activity should be charged to fund-raising. If the audience is not selected principally on its ability or likelihood to contribute, but rather is selected because it can assist the entity in meeting its program goals other than by financial support provided to the entity, the audience criterion is met and the content criterion should be considered to determine whether all three criteria in paragraph 20 have been met.

Singular form used elsewhere in paragraph. activity

e. If the materials or activity motivate s the ~~audience to action~~ in support of program goals, the content criterion is met and the costs of the joint activities should be allocated (paragraphs 30 and 31). However, if the fund-raising is incidental to the program activity, the joint costs need not be allocated and may instead be charged entirely to program (paragraph 32).

"Costs of the joint activity" is the phrase used above.

f. If the content s criterion is ~~not~~ met under item e, consider whether the materials or activity inform s the public regarding the entity's stewardship function [paragraph 30(b)]. If they inform the public regarding the stewardship function, the content criterion is met and the joint costs of the joint activity should be allocated. However, if the fund-raising is incidental to the management and general activity, the joint costs need not be allocated and may instead be charged entirely to management and general (paragraph 30). If they do not inform the public regarding the stewardship function, the content criterion has not been met and all costs of the joint activity should be charged to fund-raising.

Purpose

22. In determining whether a bona fide program or management and general function has been conducted, the purpose for conducting the activity must be considered.

23. If substantially all compensation or fees for performing the activity are based on amounts raised, the purpose criterion is not met and all costs of the activity should be charged to fund-raising. Further, if the performance of the party performing the activity is evaluated substantially on the activity's effectiveness in raising funds, the purpose criterion is not met and all costs of the activity should be charged to fund-raising.

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Moved "either" to create parallel grammatical structures in the "either ... or" phrase.

either

24. If the conditions in paragraph 23 have not resulted in ~~all~~ costs of the activity being charged to fund-raising, the purpose criterion may be met either by the conditions in paragraph 25 or the conditions in paragraph 26. Another possibility is "may be met by the conditions in either paragraph 25 or paragraph

25. If a similar program or management and general component is conducted without the fund-raising appeal using the same medium, such as direct mail, direct response advertising, or television, and on a scale that is similar to or greater than the scale on which it is conducted with the appeal, the purpose criterion is met.

Plural used in paragraph 24

26. If the purpose criterion is not met based on the conditions in paragraph 25, it may be met based on other factors. Those other factors are not universally applicable, and they should be considered based on the facts and circumstances concerning a particular joint activity. The relative importance of those factors should be weighed in determining whether the purpose of the activity includes conducting a bona fide program or management and general activity. Accordingly, the following indicators should be considered in determining whether the purpose criterion is met: Colons have been used to introduce listings elsewhere in the document.

a. *The method of compensation for performing the activity.* If compensation or fees are based in part (but less than substantially) on amounts raised, the purpose criterion may not be met. Paragraph 23 discusses situations in which such compensation is based substantially on amounts raised.

b. *The method of evaluating the performance of the activity.* The following should be considered:

— Whether there is a process to identify and evaluate program results and accomplishments. Identification and, where practical, measurement of program results and accomplishments may indicate that a bona fide program has been conducted. It appears that a word such as "function" or "activity" may be missing here.

— Whether evaluation of the effectiveness of the activity is skewed to the activity's effectiveness in raising funds or skewed to the accomplishment of program goals. The former may indicate that the purpose criterion is not met. The latter may indicate that it is met.

c. *Different media for the program or management and general component and fund-raising.* Consider whether the program or management and general component is also conducted in a different medium without a significant fund-raising component.

d. *Qualifications and duties of personnel.* The qualifications and duties of those performing the activity should be considered according to the following criteria: See comment above regarding colons.

— If the entity employs a third party, such as a consultant or contractor, to perform part or all of the activity, the third party's experience and full range of available services should be considered in determining whether it is performing program activities.

— If the entity's employees perform part or all of the activity, the full range of their job duties should be considered in determining whether those employees are performing program or management and general activities. For example, employees who are not members of the fund-raising department and those who perform other nonfund-raising activities are more likely to perform activities that include bona fide program or management and general functions than are employees who otherwise devote significant time to fund-raising.

e. *Tangible evidence of activities.* Consider whether tangible evidence supports the existence of a bona fide program or management and general component of the activity. Examples of such tangible evidence include the following:

- The organization's mission, as stated in its fund-raising material, bylaws, or annual report
- Minutes of board of directors, committees, or other meetings
- Restrictions imposed by donors (who are not related parties) on gifts intended to fund the activity
- Long-range plans or operating policies
- Job descriptions
- Written instructions to other entities, such as script writers, consultants, or list brokers, concerning the purpose of the activity, audience to be targeted, or method of conducting the activity
- Internal management memoranda

Audience

27. If the audience for the materials or activities is selected principally on its ability or likelihood to contribute, the audience criterion is not met and all the costs of the activity should be charged to fund-raising.

28. If the audience is selected principally based on its need for the program or because it can assist the entity in meeting its program goals other than by financial support provided to the entity, the audience criterion is met. The following are examples of the kinds of targeted audiences and the conditions under which they would or would not generally meet the audience criterion:

a. *A broad segment of the population.* Appealing to a broad segment of the population to avoid heart disease, for example, by avoiding cholesterol or reducing dietary fat, may meet the audience criterion. However, an appeal to a broad segment of the population concerning a condition affecting only a small segment of the population or geographical area would indicate that the audience criterion had not been met. For example,

Add this phrase for consistency with paragraph 28-a.

b. *A population specifically ~~in need of the program~~ services of the organization.* An appeal concerning urban poverty and including information about qualifying for food stamps and other assistance mailed to residents of a particular urban area in need of those programs would meet the audience criterion. However, such a solicitation targeted to specific high-income suburban neighborhoods would not meet the audience criterion. For example,

c. *A population that is able to perform actions to help achieve the program objectives.* An environmental appeal including advice to use mass transit mailed to an urban or suburban audience where mass transit exists would meet the audience criterion. However, such an appeal would not meet the audience criterion if mailed to rural areas where mass transit is unavailable.

29. The source of the names and the characteristics of the audience should be considered in determining whether the audience was selected principally on its ability or likelihood to contribute. For example, if the audience is made up of existing donors who have also participated in program activities in the past, it is likely that the audience criterion would be met. If the audience is made up of past donors with no such previous program participation, the audience criterion would likely not be met. Many entities use list rentals and exchanges to reach new audiences. The source of

such lists may indicate the purpose for which they were selected. For example, lists acquired from organizations with similar or related programs are more likely to meet the audience criterion than are lists based on consumer profiles.

"Function" is the word used in this phrase in paragraph 21.f and in the flowchart on page 29

Content

30. In order to meet the content criterion, the materials or activity must support bona fide program or management and general functions, as follows:

a. *Program.* The materials or activity must call for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to providing financial or other support to the entity itself by (1) benefiting the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being) or (2) benefiting society by addressing societal problems. Information must be provided explaining the need for and benefits of the action. Sufficient detail should be provided describing the action to be taken; merely providing a slogan is not sufficient.[5]

b. *Management and General.* The materials and activities should report on mission accomplishments or inform supporters about the entity's stewardship performance. function

31. Statements identifying and describing the entity or stating the needs or concerns to be met or how the funds provided will be used should be treated as in support of the fund-raising appeal. Educational materials and activities should be treated as in support of fund-raising unless they motivate the audience to action other than providing financial support to the organization.[6]

"As in support" is used in preceding line.

Colons have generally been used to introduce listings elsewhere in the document.

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[5] Examples of calls to action that benefit the recipient or society include the following:

a. Calls for action that benefit the recipient, such as the following:

- *Stop smoking.* Specific methods, instructions, references, and available resources should be suggested; a simple admonition to stop smoking is too vague to be considered a motivating factor.
- *Do not use alcohol or drugs.* The same conditions apply as with the stop smoking message.
- *If you are suicidal, call this hotline.*

b. Calls for action that benefit society, such as the following:

- *Write or call your legislator or other public official.* The subject matter to be communicated should be specified.
- *Volunteer to help out at your local nursing home.*
- *Protest.* The object of protest and specific method of protest, such as a time and place to demonstrate or an entity to communicate with, must be described; a general call to protest against something is too vague to satisfy the criterion of *action.*
- *Pray.* If what is to be prayed for, such as the occurrence of a particular event, is specifically stated; a general call to prayer is too vague to satisfy the criterion of *action.*
- *Complete and return the enclosed questionnaire.* This applies only if the results of the questionnaire help the entity achieve its mission.
- *Boycott a particular product or company.*

[6] Some educational messages, for example, messages informing the public about lifesaving techniques, have an implied message to motivate the audience to action other than by providing financial support to the organization.

Word does not appear to be needed.

299

Incidental Costs

32. Many entities conduct fund-raising activities in conjunction with program or management and general activities that are incidental to such program or management and general activities. For example, the words, "Contributions to Organization X may be sent to [address]," may appear on a small area of a message that would otherwise be considered a program or management and general activity based on its purpose, content, and audience. The fund-raising activity described in the previous example would generally be considered incidental to the program or management and general activity being conducted. Similarly, entities may conduct program or management and general activities that are incidental to fund-raising activities, such as including a generic program message on all public communications. An example would be the inclusion of the words, "Continue to pray for [a particular cause]," with fund-raising materials. The program activity described in the previous example would generally be considered incidental to the fund-raising activity being conducted. In circumstances in which a fund-raising, program, or management and general activity is conducted in conjunction with another activity and is incidental to that other activity, joint costs are not required to be allocated and may therefore be charged to the other activity. However, the costs of the incidental activities may be charged to their respective functional classification if the conditions for charging those costs to that functional classification included in this SOP are met. However, if the program or management and general activities are incidental to the fund-raising activities, it is unlikely that the conditions required by this SOP to permit allocation of joint costs would be met.

included in this SOP

Move modifying phrase closer to word modified.

These words may not be necessary. If they are intended to modify "management and general" as well as "program," however, insert "or" after "fund-raising."

Allocation Methods

33. The allocation of joint costs should be based on the degree to which the cost element was incurred for the benefit of the activity or activities undertaken (that is, fund-raising, program, or management and general). The cost allocation methodology used should be rational and systematic, it should result in an allocation of joint costs that is reasonable and not misleading, and it should be applied consistently, given similar facts and circumstances. However, that requirement is not intended to prohibit entities from using more than one allocation method. The reasonableness of the joint cost allocation should be evaluated based on whether it reflects the degree to which costs have been incurred for the benefit of fund-raising, bona fide program, or management and general activities. In making that evaluation, the purpose, audience, and content criteria should be considered.

34. Some commonly used cost allocation methods follow.

See comment on p. 15 regarding use of colons.

- *Physical Units Method.* Joint costs are allocated to activities in proportion to the number of units of output that can be attributed to each of the activities. Examples of units of output are lines, square inches, and physical content measures. This method assumes that the benefits received by the fund-raising, program, or management and general ~~component~~ activity from the joint costs incurred are directly proportional to the lines, square inches, or other physical output measures attributed to each component. This method may result in an unreasonable allocation of joint costs if the units of output, for example, line counts, do not reflect the degree to which costs are incurred for the joint activities. For example, a joint cost allocation based on line counts may not reflect the purpose for which the activity was undertaken or the reasons the audience was selected. Use of the physical units method may also result in an unreasonable allocation if the physical units cannot be clearly ascribed to fund-raising, program, or management and general. For example, direct mail and telephone solicitations sometimes include content that is not clearly identifiable with either fund-raising, program, or management and general; or the physical units of such content are inseparable.

of the

Words appear to be missing.

299 Verb should agree with compound subject "letter and reply card."

- *Illustration:* Assume a direct mail campaign is used to educate the public about programs of the entity and to solicit funds to support the entity and its programs. Further, assume that the appeal meets the criteria for allocation of joint costs to more than one cost objective.

  The letter and reply card includes a total of one hundred lines. Forty-five lines pertain to program because they educate the recipient about the entity's program and include a call to action, while fifty-five lines pertain to the fund-raising appeal. Accordingly, 45 percent of the costs are allocated to program and 55 percent to fund-raising.

- *Relative Direct Cost Method.* Joint costs are allocated to each of the components on the basis of their respective direct costs. Direct costs are those costs that are incurred in connection with the multipurpose materials or activities and that are specifically identifiable with a cost objective (program, fund-raising, or management and general). This method may result in an unreasonable allocation of joint costs if the joint costs of the materials or activities are not incurred in approximately the same proportion and for the same reasons as the direct costs of those activities. For example, if a relatively costly booklet informing the reader about the entity's mission (including a call to action) is included with a relatively inexpensive fund-raising letter, the allocation of joint costs based on the cost of these pieces may be unreasonable.

  - *Illustration*: The costs of a direct mail campaign that can be specifically identified with program services are the costs of separate program materials and a postcard with a call to action. They total $20,000. The direct costs of the fund-raising component of the direct mail campaign consist of the costs to develop and produce the fund-raising letter. They total $80,000. Joint costs associated with the direct mail campaign total $40,000 and would be allocated as follows under the relative direct cost method:

Program	$20,000/$100,000 x $40,000 = $8,000
Fund-Raising	$80,000/$100,000 x $40,000 = $32,000

- *Stand-Alone Joint-Cost-Allocation Method.* Joint costs are allocated to each component based on the ratio that the cost of conducting each component would have borne to the total costs of conducting each of the joint components had each component been conducted independently. This method assumes that efforts for each component in the stand-alone situation are proportionate to the efforts actually undertaken in the joint-cost situation. This method may result in an unreasonable allocation because it ignores the effect of each function, that is performed jointly with other functions, on other such functions. For example, the programmatic impact of a direct mail campaign or a telemarketing phone message may be significantly lessened when performed in conjunction with a fund-raising appeal. Sentence could be shortened; also, as written, the sentence appears to focus on the program component. each

  - *Illustration*: Assume that the joint costs associated with a direct mail campaign are the costs of stationery, postage, and envelopes at a total of $100,000. The costs of stationery, postage, and envelopes to produce and distribute the program component separately from the fund-raising component would have been $90,000 for the program component and $70,000 for the fund-raising component. Under the stand-alone joint-cost-allocation method, the $100,000 in joint costs would be allocated as follows: $90,000/$160,000 x $100,000 = $56,250 to program services and $70,000/$160,000 x $100,000 = $43,750 to fund-raising.

the mission, all costs including the specific costs of the separate program piece would generally be charged to fund-raising.

Illustration 5

Facts

Word is already used in sentence.

A.19 Entity E is a membership organization whose mission is to improve the quality of life for senior citizens. One of Entity E's objectives included in that mission is to increase the physical activity of senior citizens. Entity E also sends representatives to speak to groups about the importance of exercise and also to conduct exercise classes.

A.20 Entity E mails a brochure on the importance of exercise that encourages exercise in later years to residents over the age of 58 in three ZIP code areas. The last two pages of the four-page brochure include a perforated contribution remittance form on which Entity E explains its program and makes an appeal for funds. The content of the first two pages of the brochure is primarily educational; it explains how seniors can undertake a self-supervised exercise program and urges them to do so.

brochure Word used in preceding paragraph.

A.21 The leaflet is distributed to educate people in this age group about the importance of exercising, to encourage them to exercise, and to raise funds for Entity E. These objectives are documented in a letter to the public relations firm that developed the piece and are supported by a medical advisory board's approval of the exercise program. The audience is selected based on age, without regard to ability to contribute. Entity E believes that most of the recipients would benefit from the information about exercise.

Conclusion

A.22 The purpose, audience, and content criteria are met, and the joint costs should be allocated.

Illustration 6

Facts

A.23 The facts are the same as those in Illustration 5, except that Entity F employs a fund-raising consultant to develop the brochure and pays that consultant 30 percent of funds raised.

Conclusion

A.24 The content and audience criteria are met.

A.25 The purpose criterion is not met, however, because the party performing the activity is compensated based on a percentage of funds raised. Therefore, all costs of the activity should be charged to fund-raising.

299 cont'd

A.34 If the activity were conducted in a disadvantaged neighborhood and residents were also given a telephone number to call or an address to write to for more information, the conclusion may be different. In those circumstances, the audience and content criteria would be met and the purpose criterion may be met based on an evaluation of the indicators in paragraph 26. Only the cost of the canisters would likely be charged to fund-raising because the fund-raising would be incidental to the program purpose. The information about the program and how to take advantage of it would be charged to program. The joint costs would generally include the costs of the canvassers that Entity H reimburses.

Illustration 9

Facts

A.35 Entity I's mission is to give the public lifesaving educational messages. One of Entity I's objectives in fulfilling that mission, as stated in the minutes of the board's meetings, is to produce and show television broadcasts including information about lifesaving techniques.

A.36 Entity I conducts an annual national telethon to raise funds and to reach the American public with lifesaving educational messages. The broadcast includes segments on personal health care and other segments describing Entity I's services. Entity I broadcasts the telethon to the entire country, not merely to areas selected on the basis of giving potential or prior fund-raising results.

Conclusion

A.37 The audience and content criteria are met.

A.38 In assessing whether the purpose criterion is met, a determination should be made as to whether or not the activity is or would be conducted without the fund-raising appeal using the same medium. If Entity I uses television broadcasts devoted entirely to lifesaving educational messages to conduct program activities without fund-raising, the purpose criterion would be met. If Entity I does not use such television programs to conduct program activities without fund-raising, and the purpose criterion is not met based on the indicators in paragraph 26, the purpose criteria would not be met and all costs of the telethon should be charged to fund-raising.

X on Should be singular

A.39 If the purpose criterion is met, joint costs such as television time, overall planning, and production should be allocated between program and fund-raising. One method of allocation may be based on the relative amounts of time each was on the air. The direct costs clearly identifiable with the lifesaving educational messages are not joint costs and should be charged to the program function. The costs of the service description messages that inform the audience about the organization and the related appeal for funds are not joint costs and should be charged to fund-raising.

Illustration 10

Facts

A.40 Entity J's mission is to provide food, clothing, and medical care to children in developing countries.

A.41 Entity J conducts television broadcasts ranging from 30 minutes to one hour in length that describe Entity J's programs, show the needy children, and then end with an appeal for funds.

Conclusion

A.42 The purpose, audience, and content criteria are not met. There is no call to action other than supporting Entity J, the audience's need for or ability to assist any programs is not a significant factor in selecting the audience, and all descriptions of Entity J's activities are in support of fund-raising.

A.43 All costs should be charged to fund-raising.

Illustration 11

Include a comma before the last item in the series for consistency.

Facts

A.44 Entity K is a University that distributes its annual report, which includes reports on mission accomplishments, to those who have contributed over the three preceding years, its board of trustees and its employees. Included in the package containing the annual report are educational materials about Entity K's mission, requests for funds, and donor reply cards.

Conclusion

A.45 The purpose, audience, and content criteria are met.

A.46 Though the activity is directed primarily at those who previously contributed, the audience was selected based on its presumed interest in Entity K's reporting on its financial position, results of operations, mission accomplishments, and fulfillment of its fiduciary responsibilities.

A.47 The costs clearly attributable to the annual report should be charged to management and general. The costs of the educational materials and donor reply cards should be charged to fund-raising. The joint costs should be allocated between management and general and fund-raising.

Illustration 12

Facts

A.48 Entity L is an animal rights organization. It mails a package of material to individuals included in lists rented from various environmental and other organizations that support causes that Entity L believes are congruent with its own. In addition to donor response cards and return envelopes, the package includes postcards addressed to legislators and bumper stickers urging support for legislation restricting the use of animal testing for cosmetic products. It also includes a letter instructing the reader to take specific actions to further Entity L's goals. The mail campaign is part of an overall strategy that includes magazine advertisements and the distribution of similar materials at various community events.

Conclusion

A.49 The purpose, audience, and content criteria are met. A bona fide program function is performed, the audience is not limited to potential donors; it also includes individuals who can assist Entity L in achieving its program goals, and the content includes a request for action in support of the program.

A.50 Entity L accounts for the costs of the activity as follows:

Costs Charged Directly to Fund-Raising

Donor response card	$ 14,000
Return envelope for contribution	18,000
Return postage	8,000
	$ 40,000

Costs Charged Directly to Program

Bumper sticker	$ 41,000
Postcard to legislator	19,000
	$ 60,000

Joint Costs

Consulting and design costs	$ 24,000
List rentals	182,000
Letter	52,000
Envelope (outgoing)	40,000
Postage (outgoing)	160,000
Mail handling costs	42,000
	$ 500,000

Phrase is not hyphenated on p. 17.

A.51 Entity L uses the relative direct-cost-method to allocate joint costs. As a result, $300,000 ($60,000/$100,000 x $500,000) of the joint costs are is charged to program and $200,000 ($40,000/$100,000 x $500,000) of the joint costs to fund-raising. Direct costs of $60,000 and $40,000 are charged to program and fund-raising, respectively.

Use a singular verb since $300,000 represents a total amount.

A.52 In reviewing the purpose of the activity, Entity L concludes that though the fund-raising component is important, the activity was conducted primarily for program purposes. Passing the proposed legislation was highlighted as a major goal in Entity L's three-year program plan, and Entity L believes the mail campaign is essential for achieving this goal. Accordingly, the allocations resulting from the methodology used by Entity L are reasonable.

Mothers Against Drunk Driving
P.O. Box 161 • Guntersville, AL 35976 • (205) 582-3400
MARSHALL COUNTY CHAPTER

JAN 25 1994

300

January 18, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Ref: File 3605.JA

Dear Mr. Tanenbaum,

It is our understanding that the AICPA is revising the standard for accounting for costs of materials and activities that include a fund raising appeal. Our chapter here in Marshall County, Alabama of MADD (Mothers Against Drunk Driving) relies heavily on telemarketing in order to aide in our efforts of increased public awareness concerning the dangers of this crime.

Our organization has been active in this area since 1981. Without the results of telemarketing and direct mail campaigns, our source for funding would be drastically reduced.

This county alone has benefitted from our campaigns in public awareness in the attitude toward drunk driving as seen in the reduced number of deaths and injuries in the last ten years. Another area we benefit from is the ability to have an office from which to operate and for our volunteers to serve the community and its victims.

Since our chapter deals with very limited resources, we feel it is not in the best interest for us to have to comply with arbitrary rules. For our organization to mislead the public with unaccountable financial reports is not appropriate.

We ask you to reconsider your rules in the proposal and let our chapter continue in the services we provide for this community as we have and to limit the accounting rules to report the costs as fair and accurate as we now do.

Sincerely,

Members of the MADD Marshall County Chapter
Marshall County, Alabama

December 31, 1993

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

JAN 25 1994

301

Re: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understating program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental" program-related materials included in fund-raising appeals are treated as fund-raising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e., 5% or more) of a given population is selected as an audience, a multi-purpose audience should be validated.

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers and their parents.

We believe that the exposure draft requires additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Marvin Enterlt
1811 Burning Tree Dr.
Decatur, IL 62521

msaa
MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA
601 White Horse Pike
Oaklyn, New Jersey 08107
(609) 858-3211
FAX 858-8882

Rcv'd 1-27-94

302

January 20, 1994

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 3605.J.A. "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal."

Dear Mr. Tanenbaum:

This letter comments on the referenced Exposure Draft. The mission of this organization is to bring aid and comfort to MS patients through a variety of program services. Some of these services include public education and informational programs, a therapeutic equipment loan program, affordable housing, counseling, a 24-hour toll-free hotline, informative newsletters, and social and group activities. We use multipurpose materials, including telemarketing, direct mail and special events, as cost-effective means to accomplish our programs, and to raise funds to support them.

We are greatly concerned about the effect the proposed new standard would have on the way we report the costs involved.

The proposed new standard would require that in many situations we must report all costs as Fundraising costs, even when some are clearly identifiable as Program or Management and General. That will lead to improper accounting for those costs, and to misleading financial statements.

We also view with alarm that the proposal effectively dictates the content of Programs and Fundraising appeals, and the audiences with which we must communicate.

> Apart from the financial and management issues involved, there is also the serious question of violation of our right to free speech under the First Amendment, which was affirmed by the U. S. Supreme Court in <u>Riley v. National Federation of the Blind of North Carolina</u>, and other Supreme Court rulings.

The Exposure Draft retains the purpose, audience, and content criteria of SOP 87-2. We believe the criteria themselves are appropriate, but that the guidance for implementing them needs to be refined. But to

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FACTS

- Multiple sclerosis strikes men and women most often between the ages of 20 and 40.
- MS is the most common neurological disease of young adults.
- There are over 500,000 individuals in the United States with MS or related neurological disorders.
- At present, there is no cause, cure or prevention for MS.
- Symptoms include blurred or double vision, slurred speech, impaired gait, fatigue, tremors, dizziness, loss of bowel and bladder control and partial or complete paralysis.

GOALS

The goals of the **MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA** are to enhance the quality of life for multiple sclerosis sufferers and their families; and to promote, expand and encourage public awareness and knowledge as to the needs and day-to-day concerns of MS patients.

BENEFITS

MSAA members and their families enjoy the following services free of charge.

- Toll-free 24-hour hotline • Patient educational information and referral
- Therapeutic equipment • Peer counseling • Barrier-free housing facilities
- Bi-monthly newsletter • Health resource panel • Social and group activities
- Public advocacy and support • Volunteer assistance • Support groups

HISTORY

Since 1970, MSAA's main thrust lies in the belief of handicaps helping handicaps. Co-founder Ruth Hodson, a MS patient, created this unique self-help organization with the goal of offering practical and knowledgeable advice and support to fellow MS'ers. Most of MSAA's board of directors are MS patients. Yet, they have battled this disease to develop a successful, national health care association dedicated to meeting the needs of others.

VOLUNTEERS

Volunteerism is an extremely vital aspect of MSAA. In many instances, the volunteers who help MS patients cope, are themselves sufferers of this devastating disease. Since MSAA does not regularly receive federal or state aid and is not a member of the United Way, it has to depend upon supporters and volunteers from all walks of life for much-needed time and financial assistance. MSAA needs you to join its team and support the efforts of volunteers who are now giving so much of themselves. This is your chance to join a team that never gives up.

improve rather than degrade the guidance, the tests proposed in the Exposure Draft should be either eliminated or significantly modified.

Example: For the Purpose criterion, the tests proposed for compensation, evaluation and "with/without" appeal are seriously flawed.

Accounting guidance tells us that our programs are the activities that result in goods and services being distributed to our Program beneficiaries. Yet none of the proposed tests can tell us whether any of our activities or materials has served a Program purpose.

Instead, the Exposure Draft proposes a test that would determine that a Program purpose was not met, whether in fact one or more was met, based solely on the form of compensation to the fundraising consultant.

Further, the proposed test contradicts economic efficiency. We have found it prudent to conduct our operations in the most cost-effective manner possible; that often calls for multi-purpose materials and activities.

We believe that the Exposure Draft should require verifiable documentation as the primary test of whether a material or activity that includes a fundraising appeal serves Program purposes. This guidance in SOP 87-2 should be retained.

Example: The Audience tests contained in the Exposure Draft are also seriously flawed. The tests require that a single reason, rather than a multiplicity of reasons, be used to determine the selection of an audience, even though the mailing would be conducted for multiple purposes. That makes no sense at all.

Moreover, such a test would substitute the judgment of an auditor for that of an experienced fundraiser in the selection of lists. Surely that result was not intended.

Example: The Content criterion requires that the materials or activity call for specific action by the recipient that is in furtherance of the charity's mission. The action, according to the criterion, must be unrelated to providing financial or other support to the charity.

This would apparently disqualify calls to action that support the organization itself, such as volunteering or donating goods or services. Such a test would be devastating to our organization.

The test also requires a detailed description of the action to be taken; merely providing a slogan would not suffice. This provision has nothing to do with accounting guidance. In fact, it is direct infringement on how a charity seeks involvement by its audience. Slogans generally contain the aims or goals of the organization; oftentimes they completely describe the charity's aims or goals ("Just Say No!"

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A more appropriate Content criterion would require that the multi-purpose materials or activity serve the charity's Program purpose, and that they contain action steps or calls to action that audiences can take to help accomplish the purpose(s) to which the content relates.

Example: The exposure draft is biased. As the draft itself illustrates, if a charity uses a public relations firm to develop a program package, joint costs may be allocated between Program and Fundraising. But if the charity uses a fundraising firm, and bases all or part of its fee on the amounts raised, all costs must be reported as Fundraising. This bias against certain firms and certain compensation programs will result in unreliable financial information, and preclude comparison between organizations.

This exposure draft in its present form, with its arbitrary and biased criteria, would require our auditors to second-guess our board of directors and our management.

AICPA has stated that the content of the exposure draft is a reaction to criticisms raised by a few state attorneys general, and a single oversight organization. The criticisms are based on the belief by the critics that some charities have been too liberal in the methods used to allocate joint costs, especially those costs incurred in educating their audiences. Therefore, the efforts of the AICPA should be directed to refining SOP 87-2, rather than creating arbitrary and biased standards.

We would appreciate your keeping us informed of the status of this exposure draft.

Sincerely,
MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA

John G. Hodson, Sr.
President and Chairman of the Board

JGH/mmc

303 Rec'd 1-27-94

American Liver Foundation

1425 Pompton Avenue, Cedar Grove, N.J. 07009
1-201-256-2550
1-800-223-0179
FAX 201-256-3214

January 15, 1994

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The American Liver Foundation endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

John M. Vierling, M.D.

John M. Vierling, MD
Chairman

JMV/bdr

NATIONAL PSORIASIS FOUNDATION

Rcv'd 1-27-94

304

January 12, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tanenbaum:

The National Psoriasis Foundation endorses the National Health Council's position on the Proposed Statement of Position on Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

Gail M Zimmerman

Gail M. Zimmerman
Executive Director

6600 S.W. 92nd • Suite 300 • Portland, Oregon 97223 • (503) 244-7404 • FAX (503) 245-0626

Rec'd 1/3/94

305

EXPOSURE DRAFT
PROPOSED STATEMENT OF POSITION

ACCOUNTING FOR COSTS OF MATERIALS AND ACTIVITIES OF NOT-FOR-PROFIT ORGANIZATIONS AND STATE AND LOCAL GOVERNMENTAL ENTITIES THAT INCLUDE A FUND-RAISING APPEAL

SEPTEMBER 10, 1993

Response Prepared by: Accounting and Auditing Standards Committee
Louisiana Society of CPA's

Glenn J. Vice, Chairman
Lindsay J. Calub, Member
John D. Cameron, Member
Pat Dauzat, Member
Raymond P. Prince, Member
Deborah R. Zundel, Member

General Comments:

Pro's:

This SOP addresses more areas than SOP 87-2; therefore, it broadens the scope of SOP 87-2 to all entities which report expenses or expenditures by function.

Also it is more specific than SOP 87-2 in explaining the criteria for charging costs; it covers all costs of joint activities. This will help determine whether a bona fide program or management activity has been conducted which will help to curb abuses.

The criteria of purpose, audience and content must all be met. This guidance is consistent and useful, especially the illustrations (Appendix A) and flow chart (Appendix B).

It also requires more complete note disclosures.

Con's:

This SOP may conflict with FASB 117 relating to criteria for classifying expenditures. It also increases the accounting burden on NPO's.

However, we agree with this proposed statement.

rec'd 2/14 306

BETHEL BIBLE VILLAGE

A CHRISTIAN HOME FOR CHILDREN - "PREVENTING CRIME BY PRESENTING CHRIST"

Celebrating 40 Years of Caring For Children & Families

February 7, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 3605.JA
American Institute of Certified Public Accountants
1211 Avenue of the Americans
New York, New York 10036-8775

RE: Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal.

Dear Mr. Tanenbaum:

We are writing on behalf of the National Association of Homes and Services for Children whose member organizations provide daily care for over 10,000 children.

We are concerned that the AICPA proposal will have the effect of overstating fund-raising costs and understanding program costs, thus misleading potential donors of much-needed funds for child care.

The proposed statement of position has a number of flaws that need to be corrected:

1. "Incidental"program-related materials included in fund-raising appeals are treated as fundraising costs. This is improper accounting and should be changed to permit such costs to be accounted for as program costs.

2. The purpose criteria would require separate mailings for program materials to validate the purpose. This is not appropriate stewardship for cost-conscious not-for-profit management.

3. The audience criteria does not address the situation where a broad percentage of a given population is selected for a mailing. Clearly, if some statistically valid percentage (i.e. 5% or more) of a given popularion is selected as an audience, a multi-purpose audience should be validated.

ECFA MEMBER *The symbol of trust*

3001 Hamill Road P. O. Box 5000 Chattanooga, TN 37343
(615) 842-5757 eve. 842-1245

Member National Association of Homes Services for Children

4. The content criteria would exclude slogans of any kind, and yet, such slogans can be effective when dealing with small children, teenagers, and their parents.

We believe that the exposure draft required additional work by the Committee and that an additional comment period should follow.

Yours very truly,

Ron Thomas

Ronald D. Thomas, CPA
Director of Finance and Development

RDT:ks

rec'd 2/18/94

AMERICAN LUNG ASSOCIATION

1740 Broadway
New York, NY
10019-4374
Fax: (212 265-5642
Phone: (212) 315-8700

January 7, 1994

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Mr. Joel Tannenbaum
Technical Manager
Accounting Standards Division
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AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr. Tannenbaum

I am writing to endorse the position of the National Health Council relative to the AICPA proposed position statement on Accounting for Cost of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a Fundraising Appeal. We join the Council in urging AICPA to immediately recall the Exposure Draft and to use the educational and disciplinary measures available to the profession to correct the few documented abuses of the existing cost allocation options. Likewise, State regulatory authorities should be encouraged to utilize available statutory powers to investigate and prosecute fraud and abuse and not rely on punitive accounting directives which will penalize legitimate charities but do nothing to prevent some from abusing the public trust.

Independent watchdog groups like the National Charities Information Bureau, and federated fundraising organizations have encouraged the American public to judge charities on the basis of the percentage of income spent on administrative and fundraising expense. As Chief Executive Officer of the American Lung Association I am concerned that the directives presented by the Institute will result in artificially inflating our fundraising cost, further hampering our ability to attract needed revenues. While we applaud the Institute's efforts to encourage uniformity and clarity in financial reporting we must resist efforts which would force us to reclassify legitimate mission related activities because our educational messages are directed to those capable of providing financial support to the organization.

The evidence of allocation problems cited by regulatory officials and administrators of the watchdog groups remain largely anecdotal. I am personally not convinced that the abuses are so widespread and pervasive as to defy more targeted remedies. In the absence of solid data I am inclined to consider your Statement of Position as a troublesome overreaction to the problem.

Sincerely,

John R. Garrison

John R. Garrison
Managing Director

JRG/cvh

cc: Joe Issacs

LOOKING TOWARD OUR SECOND CENTURY
90TH ANNIVERSARY

When You Can't Breathe, Nothing Else Matters®

Founded in 1904, the American Lung Association includes affiliated associations throughout the U.S., and a medical section, the American Thoracic Society.

rec'd 2/22/94
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California Society
Certified Public Accountants

February 17, 1994

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

The Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants appointed a subcommittee to review the Exposure Draft of the Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal. We submit the following comments:

1. The SOP is very detailed in most respects yet barely discusses the relationships of staff salaries to cost allocation. Since many "activities" would likely involve administrative staff and time tracking, allocations would be expected and should be addressed in more detail.

2. Although incidental costs are addressed in paragraph 32, the concept of materiality is not specifically referenced or addressed.

3. The flow chart presented in Appendix B is not clear as to yes or no at each decision arrow.

4. Consideration should be given to having additional criteria that would allow footnote disclosure vs. actual allocation of joint costs. This criteria could include situations where joint costs are estimated to be less than 25 percent of the total fund raising costs, are immaterial, or the organization has total expenditures of less than $100,000.

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February 17, 1994
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We appreciate the opportunity to comment on this SOP and would be very interested in receiving a copy of the final draft that will be sent to the Accounting Standards Executive Committee.

Sincerely,

Michael C. Moreland

Michael C. Moreland, Chairman
Governmental Accounting and Auditing Committee

MM:TG:hk

cc: Charles H. Gielow, Jr., President
S. Thomas Cleveland, First Vice President
Governmental Accounting and Auditing Committee
James R. Kurtz, Executive Director
Bruce C. Allen, Director, Government Relations
Mike Flanigan, Director, Professional Regulation
Maxine Hosaka, Associate Director, Regulation

Rcv'd 2/23/94

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National Head Injury Foundation, Inc.

1776 Massachusetts Avenue, N.W.
Suite 100
Washington, DC 20036-1904
(202) 296-6443 • Fax: (202) 296-8850

January 10, 1994

Joe Tanenbaum
Technical Manager
Accounting Standards Division
File 3605 JA
AICPA
1211 Avenue of the Americas
New York, NY 10026-8775

Dear Mr Tanenbaum:

The National Head Injury Foundation endorses the National Council's position on the Proposed Statement of Positions on Accounting for Cost of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include a Fundraising Appeal (Exposure Draft).

We urge the AICPA to rescind the Exposure Draft and apply existing disciplinary measures to its members who endorse financial statements which clearly show abuse of the joint cost allocation rules.

Thank you for this opportunity to respond.

Sincerely,

James c. Comer.

UNITED STATES CATHOLIC CONFERENCE

Finance Office
3211 4th Street N.E. Washington, DC 20017-1194 (202)541-3028 FAX (202)541-3322 TELEX 7400424

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February 25, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 3605.JA
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

This letter deals with the Exposure Draft entitled, "Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal."

The Accounting Practices Committee of the United States Catholic Conference is pleased to respond to the Exposure Draft of this proposed statement.

Our response is on behalf of 188 (Arch)dioceses and 800 religious institutes in the United States, embodied as the United States Catholic Conference, Leadership Conference of Women Religious, and Conference of Major Superiors of Men. These organizations operate and sponsor thousands of religious, educational, charitable and other not-for-profit entities throughout the United States collectively known as the Catholic Church.

We regret that we were unable to meet the comment deadline set by the AICPA. But we hope that our views will still be of use in your deliberations.

We are very concerned that, in discussing the purpose criterion, the Exposure Draft represents a return to an old practice of charging a multipurpose expense entirely to that purpose which is deemed primary. It appears that restraints are put on the use of allocated costs only in the area of fund raising. We feel that the method by which services are compensated should not determine whether allocation is permissible. Therefore, we do not agree that such a restraint would be sound accounting today. If an expense serves multiple purposes, we believe that allocation to the different purposes should remain the proper accounting procedure.

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This is not to say we favor percentage-based compensation to firms engaged in raising funds. On the contrary, the three conferences that sponsor the Accounting Practices Committee opposed such compensation in a set of standards for Catholic organizations issued in 1977. But purely from an accounting standpoint, we do not think that the use of one particular compensation method is an adequate norm for excluding cost allocation.

We acknowledge that allocations are not always easy, and that honest and competent people may differ in their views of what is the most appropriate allocation in a given case. But the fact that an accounting question is difficult does not warrant a change in normal practice. In general, when difficult accounting questions arise, the good judgment and the integrity of those who prepare and those who audit financial reports do have roles to play.

We also admit that abuses, even flagrant abuses, of expense allocations are possible. But we do not think that any abuses in a single area of expense should be allowed to undermine the basic accounting principle of cost allocation.

Another point of concern for us is that the content criterion could be understood as requiring an auditor to evaluate whether something in a particular religion is too vague to be called religious. In such a case, religious content would be treated as fund raising. We do not believe an independent auditor is qualified to make such a judgment. For example, a general call to prayer could be, in some organizations, a perfectly legitimate way to implement their objectives that are outside of raising funds.

An additional concern results from the feeling that the desire to replace SOP 87-2 may rest on an initial presumption of incompetence, or lack of integrity, or even fraud on the part of some entities that raise funds. New and/or unpopular causes could be far more vulnerable if such a presumption exists. Even if the AICPA is aware of some flagrant abuses, it should take pains to be sure a new SOP is not biased against an initial presumption of honesty--possibly mixed with mistakes made in good faith. In addition, it should also take pains to be sure it listens to smaller and less popular fund raising groups as well as to larger groups, a few state attorneys general, and self-appointed accreditation groups.

As with all attempts to provide clear accounting guidelines, there must be room for interpretation. No accounting pronouncement will result in uniform compliance. Application will vary according to size and expertise available to the organization.

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The Accounting Practices Committee has received copies of some of the responses sent to you on this Exposure Draft. Some came from organizations that raise funds, and others came from accounting firms that audit the organizations. While we felt that all of them merit consideration, we thought that the letter from the accounting firm of Conrad R. Sump & Co. was noteworthy in setting forth some specific problems this Exposure Draft could cause if it is not revised.

If you have any questions about our concerns, please contact us. We would like to see the AICPA continue its study of accounting for fund raising. While we do not feel the present Exposure Draft is perfect, we do find a lot of good points in it. If we can be of assistance as your project proceeds, we hope you will not hesitate to call upon us.

Very truly yours,

Wayne A. Schneider

Wayne A. Schneider
Chairperson, Accounting Practices Committee

WAS:kds

Responses to:

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rec'd 5/15/94

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March 11, 1994

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division,
File 3605.JA
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Comments on the Exposure Draft of the Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal

Dear Mr. Tanenbaum:

We are pleased to submit our comments on the September 15, 1993 Exposure Draft of the Proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-For-Profit Organizations and State and Local Governmental Entities that Include a Fund-Raising Appeal (the "ED").

We agree that current industry practice for accounting for costs of materials and activities that include a fund-raising appeal is varied and we support the Accounting Standards Executive Committees's (AcSEC's) attempt to clarify the guidance specifically as it relates to the allocation of costs to program, management and general and fund-raising activities.

We support the conclusions in the ED and believe that it will result in better reporting of the cost of fund-raising activities for not-for-profit organizations and state and local governmental entities; however, we believe the following points should be clarified in the ED.

Content

Paragraph 31 ends with a statement that "Educational materials and activities should be treated as support of fund-raising unless they motivate the audience to action other than providing financial support to the organization." Footnote 6 indicates that, "Some educational materials, for example, messages informing the public about lifesaving techniques, have an implied message to motivate the audience to action other than by providing financial support to the organization."

We believe it is difficult to draw a distinction here and suggest that the discussion of educational materials be expanded.

If an organization's mission, or one of its goals, is to educate society about conditions that its programs are designed to address, it would appear that the cost of educational materials would be properly classified as program expenses. Also, we believe that there is a distinction between materials that educate society about a cause, and therefore could be considered program related, and materials that educate society about an organization's programs (without a call to action), which may be in support of fund-raising.

Other

Illustration 7 discusses an effort by an environmental group to canvass neighborhoods with low recycling rates informing residents about environmental problems associated with not recycling and recommending actions the residents could take to help increase recycling. The second sentence of paragraph A.29 states , "Therefore, the direct costs clearly identifiable with including a request for funds during the canvass, such as the cost of collection canisters, should be charged to fund-raising." Many might interpret the term "collection canisters" to mean "recycling containers" and misunderstand the conclusion provided. Perhaps the point could be made with "receipt books or donor thank-you cards" instead.

* * * * * *

We appreciate this opportunity to express our views. If you have any questions concerning our comments, please call Ronald J. Murray at (212) 536-2809 or Nelson W. Dittmar at (212) 536-2449.

Very truly yours,

Coopers & Lybrand