FISCAL AND ADMINISTRATIVE OFFICERS GROUP

For Community Foundations

Executive Committee

Chair

Christine Searson, CPA

The Saint Paul Foundation & Minnesota Community Foundation cks@saintpaulfoundation.org

(651)325-4246

Treasurer Virgil Blondet

Hartford Foundation for Public Giving vblondet@hfpg.org

(860)548-1888

Vice-Chairs

Membership **Gregory Zerlaut**

Fremont Area Community Foundation gzerlaut@tfaf.org

(231) 924-5350

Communications Karen Leppanen

Community Foundation for Southeastern Michigan

kleppanen@cfsem.org (313) 961-6675

Accounting Practices 'Vilson, CPA

sburgh Foundation wilsonm@pghfdn.org (412) 391-5122

Professional Development Susan Springgate, CPA

Kalamazoo Community Foundation sspringgate@kalfound.org (269) 381-4416

Standards/Best Practices Judy Kerns

Foundation for the Carolinas jkerns@fftc.org (704)-973-4500

Operations Ellen Ammerman

Community Foundation Silicon Valley eammerman@cfsv.org (408) 278-2260

Human Resources Lynn Sargi

The Cleveland Foundation lsargi@clevefdn.org (216) 615-7182

Technology Carla Pickrell, CPA

Oklahoma City Community Foundation, Inc c.pickrell@occf.org 5-5603

September 7, 2004

Ms. Suzanne Q. Bielstein Director of Major Projects and

Technical Activities

401 Merritt 7

Norwalk, CT 06856-5116

File Reference: 1201-100 Date Received: 9-11)-04

P.O. Box 5116

RE: Exposure Draft: Proposed Statement of Financial Accounting Standards,

Letter of Comment No:

Fair

Value Measurements, (File Reference No. 1201-100)

Dear Ms. Bielstein:

The Accounting Practices Committee (APC) of the Fiscal and Administrative Officers Group for Community Foundations (FAOG) appreciates this opportunity to respond to the Proposed Statement of Financial Accounting Standards, Fair Value Measurements (the ED). The APC is comprised of 15 members, representing over 150 financial professionals serving the Community Foundation Sector. One of the roles of the APC is to review the various exposure drafts and accounting pronouncements issued by the Accounting Standards Board on behalf of the Community Foundation Sector. The APC identifies issues, ascertains the impact on Community Foundations and where appropriate, develops guidance for implementation.

Community Foundations make up one of the fastest growing sectors of philanthropy in the United States today. Community Foundations build and strengthen communities by making it possible for a wide range of donors to assist a community in meeting its most critical needs. There are more than 650 community foundations in the United States, holding assets of approximately \$29.7 billion. In 2002, community foundations gave approximately \$2.5 billion in grants to support a wide variety of non-profit activities.

The subject matter of the ED is of great importance to community foundations because of the make-up of their assets and liabilities. Three items account for virtually all the assets of most community foundations, namely:

- Investments in marketable securities
- Contributions receivable
- Cash

The major liability found in most community foundations is grants payable to beneficiary organizations. All of the assets and the liability for grants payable are required by FASB Statements 116 and 124 to be recognized initially at fair value. Moreover, investments in marketable securities are required to be measured at fair value at every reporting date.

Contributions receivable and grants payable are not, however, required by current GAAP to be so remeasured. As a result, substantially all of the net assets of community foundations are subject to measurement at fair value either upon initial recognition or on a continuing basis.

APC agrees with the Board's reasons for issuing the proposed statement and finds the majority of the guidance in the ED sufficient to make the final standard operational. Accordingly, we support the issuance of the ED, with the modifications as discussed later in this letter. The major weakness we find in the ED is its total lack of guidance and examples relevant to not-for-profit organizations (NFPs) such as community foundations. There are two areas where we believe the ED requires modification to add the guidance and examples that are needed to ensure that the final standard is understood and consistently applied by NFPs. These areas are:

- <u>Fair Value Disclosures</u> Paragraph 25 which spells out the disclosures required by the ED for business enterprises and paragraph B22 of Appendix B that illustrates such disclosures should be modified to include disclosures that can be applied by NFPs.
- Limited Scope of the ED Guidance in the standards section and an example to Appendix B should be added to clarify that the proposed standard does not change current practice with regard to those assets and liabilities where GAAP requires initial measurement at fair value, but does not require subsequent remeasurement at fair value.

The remainder of this letter addresses our concerns and proposed modifications in each area.

Fair Value Disclosures

Section a.(3) of paragraph 25 of the standards section of the ED calls for disclosure of "the effects of the remeasurements on earnings for the period (unrealized gains or losses) relating to those assets and liabilities still held at the reporting date." Paragraph B22 of Appendix B, <u>Implementation Guidance</u>, illustrates "how the disclosure for assets that are remeasured at fair value on a recurring (or ongoing) basis during the period might be presented". The illustration discloses, among other things, the amount of unrealized gains or losses included in earnings and the amount in OCI

(Other Comprehensive Income). Neither of these concepts, i.e., earnings or other comprehensive income apply to NFPs. Rather, under the requirements of FASB Statements 116 and 117, NFPs display all changes in net assets in one financial statement, the Statement of Activities. Such organizations are also required to display how these changes affect each class of net assets – unrestricted, temporarily restricted, and permanently restricted – as well as the change in total net assets. Paragraph 23 of FASB Statement 117 permits NFPs to incorporate additional classifications within the Statement of Activities. As a result, many NFPs have chosen to display the changes in net assets in two categories, "operating" and "nonoperating". Given these display requirements and options that existing GAAP provides for NFPs, the Board in the final standard needs to spell out how NFPs should meet the disclosure requirements set forth in paragraph 25 of the ED. We believe NFPs should make the following disclosures:

- The information required by sections a(1) and a(2) of paragraph
 25.
- The amount of unrealized gains and losses resulting from measurements of assets and liabilities on both a recurring basis and a non-recurring basis for each of the three net asset categories.
- The effect of such gains and losses on a measure of operations and nonoperating items should be required, if an operating measure is displayed in the Statement of Activities.

Clarification of the Limited Scope of the ED

We believe there is a need for the Board to specifically indicate in the final standard that the pronouncement does not change current GAAP in instances where fair value is required for initial measurement of an asset or liability, but not for subsequent remeasurement. Absent such clarification, the effect of the standard on the accounting for contributions receivable and payable may be misunderstood by many NFPs and their auditors resulting in inconsistent accounting for such assets and liabilities.

The Summary section that precedes the ED states:

"This proposed standard would clarify and incorporate the guidance in FASB Concepts Statement No. 7, <u>Using Cash Flow Information and Present Value in Accounting Measurements</u>, for using present value techniques to estimate fair value thereby elevating that guidance to Level A GAAP. Thus, that guidance would apply under all pronouncements in which present value is used to estimate fair value, including APB Opinion No. 21, Interest on Receivables and Payables."

Paragraph D2 of Appendix D, <u>Amendments to Existing Pronouncements</u>, leaves in place the requirement of paragraph 12 of APB Opinion 21 that after the initial present valuing of a note (without interest or a rate of interest that is clearly unreasonable); the interest rate used in the initial measurement should not be changed in future periods. Thus, while the ED changes the initial measurement of a receivable or payable required by APB 21, it appears to not require changes to any subsequent remeasurements. That result, while consistent with the limited scope of the proposed standard, may not be apparent to many preparers and auditors, given the language in the Summary quoted above.

Community foundations, as have all NFPs, adopted the guidance of APB Opinion 21 in meeting the requirements of paragraph 20 of FASB Statement No. 116, Accounting for Contributions Received and Contributions Made, to initially measure contributions received or made in the form of unconditional promises to give at fair value. In almost all cases, such a measure is made using a present value technique. The interest rate used in the initial measure is not changed in subsequent periods. [One exception to this general rule arises in the case of cash or other assets contributed by donors under split-interest agreements that are held by independent trustees. See paragraph 6.07 of the AICPA Audit and Accounting Guide, Not-For-Profit Organizations, (With Conforming Changes as of May 1, 2004.)]

Given the language in the summary and the proposed standard's elevation of the guidance in Concepts Statement 7 to level A GAAP, it is not clear that the application of the guidance in APB Opinion 21 is still appropriate in applying the requirements of paragraph 20 of Statement 116. We believe FASB's intent is not to change current practice in this area at this time. The Board should clarify that is the case by modifying the language in the Summary and adding an example in Appendix B illustrating that the final standard does no change current practice in accounting for contributions receivable and payable.

Thank you for the opportunity to comment on the ED. If you have any questions regarding our response, please contact me at (412)394-2630 or at wilsonm@pghfdn.org.

Sincerely,

Mary Wilson

May Welson

Chairperson, Accounting Practices Committee

Community Foundations' Fiscal and Administrative Officers Group