

April 18, 2008



LETTER OF COMMENT NO. 29

Russell Gorden  
FASB  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Proposed FSP 117-a

Dear Mr. Gorden:

We are enclosing our response to the recent draft of FSP 117-a. Larson Allen is a CPA firm that specializes in serving many industries. One of the industries that we specialize in is the non-profit industry. As a firm, our annual revenue from serving non-profit organizations is approximately \$30 million which we believe indicates a vast amount of experience in serving these organizations. We believe that our comments represent not only our view, but the views of many of our clients based on our years of experience serving non-profit clients. We are very interested in the final version of FSP 117-a, since we will need to apply it to real life situations in the field for the foreseeable future.

Here are our responses to the questions for which comment was requested:

1. *Is the guidance for net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to UPMIFA appropriate, and can it be applied consistently? If not, why not?*

Response – We agree that there is a need for guidance for organizations that are to be subject to UPMIFA regarding the proper classification of net assets as well as the classification of net asset activity. However, we do not believe the guidance offered by the FSP is appropriate in meeting this need.

It is clear under UPMIFA that an organization will be required to adopt policies to prudently investment and spend contributions received from donors that are to be maintained in perpetuity. In addition, these organizations will be required to account for the actual results of such policies. Although the goal of such policies would be to maintain the purchasing power of that contribution over a long period of time there is no obligation under the law that actual results would have to meet those goals. Under UPMIFA, the failure of achieve the intended results of such policies does not



become an obligation of the organization and a retrospective approach to determine the prudence of the adopted policies is prohibited under the law.

At its very core, the purpose of financial reporting is to present the results of the policies and actions of an organization and we believe the appropriate place to reflect these results would be within permanently restricted net assets. The guidance offered by the FSP is in effect smoothing the actual results of permanently restricted net assets over time to force the amounts reflected in the financial statements to match the overall goals of the organization while moving these actual results of these funds into unrestricted and temporarily restricted net assets.

A common example cited is if investment results fall below the expected amounts for any one year would the organization in fact have a restriction on its net assets in excess of those actual results less the impact of the organizations spending policy and the answer under UPMIFA is no, the actual restricted amounts as of year end under the law would be reflective of the actual results.

We recommend the guidance provided by the FSP suggest that the results of investing and spending gifts of a perpetual nature be reflected as changes in permanently restricted net assets. However, we also suggest that language be sufficiently flexible to allow for each entity to follow a method that will faithfully respond to the requirements and interpretations of their own state law.

It is our position that although EITF D-49 was written prior to UPMIFA it can provide valuable guidance and a framework for the interpretation of UPMIFA and the proper accounting for UPMIFA. In particular, EITF D-49 states the following: "If the governing board determines that the relevant law requires the organization to retain permanently some portion of gains on investment assets of endowment funds, that amount shall be reported as an increase in permanently restricted net assets". Although this language was designed to only allow for the increase in permanently restricted net assets it properly allows for a governing board to interpret the law and the impact that the law has on its obligations related to permanently restricted contributions.

There are a number of instances where accounting practice allows for the increase and decrease of permanently restricted net assets. Examples of this are the collectability of endowment fund pledges receivables and the accounting for perpetual trusts held by third parties. In both cases, the changes are based on changes in estimates. We believe that under UPMIFA the value of permanently restricted net assets may change for the same reasons as the assets available to generate future unrestricted or temporarily restricted returns changes. It makes little sense to account for trusts help by third parties with similar underlying facts in a remarkably different manor that permanently restricted amounts held by the organization. As such, we believe that EITF D-49 should be amended to allow for a governing board to increase as well as decrease the amounts recorded as permanently restricted net assets based on their interpretation of the relevant law, in this case UPMIFA.

- 2. Are the proposed disclosures about an organization's endowment funds needed, and do they provide sufficient transparency in the new UPMIFA environment? If not, please explain which disclosures are not needed or what additional disclosures are needed.*

We believe that certain of the required disclosures go far beyond what is necessary to provide guidance related implementation of UPMIFA. In addition, we believe the guidance will not provide incrementally meaningful information and in will in many cases create confusion to readers of the financial statements.

We concur with paragraph's 12(a), 12(b) and 12(c). From our perspective, the critical policies of organization and their governing board's general understanding of UPMIFA would be helpful to readers of the financial statements. However, we object to the disclosures required by paragraphs 12(d), 12(e) and 13. The disclosures in paragraphs 12(d) and 12(e) have no cost/benefit value, whereas the disclosure of planned appropriations in paragraph 13 is inappropriate within historical financial statements.

The disclosures in 12(d) and 12(e) reintroduce the concept of fund accounting to the non-profit accounting model which was rejected by Statement 117. In addition, these disclosures give status to the concept of board designations, a concept that although permitted by Statement 117 was considered not essential.

We doubt that even informed readers will be able to understand what this proposed table is presenting while adding time and effort to the preparation of the financial statements. The table may or may not mirror how an organizations' policies to comply with UPMIFA but will force a uniform method of disclosure. As such, the disclosures may in fact work for some organizations while others will find the useless and confusing. One reason for this is the table is not designed to articulate to the financial statements themselves. Providing additional financial details or account analyses does not provide additional transparency and the illustrations on page 21 of the proposal are more likely to promote misunderstanding and confusion.

We reject the disclosure in paragraph 13 of the proposal, which says the organization shall disclose its planned appropriation for expenditure, if known, for the following year. We believes this type of forward-looking information is more appropriate for management's discussion and analysis disclosure and should not appear in the notes to the financial statements. This disclosure also raises concerns for auditors who will not have sufficient information to perform auditing procedures on management's assertions and therefore will by necessity label the note "unaudited."

- 3. Do you agree with the Board's decision to require that organizations provide the additional disclosures even if they are not yet subject to a version of UPMIFA? If not, why not?*

Based on our response to question #2 above, what we have left for disclosure requirements that we agree with are paragraphs 12(a), 12(b) and 12(c). These disclosures appear reasonable and we concur with their uniform applicability.

4. *Do you agree with the Board's decision to make the provisions of the FSP effective for fiscal years ending after June 15, 2008, with early application permitted as long as the organization has not previously issued annual financial statements for that fiscal year? If not, why not?*

The proposed FSP will be finalized too close to the effective date to allow for a reasonably effective adoption. Clearly there are some organizations with the resources and data readily available data to comply on short notice however, many organizations, both large and small will find implementation of the FSP a major undertaking that will require extensive research. In addition, because this is a new law, organizations with significant endowment funds may require legal counsel to fully understand the laws impact, which also will require additional time. To expect compliance within six weeks of finalizing the FSP is a disservice to the organizations that rely on FASB for guidance.

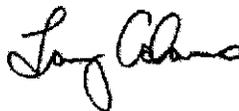
We concur that early adoption should be permitted and encouraged but recommend full compliance be changed to fiscal years ending after June 15, 2009.

We would be happy to answer any questions you may have relative to our comments. We appreciate the opportunity to make the comments and hope you find them useful.

Sincerely,  
LarsonAllen, LLP



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