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LETTER OF COMMENT NO. 39

April 24, 2008

Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Proposed FASB Staff Position No. FAS 117-a, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures”

Dear Mr. Golden:

We appreciate the opportunity to comment on the proposed FASB Staff Position No. FAS 117-a, “Endowments of Not-for-Profit-Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures.” We appreciate the Board’s timely efforts to respond to requests for guidance on net asset classification of donor-restricted endowment funds for a not-for-profit organization (NPO) that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

We support the proposed FSP’s guidance on net asset classification, which is based on what the Board describes as View 4, as a reasonable approach to addressing this current issue. However, as more states adopt UPMIFA and currently unresolved questions about the application of UPMIFA are addressed through legal interpretations, we believe it would be appropriate for the Board to reconsider the current donor-restricted net asset classification framework as described in View 3 in the proposed FSP. In that reconsideration of the net asset classification framework, the Board should address whether it is appropriate to continue to incorporate historic dollar value (HDV) as a basic concept underlying the accounting framework for donor-restricted endowments given



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that the concept of HDV has been eliminated from the law governing donor-restricted endowments under UPMIFA.

We question whether it is appropriate for the Board to incorporate such extensive new disclosure requirements in the FSP. Some of the new disclosure requirements, such as those described in paragraphs 12b, 12c, and 13 of the proposed FSP, are not necessarily related to the enactment of UPMIFA and it may be more appropriate for the Board to address those disclosure requirements in a broader reconsideration of financial statement disclosures by not-for-profit organizations.

If the Board concludes to adopt the disclosures in the proposed FSP, we believe it is necessary to clarify certain proposed requirements, particularly the Illustrative Example of Endowment Disclosures in Appendix C. We have included our specific comments below.

Proposed FSP Request for Comments and Our Response

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?

KPMG Response:

As we stated above, we agree that the position taken in the proposed FSP is an appropriate approach to address this current issue. While we believe that the basic principles of the proposed guidance can be applied consistently, the detailed application will be dependent on legal interpretations about the maintenance of purchasing power and other matters.

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.

KPMG Response:

We question the Board's conclusions regarding the breadth of additional disclosures about an organization's endowment that are needed by users of an organization's financial statements and we do not see the link between some of the additional disclosures and the new UPMIFA environment. For example, it may be more appropriate for the Board to address the proposed disclosures described in paragraphs 12b, 12c, and 13 of the proposed FSP in a broader reconsideration of financial statement disclosures by not-for-profit organizations.

In paragraph A9a, the Board acknowledges the "diversity of endowment size and organizational sophistication regarding endowments," and indicates that the "Board



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decided to keep the disclosure requirement about spending policy as general as possible to allow for flexibility of presentation.” We do not believe that the extent of the disclosures sufficiently acknowledges the diversity of NPOs. While the new disclosures may be appropriate for large well endowed universities, such disclosures may not be meaningful for many other NPOs where the endowment represents a relatively minor part of net assets and operations.

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?

KPMG Response:

Although we question the need for some of the proposed disclosures, as stated in our response to question 2, we believe that any new required disclosures should apply regardless of whether the organization is subject to an enacted version of UPMIFA. This would promote consistency and comparability among organizations.

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?

KPMG Response:

We agree with the proposed effective date as many states have already enacted UPMIFA and organizations in those states and their auditors need issued and effective guidance for the proper and consistent application of generally accepted accounting principles.

Other Comments

Following are specific comments on the provisions of the proposed FSP.

Footnote 1

The footnote indicates that board-designated endowments arise from earmarks of unrestricted net assets. However, the illustrative example includes board-designated endowment balances in temporarily restricted net assets. Either the definition included in footnote 1 should be amended or the illustration should be modified to be consistent.



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Paragraph 3

The proposed FSP correctly acknowledges that UPMIFA changes the focus to the entirety of a donor-restricted endowment fund from UMIFA's historic dollar value focus. Although, the body of the proposed FSP does not specifically discuss the presumption of the preservation of purchasing power, the illustrative example embeds this presumption through a Consumer Price Index (CPI) adjustment. If the illustrative example is to include the concept of preserving purchasing power, we believe the body of the proposed FSP should indicate that consideration of a CPI adjustment is not specifically required but rather one of the factors an organization may consider in establishing prudent spending levels. We also believe the FSP should refer to the specific provisions of UPMIFA that address the preservation of purchasing power concepts—such as section 4(a) of UPMIFA which includes the possible effect of inflation or deflation among the various factors to be considered in prudent management. To our knowledge, the concept of preserving purchasing power was stricken from the final Act, in favor of including the concept in UPMIFA's Commentary. The Commentary states that UPMIFA “does not require that a specific amount be set aside as principal”. Given that purchasing power was deliberately stricken from the Act, the FSP should not imply that it is required.

Paragraph 12

The first sentence of paragraph 12 states that disclosures are required for “each period for which the organization presents financial statements”. Many NPOs have elected to present only summarized financial information on the statement of activities for the prior year which does not contain the minimum information required by SFAS No. 117. Currently, there is diversity in practice as to whether an organization presents comparative disclosures when presenting summarized comparative information for the prior year in the statement of activities. The Board should clarify whether the disclosures discussed in paragraph 12 are required to be included for the prior year only if a full set of the prior year financial statements is presented in conformity with generally accepted accounting principles or also in those instances where only summarized financial information is presented for the prior year. If such information is required in those instances where only summarized financial information of the prior year financial statements is presented, the Board should also clarify whether the reconciliation illustrated in Appendix C should be presented by total net assets rather than by net asset class for the summarized period.

The FSP should also address the impact of operations in multiple jurisdictions on the disclosures. A consolidated entity might include entities in various states requiring each governing board to make its own interpretation of law for that state. The FASB should clarify the level of detail which would be required in the disclosures in those cases. For example, if the governing board's interpretation of the law varies by state, the different interpretations for different states should be included in the disclosure. The FSP should also address whether the disclosures are required for an entity where the endowment net



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assets represent the entity's interest in a financially interrelated organization under SFAS No.136, "Transfers Of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others".

Paragraph 12a

We believe that this disclosure would be enhanced by the inclusion of the state(s) whose UPMIFA the organization is interpreting.

Paragraph 12c

We believe the proposed disclosures are not necessarily related to the enactment of UPMIFA and should be addressed as part of a broader reconsideration of disclosures about not-for-profit organizations' overall investment policies, including interaction with SOP 94-6 and SFAS No. 124, rather than limited to endowment funds.

Paragraph 12d

As SFAS No. 117 focuses the financial statements on the net assets of the organization as a whole, we question whether the "Endowment Net Asset Composition by Type of Fund" table, which focuses on a subset of the net assets of the organization, is necessary or appropriate.

In addition, the lack of articulation of the balances in this table to the balances in the basic financial statements may confuse users. Paragraph 14 of SFAS No. 117 already requires information about the nature and type of temporarily and permanently restricted net assets to be disclosed on either the face or in the notes to the financial statements. The FSP should acknowledge that the proposed disclosures are incremental to that disclosure requirement and the FSP should encourage organizations to combine those disclosures with the disclosures described in the FSP. The combination of these disclosures may facilitate the financial statement user's understanding of the lack of articulation of the balances in this table (e.g. the totals for temporarily restricted net assets and permanently restricted net assets in the table - which only includes endowment net assets - versus the totals for these net asset classes on the basic financial statements). The FSP should also clarify what is expected to be included as "endowment". For example, should perpetual trusts and other split-interest agreements with permanently restricted or board-designated components be included in these disclosures? To omit such funds seems to imply that the *existence of those types of funds is not as meaningful to users of the financial statements.*

We also question the relevance and importance of the disclosure of the "cumulative amount of investment return, if any, contained in the permanently restricted net asset class because of the organization's interpretation of relevant law, beyond that required by explicit donor stipulations." The cumulative investment return does not appear to be a



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meaningful disclosure and may be confusing to users. Whether the investment return is included in permanently restricted net assets due to interpretation of relevant law or explicit donor stipulations may be irrelevant to the financial statement user. This comment also applies to the similar disclosure in 12e, as it relates to additions of investment return to permanently restricted net assets.

Paragraph 12e

To better correlate with the illustrative example, the disclosure should be clarified to indicate that those amounts included in permanently restricted net assets related to the organization's interpretation of the relevant law may include amounts impacted by purchasing power which may decrease as well as increase in any given year.

Further clarification is needed to provide guidance on the relationship between the "amounts appropriated for expenditure," which is often viewed as a budgetary tool, and the reporting of earned investment revenue, by net asset class. For example, if an organization's policy dictates a 5% spending rate, an amount of "cash" is appropriated for the organization's activities. There is no requirement in SFAS No. 117 to display this amount, it is not a statement of cash flows transaction, and in fact, unless an organization elects to define its spending rate as an operating activity in the statement of activities, such amount may never be presented in the financial statements. Therefore, further guidance is necessary to clarify how preparers should display amounts appropriated.

Paragraph 13

We question whether it is appropriate to require an organization to disclose its planned appropriation for expenditure. That issue is not necessarily related to UPMIFA and should be part of a broader reconsideration of disclosures by not-for-profit organizations.

Paragraph 15

This paragraph includes an amendment to SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." As such, we believe that the FSP should also include SFAS No. 124 in its title.

Illustrative Examples

We believe the usefulness of the illustrative examples would be greatly enhanced if an example set of basic financial statements (or at least a statement of financial position and statement of activities) were included to illustrate how the endowment tables articulate to net asset activity in the basic statements.



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In the "Changes in Endowment Net Assets" rollforward table, the lines "Net assets, beginning of year" and "Net assets, end of year" should be retitled "Endowment net assets, beginning of year" and "Endowment net assets, end of year," respectively. Having the same captions as on the basic financial statements with different balances may confuse the financial statement users.

We believe further guidance is necessary to explain what is meant by "appropriation of endowment assets for expenditure" and "transfers to create board-designated funds." These terms are not otherwise used in SFAS No. 117 or 124.

If you have any questions about our response, please contact Amanda Nelson at (202) 533 5560 or Mark Bielstein at (212) 909 5419.

Very truly yours,

KPMG LLP