

May 2, 2008

Mr. Russell G. Golden
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Financial Accounting Standards Board
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LETTER OF COMMENT NO. 42

Proposed FASB Staff Position 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 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* ("Proposed FSP"). Because the law is newly enacted, we welcome the FASB's effort to provide guidance on the net asset classification of donor-restricted endowment funds by not-for-profit organizations subject to UPMIFA. We believe that this proposal is a strong step in connecting how endowment funds are actually managed with how the amounts are displayed in the financial statements. However, we believe that some of the proposed disclosure requirements are excessive and unnecessary. Our responses to the specific questions raised in the Proposed FSP are reflected below:

Item 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 support the FASB's conclusion that an organization could classify some portion of an endowment fund as permanent in an UPMIFA jurisdiction. However, given the recent enactment of the law, we believe that the FASB's guidance, although helpful, is not definitive. Therefore, we encourage the Board to add language in the final FSP emphasizing that organizations should also consider the discussion

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surrounding the law's adoption in their state as well as other legal determinations to help them better understand what the law requires. Further, we encourage the Board to clarify the language pertaining to appropriate reductions of permanently restricted net assets as briefly discussed in the last sentence of paragraph 7 of the Proposed FSP.

Item 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.

Response: With regard to the proposed disclosures about an organizations endowment funds, we support the general thrust of the disclosures, but believe that certain of the disclosures are not necessary. We support paragraphs 12(a) – 12(c), but do not support paragraphs 12(d) and 12 (e) in their entirety.

Specifically, as it relates to paragraph 12 (d), we do not believe that organizations should be required to disclose (1) cumulative amounts added to permanently restricted net assets (PRNA) based on the organization's interpretation of the law separately from (2) cumulative amounts added to PRNA based on explicit donor stipulations. Requiring those amounts to be separately disclosed might lead to the erroneous assumption that the amounts added based on the organization's interpretation of the law are less permanent than amounts added based on explicit donor stipulations.

Additionally, we believe that the disclosures required in paragraph 12(e) is reasonable if disclosed in the aggregate and not by type of fund balance. In addition, we believe that this suggested level of disclosure would provide sufficient transparency in the current UPMIFA environment and is reflective of how UPMIFA requires organizations to manage their endowment funds. We believe that requiring detailed information by fund balance category will be difficult to implement by many not-for-profit organizations and does not provide useful information for the users of those financial statements.

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Item 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?

Response: We believe that all organizations, whether or not subject to a version of UPMIFA, should be required to make the additional disclosures.

Item 4: Do you agree with the Board's decision to make the provisions of the FSP effective for fiscal years ending after June 30, 2008, with early application permitted as long as the organization has not previously issued annual financial statements for that fiscal year? If not, why?

Response: We suggest that the FASB consider two different effective dates based on the size of the not-for-profit organization's endowments. We believe that organizations with larger endowments, which primarily are colleges and universities and large health care organizations, will be prepared to implement the provisions of the Proposed FSP for fiscal years ending after June 30, 2008. These organizations already are familiar with UPMIFA requirements, have discussed UPMIFA with legal counsel and have provided disclosures similar to those required by the Proposed FSP.

However, we would suggest that the Board delay the effective date for organizations with smaller endowments. These organizations will need more time to develop the systems needed to provide the necessary information. In addition, the governing boards of these smaller organizations boards also may need additional time to consider what is required under the law, discuss the law's requirements with legal counsel, and to decide what portion of the endowment must be maintained permanently.

Although some have suggested that the FASB consider a later effective date for the disclosure provisions of the FSP while retaining the proposed effective date for the classification guidance, we believe that the effective date should be the same for both disclosure and classification.

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In addition to the aforementioned responses to the items requested for comment, we have the following observations pertaining to the Proposed FSP. Specifically, our first observation relates to the examples provided in the proposal. We believe that once organizations and their legal counsel have a chance to determine what UPMIFA requires, most will conclude that UPMIFA does not include a requirement to maintain purchasing power. By illustrating an interpretation of law that likely will be infrequent, the FASB risks creating an example that is less useful than it might otherwise be. Thus, we believe the FSP should provide two separate examples with different interpretations of UPMIFA—one in which the governing board determines that the law does not include a requirement to maintain purchasing power and the other with such a requirement.

Secondly, we believe the FASB should provide clarity around the transition provisions in the final FSP to assist organizations in implementing the financial statement presentation and related footnote disclosure requirements.

Lastly, from an auditing perspective, we are concerned that some may infer the intent of the Proposed FSP is to suggest that governing Boards of similar institutions could have different interpretations of UPMIFA in the same state. We believe that it would be beneficial if the FASB clarify its views on this matter in the final FSP.

We are available to discuss any aspect of our letter with the FASB Board.

Very truly yours,

