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LETTER OF COMMENT NO. 15

April 18, 2008

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

**File Reference: Proposed FSP FAS 117-a**

Dear Mr. Golden:

BDO Seidman, LLP appreciates the opportunity to provide its views on the proposed FSP 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 commend the Board for providing timely guidance on the financial reporting impact of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). We generally agree with the accounting guidance in the proposed FSP. We believe some of the proposed disclosures are excessive and unnecessary. In addition, we believe the Board should allow more time for implementation.

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?*

We agree with the Board that all or a portion of donor-restricted endowment funds continue to meet the definition of permanently restricted net assets in FASB Statement No. 117. In addition, we agree with the Board that a legal requirement to prudently spend amounts that are not restricted by the donor differs from a donor restriction, and that such amounts should not be classified as permanently restricted. We agree that the guidance in EITF Topic D-49 is relevant. We believe that the FSP would communicate better if the guidance from Topic D-49 were incorporated directly into the final FSP, rather than being referred to.



Because UPMIFA is a relatively new statute in those states that adopt it, there is little historical guidance or court precedent about how to interpret its provisions. We believe it would be desirable for the final FSP to note that governing boards' interpretations of UPMIFA may change over time as organizations and attorneys gain more experience and as court decisions are rendered.

*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 agree with the disclosures proposed in paragraphs 12a and 12b.

We believe that the disclosures proposed in paragraph 12c are unnecessary, for several reasons. First, no similar disclosure requirements exist for investments other than endowments. It is not clear to us why the investment policies for endowment investments are singled out for disclosure or why the policies for endowment investments would be of greater interest to users of financial statements. Second, the sample disclosure in paragraph C4 strikes us as boilerplate that is not particularly useful. Third, we believe that most of the proposed disclosures would be difficult to audit, because the only evidence available would be representations from management or the governing board.

We believe that the Board may be proposing disclosure of the organization's return objective thinking that it is analogous to the expected long-term rate of return on plan assets in a defined benefit retirement plan. The two returns are not analogous. The expected long-term rate of return on plan assets is an accounting assumption that directly affects the amount of net periodic cost recorded in the financial statements. By contrast, a not-for-profit organization's return objective has no accounting significance.

We agree with the disclosure proposed in the first sentence of paragraph 12d, but disagree with the proposal in the second sentence. We believe that it is unnecessary to distinguish the cumulative amounts of investment return classified as permanently restricted between explicit donor restrictions and interpretations of relevant law. The important fact is the total amount of cumulative investment return classified as permanently restricted,



regardless of the reason. Similarly, we disagree with the final sentence of paragraph 12e, which proposes a similar requirement to distinguish the cause of classifying investment return as permanently restricted.

We agree with the proposed disclosures in paragraph 12e, other than the final sentence.

We believe that the disclosure proposed in paragraph 13 is confusing. Many not-for-profit organizations have different approaches for determining appropriations from individual endowment funds. For example, an organization may appropriate a percentage of assets from some endowment funds, whereas the appropriations from other endowment funds may be based on actual expenditures during a period on particular programs. As a result, the appropriations from some funds would be “known” a year in advance, whereas the appropriations from other funds would not be “known” until the end of a fiscal year. Disclosing only the amounts that are “known” would be potentially misleading to users of financial statements, because it would represent only a portion of the endowment funds. We believe that the proposed disclosure in paragraph 12b is sufficient to inform users about the level of appropriations from endowment funds, and that the proposed disclosure in paragraph 13 is unnecessary. However, if the Board decides to retain the disclosure in paragraph 13, we believe that it needs to be clarified.

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?*

Yes, we agree that the disclosures about endowment assets are useful whether the organization is subject to UPMIFA, UMIFA, or some other legislation.

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?*



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No. We believe that most not-for-profit organizations need more time to comply with the FSP, even if the Board scales back the proposed disclosures as we recommend in this letter. We recommend that the FSP should be effective for fiscal years ending after December 15, 2008 to provide additional time. If the Board does not scale back the proposed disclosures, we recommend that the FSP should be effective for fiscal years ending after June 15, 2009.

To be more specific, we believe that not-for-profit organizations need time to accomplish the following tasks to be ready to comply with the FSP. Some organizations are further along than others, but we believe that most need additional time.

- (a) Develop systems and internal controls to gather the necessary information,
- (b) Document investment and spending rate policies, and
- (c) Engage legal counsel to help the governing board interpret UPMIFA.

We appreciate the opportunity to offer comments on the proposed FSP and would be pleased to elaborate on our comments to Board members or to the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Respectfully submitted,

BDO Seidman, LLP