



Business Office

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Mr. Russell G. Golden
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RE: File Reference: Proposed FSP FAS 117-a.

Mr. Golden:

The guidance provided in the PSP is a positive step in building greater transparency and accountability regarding endowment funds. Texas recently adopted UPMIFA and it reflects the model act with only a slight modification to the rebuttable presumption of imprudent spending limitation. Consequently, we have had an opportunity to review the law and appreciate the timeliness of the FSP.

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

We support the continuation of FAS/124 1 12 regarding the treatment of "underwater" endowments. Even though UPMIFA may allow for spending below historic dollar value in the short-run, maintaining permanently restricted net assets as a balance that must not be used up in the long-run is consistent FASB's definition of a "permanent restriction."

Paragraph 9 was helpful in clarifying that a law requiring prudence does not necessarily extend a donor's permanent restriction. Specifically, "Laws that refer to actions that are entirely within the purview of the organization's governing board, such as acting to appropriate funds or exercising prudence in doing so, do not, in and of themselves, or cate or extend donor-imposed restrictions." When we considered the model Act it instructs us to 1) manage investments prudently and 2) adopt prudent spending or appropriation policies. The law provided a number of factors that should be considered and reflects modern portfolio management theory. Other factors to consider when establishing a spending rate were also provided. These factors simply give clarity to what constitutes prudence. The law mandales us to act prudently, a responsibility that is under the purview of the governing board. Protection of purchasing power is the natural consequence of these actions. One concludes from a plain reading of the model Act that it does not place a permanent limitation of use on amounts above the historic dollar value,

i.e., we find no wording requiring that a portion of the endowment fund's earnings must be set aside permanently or invested permanently. We do recognize that we must continue monitoring the Attorney General's office for any guidance from that could modify this conclusion.

If organization's read paragraphs 9, A5 and EITF Topic No. D-49 carefully we do not believe there will be significant divergence in accounting treatment. Consequently, we believe the FSP guidance for net asset classification is appropriate and can be applied consistently.

Question 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.

Discussions with other institutions indicate that some might be reading more into paragraph 12a that what is there. The governing board has the requirement to interpret the law, i.e., what does the law say the organization can do or not do with the donor's gift and future earnings. However, some have expressed concern that the FSP is also asking the governing board to make the accounting classification decision. Paragraph 12a asks for "A description of the governing interpretation of the law that underlies [emphasis added] the organization's net asset classification of donor-restricted endowment funds." This precise wording is helpful in that it allows for two levels of decisions. One group, i.e., the governing board, provides the interpretation and a different group within the organization can make the accounting decision. The paragraph does not state that the governing board is the body within an organization that must make the accounting classification decision. Typically, the organization's accounting professionals would evaluate the governing board's interpretation, if given, and then make the accounting classification decision. It may be helpful clarify that these two groups, i.e., governing board and an organization's staff, may have distinct roles. In other words, the governing board does not need to make the accounting decision since that role is typically delegated.

Paragraph 12d regarding the breakout of an endowment fund by net asset class will be very useful. Neither the model Act or the FSP seem to change what is included in permanently restricted net assets, i.e., "historic dollar value," and an endowment's accumulated earnings will be classified as unrestricted or temporarily restricted net assets, absent donor stipulations. The disclosure breakout allows users to see that some degree of spending limitation exists on unrestricted and temporarily restricted net assets. Even though some would argue that some portion of the unrestricted endowment net assets would never be spent, it is true that there exist economic scenarios that would allow for their expenditure. Granted, these scenarios are remote but they could occur. Calculating probability estimates for these future economic scenarios for measurement purposes is not practical and accuracy could not be achieved. Consequently, just knowing how you classify the endowment fund should be sufficient. One must not forget that it is

a prudent spending policy that protects and preserves purchasing power and not how you classify the asset.

Question 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?

Endowments are often the largest asset group for any private university. Many organizations are already providing these additional disclosures. The benefit of comparability between institutions seems to be a worthwhile request and we support this recommendation.

Question 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?

Discussions with other institutions seem to indicate that more time would be needed to engage and inform their audit committees and/or trustees on UPMIFA. Many committees do not meet between May and September. Some have expressed that they may not be prepared to capture some of the information asked by the disclosures. In light of these issues we would recommend a reasonable delay.

## Comment on Appendix C Illustrative Example of Endowment Disclosures

In C4 Footnote X: Endowment, there is additional information under the table: Endowment Net Asset Composition by Type of Fund. The note \* Permanently restricted net assets include \$13,000 of cumulative investment return... We believe this note is unnecessary. It does not seem to add useful information. Nor do we expect to see significant divergence in accounting treatment under UPMIFA.

Discussion of C6 regarding the alternative interpretation of the law was found to be problematic. Particularly the phrase, "If the organization had interpreted the law as not requiring the organization to maintain the purchasing power [emphasis added] of its donor-restricted funds... Our institution and others have concluded that the law is not requiring them to add an amount equal to CPI to permanently restricted net assets but at the same time believe the Act is requiring the institution to "manage" the endowment with the unstated objective of preserving the purchasing power of the fund. The wording of C6 gives the impression that this alternative interpretation is allowed only if you concede that the preservation of purchasing power in not an important element of UPMIFA.

A suggested alternative would be as follows:

C6. If the organization's interpretation of the law considers the requirement to protect purchasing power of its donor-restricted endowment funds as being entirely within the

purview of the organization's governing board, the example could be modified in the following ways:

a. Interpretation of Relevant Law

The description of the fourth component of the endowment fund to be classified as permanently restricted would be removed from the footnote as well as the discussion of inflationary measures used to approximate the "real" value of the endowment assets. The paragraph might then read as follows:

The Board of Trustees of Organization A has interpreted the State Prudent Management of Institutional Funds Act as requiring the board to adopt investment and spending policies. Organization A believes that when applied these policies preserve the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor restrictions to the contrary. As a result of this interpretation, Organization A classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Investment returns are available for retention or appropriation based on prudent standards and policies established by the governing board; and therefore, are classified as temporarily restricted net assets if the use is restricted by the donor or as unrestricted net assets if it is not.

Tabular Disclosures of Endowment Net Asset Composition by Type of
Fund and Changes in Endowment Net Assets
The footnotes to the tabular disclosures discussing investment return
classified as permanently restricted net assets by the Organization could be
revised. The revised footnote could state:

Investment return classified as permanently restricted net assets represents only those amounts required to be retained permanently as a result of explicit donor stipulations. In accordance with its interpretation of the State Prudent Management of Institutional Funds Act, the Organization is not required to maintain purchasing power of the donor restricted endowment funds required to adopt prudent investment and spending policies.

We want to thank you for your effort and appreciate the opportunity to comment.

Sincerely

Dale Larson

Director of Finance University of Dallas