new york state society of
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certified public accountants

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April 7, 2008

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

By e-mail: director@fasb.org

Re: 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 (issued 02/22/08)

Dear Mr. Golden:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned release. NYSSCPA thanks the FASB for the opportunity to comment.

The NYSSCPA's Not-for-Profit Organizations and Financial Accounting Standards Committees deliberated the proposed staff position and drafted the attached comments. If you would like additional discussion with us, please contact Allan M. Blum, chair of the Not-for-Profit Organizations Committee, at 212-867-4000, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

David A. Lifson
President

Attachment

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COMMENTS ON 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
(ISSUED 02/22/08)

April 7, 2008

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Allan M. Blum
Allen L. Fetterman
Derek Flanagan
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From the Financial Accounting Standards Committee:

Edward P. Ichart
Robert M. Rollman

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NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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* *(Issued 02/22/08)*

General Comments

The New York State Society of Certified Public Accountants welcomes the opportunity to comment on, and supports the FASB's proposed Staff Position that would enhance financial reporting of endowments.

Specific Comments

You have requested that constituents provide comments on four questions pertaining to the Staff Position (FSP). Each question is reprinted below in italics, followed by 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?

Response –

The guidance for net asset classification of donor-restricted endowment funds is appropriate. The main principles with regard to this question are set forth in paragraphs 6 and 8 of the FSP.

Paragraph 6 applies to not-for-profit organizations that are subject to UPMIFA. It does not contain any requirement not required under existing GAAP. However, it does clarify that the enactment of UPMIFA does not change the required accounting.

Paragraph 7 states "…interpretation of the relevant law should be applied to all donor-restricted endowment funds and should be consistent from year to year." Basis for Conclusions paragraph A6 states "…a governing board's interpretation of the relevant law will be a one-time interpretation, applied to all donor-restricted endowment funds consistently from year to year. It should not be treated as an accounting policy decision that may be changed from time to time." Although we understand that FASB does not want this interpretation to be changed periodically to meet the whims of the organization's governing board, there may be times, albeit infrequently, when law may be subject to re-interpretation. This possibility should be addressed in the FSP, with examples of when law may be subject to re-interpretation and how this should be disclosed by the organization.

Paragraph 8 applies to not-for-profit organizations that are subject to UPMIFA. It, like paragraph 6, does not contain any requirement not required under existing GAAP. However, it does state that the guidance in EITF Topic No. D-49 shall be applied in determining net asset classification. We think it is very helpful that readers of the FSP understand that the enactment of UPMIFA does not change the applicability of EITF Topic No. D-49.

We are in complete agreement with FASB in its conclusion that View 4 is the appropriate approach to take in considering the effect of the elimination, by UPMIFA, of the historic-dollar-value threshold on the net asset classification of a donor-restricted endowment fund.

We believe that the guidance for net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to UPMIFA can be applied consistently. The provisions of paragraphs 6-10 do not establish new GAAP, but clarify the applicability of existing GAAP after the enactment of 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.

Response -

We agree that the proposed disclosures are needed and that they provide sufficient transparency in the new UPMIFA environment. We believe that these disclosures are beneficial and improve accounting and disclosure, and should be required even in the absence of UPMIFA.

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 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. The additional transparency resulting from the suggested disclosures enhances the ability of users of the financial statements to understand the organization’s endowment funds and endowment transactions.

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?

Response -

An effective date for fiscal years ending after December 15, 2008 would be more appropriate for the following reasons:

1. While we agree that much of the information required for the disclosure is already available since it is a prerequisite for the preparation of financial statements, we do not believe that to be correct in all cases. In particular, foundations and organizations that hold significant donor advised funds often classify significant portions of their net assets as unrestricted, but have never previously had to determine how to identify what portion of such net assets meet the definition of an endowment. Current disclosure requirements allow for all unrestricted net assets to be classified together whether or not they include established funds of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization.
2. It will be necessary to educate governing boards and practitioners as to the new disclosure requirements. The proposed FSP requires the inclusion of a description of the governing board's interpretation of the underlying law. A governing board will need additional time to consider how this will be presented in their organization's financial statements. An organization's governing board should not be expected to determine and describe their interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds until the final FSP is issued. They should be given a reasonable timeframe to accomplish this and it should be completed before the end of the organization's fiscal year. The final FSP is unlikely to be issued before June, 2008. This will not leave adequate time before June 30, 2008 financial statements need to be prepared. This is complicated by the fact that many governing boards meet less often than monthly and many take breaks from meeting over the summer months.
3. Many organizations consolidate their financial statements with those of other organizations having separate boards. This includes supporting organizations, which often hold endowments for the benefit of the parent organization. Subsidiary organizations may have different policies for the appropriation and investment of endowment funds. It may not be feasible to assemble this information in time to include in the June 30 financial statements.