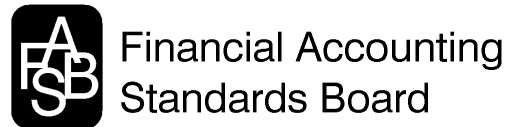


MINUTES



**To:** Board Members  
**From:** Choi (ext 446)  
**Subject:** NFP Endowments and UPMIFA- Disclosures, Transition, Effective Date, and Comment Period for Proposed FSP **Date:** February 22, 2008  
**cc:** FASB: Bielstein, Golden, MacDonald, Leisenring, Bossio, Posta, Cosper. Lott, Chookaszian, Gabriele, Allen, FASB Intranet, GASB

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FSP.*

Topic: Not-for-Profit Endowments and UPMIFA—  
Disclosures, Transition, Effective Date, and  
Comment Period for Proposed FSP  
Basis for Discussion: Memorandum 2 dated 12/27/2007  
Length of Discussion: 10:35a.m. - 11:10a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman, Smith, and Young
Board members absent:	None
Staff in charge of topic:	Mechanick
Other staff at Board table:	Bossio, Golden, Choi
Outside participants:	None

Summary of Decisions Reached:

The Board made the following decisions on a proposed FSP on not-for-profit endowments and the Model Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA):

1. The Board decided to require five new additional disclosures in the proposed FSP:

*Disclosure A: Net Asset Composition by Type of Endowment Fund*

Each period for which a statement of financial position (balance sheet) is presented, an organization should present the composition of its endowment by net asset class, in total and by type of endowment fund, showing donor-restricted endowment funds separately from funds designated by the organization to function as endowment (that is, be invested long term). The organization should also indicate 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 the amount required by any explicit donor stipulations.

*Disclosure B: Endowment Roll Forward*

Each period for which a statement of activities is presented, an organization should present a reconciliation of the beginning and ending balance of its endowment, in total and by net asset class, including, at a minimum, the following line items (as applicable): investment return, separated into investment income (interest, dividends, rents) and net appreciation or depreciation of investments; contributions; distribution of endowment return to other funds (spending); reclassifications; and other changes (specified as necessary). The organization should also indicate how much, if any, of the additions of investment return to permanently restricted net assets are the result of the organization's interpretation of relevant law, as opposed to explicit donor stipulations.

*Disclosure C: Endowment Spending Policy(ies)*

The organization should describe its policy(ies) on the appropriation of endowment assets for spending (its endowment spending policy).

*Disclosure D: Planned Endowment Distributions*

The organization should indicate its planned distribution of endowment return to other funds (spending) for the next year, if known.

*Disclosure E: Endowment Investment Policies and Strategies*

The organization should describe its endowment investment policy(ies). Such a description should include, at a minimum:

- a. The organization's return objectives and risk parameters
- b. How those objectives relate to the organization's endowment spending policy(ies)
- c. The strategies employed for achieving those objectives.

2. The proposed FSP would be effective for fiscal years ending after June 15, 2008, with early adoption permitted as long as an organization has not already issued its financial statements.
3. For the FSP's UPMIFA-specific accounting provisions, the cumulative effect of any reclassifications between net asset classes would be made in the period in which UPMIFA becomes effective for the organization.
4. The proposed FSP will have approximately a 60-day comment period.

The Board authorized the staff to proceed to a draft of a proposed FSP for vote by written ballot.

Objective of Meeting:

The purpose of this meeting to discuss the following matters concerning a proposed FASB Staff Position (FSP):

- (a) Proposed new disclosures
- (b) Effective date and transition
- (c) Length of the public comment period.

Matters Discussed and Decisions Reached:

**Issue 1: Proposed New Disclosures**

1. Mr. Choi noted that at the October 31 meeting, the Board added to its agenda a short-term project to issue an FSP addressing the accounting issues raised by the model Uniform Prudent Management of Institutional Funds Act of 2006 (which we refer to as UPMIFA). Among several decisions made at that meeting, the Board decided to require a not-for-profit organization to disclose how its governing board has interpreted relevant law (including the state's adopted version of UPMIFA) in determining the portion of donor-restricted endowment funds that must be retained permanently and therefore classified as permanently restricted net assets. The Board also directed the staff to proceed with vetting and refining additional disclosures that could help provide sufficient transparency in the new UPMIFA environment.
2. Following that meeting, the staff circulated a draft set of 'strawman' disclosures to a diverse group of external reviewers that included preparers, auditors, and users of financial statements of not-for-profit organizations. They included NACUBO (the National Association of College and University Business Officers), a liaison organization

to the FASB on not-for-profit matters that represents a constituent group greatly affected by UPMIFA. Other reviewers included representatives from two credit rating agencies, one state charities regulator, two CFOs from professional foundations, five members of the AICPA Not-for-Profit Expert Panel, and three other practitioners (one of whom is also an academic).

3. Based on feedback received from those external reviewers, the staff proposed four new disclosures for Board consideration, in addition to the disclosure of a governing board's interpretation of relevant law (including the state's UPMIFA). The recommended disclosures are focused on providing information in two areas:

- A) Endowment net asset classification and
- B) Endowment spending

These are two areas directly affected by UPMIFA legislation and where the staff recommends adding information that would be helpful in making inter-organizational comparisons as well as assessing how organizations are managing the funds in the more flexible UPMIFA environment. The staff also noted that this information would have been useful even pre-UPMIFA.

4. Other potential disclosures had been vetted but were not recommended generally because the staff believed they went beyond the most immediate needs resulting from the uncertainties resulting from UPMIFA and could potentially delay issuance of timely final guidance, by June 30. Specifically, the staff did not recommend requiring more disclosure on endowment investment policies and asset allocation. However, based on discussions with individual Board members in preparations for this meeting, the staff included a revised version of the previously recommended endowment investment policy disclosure. The revised disclosure would require an organization to describe its endowment investment policies, including, at a minimum:

- The organization's return objectives and risk parameters
- How those objectives relate to the organization's endowment spending policy(ies)
- The strategies employed for achieving those objectives.

5. Mr. Choi, in his introduction of this topic at the meeting, indicated that the staff still had some of the concerns about the endowment investment policy disclosure as

expressed in the memo and in the Basis for Conclusions of Statement 124 (where the Board rejected a similar disclosure for all NFP investments). However, the staff also acknowledged that there would be some contextual value in the disclosure, as long as the requirement was structured in a way to help minimize the likelihood of devolution into meaningless boilerplate. Thus the staff had worked, as suggested by some Board members, to give the recommended policy disclosure some structure while still remaining somewhat general to allow flexibility of presentation (as a number of the reviewers urged). In particular, the staff believes that explicitly including the bullet point about the relation of the organization's endowment investment policy to its spending policy will provide useful disclosures in this area. Mr. Choi indicated that the staff planned to include an illustrative example or two in the FSP document.

6. **Issue 1 Staff Recommendation:** The staff recommended Disclosures A thru D, as described above in the Summary of Decisions Reached.

7. **Issue 1 Board Vote:** The Board voted in favor of exposing Disclosures A thru E, as described in the Summary of Decisions Reached. Mr. Smith objected to including the disclosure on endowment investment policies for the same reasons the staff did not include it in the initial recommendation. Ms. Seidman did not object to including the disclosure on endowment investment policies in the exposure draft, but expressed concerns about increasing the scope of the disclosure during redeliberations of the project. (discussed in paragraph 12).

8. **Issue 1 Board Comments:** Mr. Batavick questioned how the proposed disclosure package would tie together. He inquired as to how an organization's level of aggregation of endowment funds would affect the holistic picture that the disclosure requirements are trying to present. That is, if an organization had multiple endowments, would the disclosures requirements force the organization to aggregate all its funds into a single reporting pool and, if not, would the disclosures still tie together? Mr. Mechanick stressed that because organizations often have different practices concerning the pooling (or segregation) of endowment funds, any disclosure package provided by the Board should allow for flexibility of presentation. He noted that while the objective of Disclosure A and B is to capture all endowment funds, it is very possible that within that

aggregated group there could be pools of funds that have unique objectives and strategies, and therefore, different policies. Under such a scenario, an organization would be able to disaggregate the information in Disclosures A and B and describe its endowment policies (Disclosures C and E) at any level it chooses as long as disclosures allow users to track/ assess the organization's endowment activities in their entirety.

9. Mr. Linsmeier noted that it may not be feasible to track the specific performance of endowments pools with different policies, because the quantitative disclosures are meant to describe the performance of the endowment as a whole. Furthermore, some policies may apply to investment pools where donor-restricted funds and funds-functioning-as-endowments are commingled. Mr. Mechanick noted that the disclosures are simply meant to provide a complete picture of the organization's endowment activities, without forcing upon it a rigid set of boundaries for how information about those funds should be disclosed. He also noted that many organizations already provide much of this information in some way, but stressed that some uniformity in this area would be valuable.

10. Ms. Seidman questioned whether donors that establish endowments already have the right to request this information from the organization. If donors already have the right to access this information on the performance of the endowment, does it make sense to *require* such disclosures? Mr. Mechanick confirmed that a specific donor, especially a major foundation or individual donor, may well have access to this information, especially about the fund they created. However, he noted that many organizations have a variety of endowments with a very large set of potential users including donors, attorneys general, and creditors. Therefore, it makes sense to have the information in the general purpose financial statements.

11. Ms. Seidman then suggested that the proposed disclosure on investment policies could apply to all investments managed by a not-for-profit organization. Mr. Mechanick reiterated that much of the focus of UPMIFA was on endowment spending. Consequently, disclosures on spending policies will become much more important. He indicated that one argument for disclosing endowment investment policy information is that an organization's endowment spending policies cannot be fully appreciated/ assessed

without also understanding the organization's endowments' investing policies. That is, from an endowment management perspective, the two sets of policies (investment and spending) go hand-in-hand. The same cannot be said for all investments held by the organization. Therefore, it is not unreasonable to restrict the investment policy disclosures to endowments. Mr. Herz also noted that endowment assets are unique because they are regulated more rigorously to protect donor intent than most other assets, and therefore, more disclosure requirements are warranted.

12. Ms. Seidman did not object to including the disclosure on endowment investment policies in the exposure draft. However, she had concerns that respondents would question why that disclosure was limited to only endowments and not all investments. If that turns out to be the case, during redeliberations she would not support expanding the scope of the disclosure requirements to include other investments, because the Board would not have received input from the broadest group of constituents possible to make such a change.

13. Mr. Mechanick noted that many institutions with large endowments have come under public scrutiny for the way they manage their funds. For example, universities have been accused of hoarding funds in lieu of reducing the financial burden placed on students trying to pay tuition. Mr. Linsmeier also noted that while private institutions have become very aggressive in investing endowment assets, there is a public policy concern that several public universities have taken a very conservative approach to managing endowments. That is, universities too often adhere to very tight spending policies during periods when state funding is low. Perhaps those universities should consider loosening its spending policies during those periods for the betterment of the institution and the public good. Mr. Mechanick added that many public universities have turned their endowments over to related foundations that report under GAAP promulgated by the FASB (rather than the GASB). Mr. Linsmeier stated that he believes these proposed disclosures will provide some insight into how conservatively (or aggressively) an organization is managing its endowments.

14. Mr. Smith's primary concern was that investment policy disclosure would devolve into meaningless boilerplate. Mr. Mechanick stated that even if some of the

disclosures became somewhat boilerplate, they could still be helpful in providing some relevant information.

## **Issue 2: Transition**

15. Mr. Mechanick noted that external reviewers and the staff believe the Board should take the opportunity to improve the transparency of reporting surrounding endowments of all not-for-profit organizations, even those in states for which UPMIFA may not yet be or ever become effective. Over the years, some constituents have complained about what they perceive as fragmentary reporting in this area brought about by the GAAP net asset classification model. While, for a number of reasons, the staff didn't suggest jettisoning the current net asset classification model in the conceptual framework and Statement 117, the staff saw the composition and rollforward disclosures as an easy and valuable means of presenting a holistic endowment picture to all of the various financial statement users, both critics and others. And the five new disclosures that the Board had approved earlier in the meeting would shed additional light on endowment size, growth and spending, and underlying net asset composition that should prove valuable, especially in this era of increased public scrutiny on these matters. And for reasons noted in the handout, even the previously approved new requirement to disclose an organization's interpretation of relevant law, should be valuable pre-UPMIFA. Therefore, the staff recommended a common effective date for the disclosures, sooner rather than later, regardless of when UPMIFA becomes effective in a particular jurisdiction. Of course, even with the more immediate effective date, the UPMIFA-specific net asset classification guidance in the FSP would only become relevant when UPMIFA is actually adopted in a given jurisdiction.

16. Mr. Mechanick indicated that the staff thinks that the disclosures should not be very onerous for preparers since the information in these disclosures is available from the data used to generate a GAAP balance sheet and a GAAP statement of activities, and to properly administer endowment funds as well as set the organization's budget. (Mr. Mechanick indicated that the Exposure Document will ask a question on this in the Notice.) Thus the staff suggested making the FSP's various provisions effective for the

large wave of organizations with June 30, 2008 year ends. Since there are also a handful of May 31<sup>st</sup> universities and because some organizations with December 31<sup>st</sup> year ends in states in which UPMIFA is already effective may have held off on issuing financials until the Board finalizes the guidance, the staff also recommended encouraging or permitting (whichever word the Board preferred) early adoption of the guidance.

17. Finally, on a mechanical level, the staff viewed any net asset reclassifications stemming from UPMIFA as cumulative effect adjustments in the period, generally year, in which UPMIFA becomes effective. Consistent with the staff's argument about the pre-UPMIFA usefulness of the various disclosures, the staff recommended that the Board require organizations to present both the rollforward disclosure and the other tabular disclosure, on net asset composition, for each financial year presented in the basic financials, even in the year of initial adoption of the disclosure provisions of the FSP.

18. **Issue 2 Staff Recommendations:** The staff recommended making the FSP's various provisions effective for fiscal years ending after June 15, 2008, for all organizations, including those in states that have not yet enacted a version of UPMIFA. The staff recommended either encouraging or permitting early adoption. The staff also recommended that any net asset reclassifications stemming from UPMIFA be accounted for as cumulative effect adjustments in the period, generally at the beginning of the year, in which UPMIFA becomes effective. Finally, the staff recommended requiring that organizations present both the roll forward disclosure and the other tabular disclosure, on net asset composition, for each financial year presented in the basic financials, even in the year of adoption of the disclosure provisions.

19. **Issue 2 Board Vote:** The Board unanimously voted in favor of the staff's recommendations. The Board agreed that early adoption should be permitted rather than encouraged.

20. **Issue 2 Board Comments:** Mr. Batavick raised concerns about issuing a final standard in mid-June that is effective for fiscal years ending after June 30, 2008. He asked if there were any specific requirements as to when the financial statements must be issued by the organization. Mr. Mechanick noted that there was no uniform requirement to have financial statements issued within a certain period after the fiscal year end.

Typically, organizations issue financial statements within three to four months of their fiscal year end.

21. Mr. Linsmeier questioned whether there was a practical reason for encouraging early adoption. Mr. Mechanick noted that some organizations with May 31<sup>st</sup> fiscal year ends may wish to apply the guidance. It's also possible a few organizations with December 31<sup>st</sup> year ends in states that have enacted a version of UPMIFA may be holding off issuing their financial statements until there is some guidance on this topic.

22. Mr. Mechanick also stressed that the guidance was not tied to a particular state's adoption of UPMIFA. He stated that the disclosures would be helpful even pre-UPMIFA. However, he also noted that UPMIFA-related guidance with respect to net asset classification would only be applicable in states that have adopted UPMIFA.

**Other matters discussed**

23. The Board agreed that the proposed FSP should have approximately a 60-day comment period.