

CALIFORNIA INSTITUTE OF TECHNOLOGY

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April 17, 2008

VIA EMAIL



LETTER OF COMMENT NO. 35

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

File Reference: Proposed FSP FAS 117-a

Dear Mr. Gordon:

Thank you for the opportunity to comment on the proposed FSP. I commend the FASB for its efforts toward providing timely guidance regarding this emerging issue. In addition, the FSP Project Manager's outreach to financial statement preparers like me in the higher education sector during the exposure draft period has been sincere and helpful. However, I believe the FSP's exposure period is not sufficiently long to promote consistency, and that the "improved" endowment disclosures called for in the exposure draft will not provide benefits to users sufficient to justify preparers' additional cost.

I offer the following comments to the FSP's 4 questions below.

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?

California has not yet introduced UPMIFA legislation; therefore, it is difficult to comment in detail on the appropriateness of the FSP's guidance in our context. In general, allowing individual governing boards to determine what is permanently restricted appears to be appropriate. However, in allowing this broad discretion to governing boards, the FSP's goal of consistency may prove elusive.

The FASB may want to consider lengthening FSP's exposure period in order to allow enough time for the not-for-profit sector to develop a general position on what constitutes permanently restricted net assets in an UPMIFA environment. The FASB could then incorporate such a position as a rebuttable "default" position in its final guidance.

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.

Most of the proposed additional disclosures do not follow directly from any changes brought about by UPMIFA. Institutions in UPMIFA states can provide information as their

determinations of permanently restricted net assets in far less detail than that called for by the FSP.

Although there has been increased public interest regarding endowments in recent times, it does not necessarily follow that more disclosure in the financial statements is the solution. Endowments and the UMIFA environment have long been a crucial driver, if not the crucial driver, of institutions' ability to carry out their missions. Institutions such as mine have met requests from endowment stakeholders, including donors, rating agencies, and, recently, the Senate Finance Committee, as they have arisen. None of these stakeholders has noted that our financial statements are in need of additional disclosure. It is too early to tell if the recent attention on endowments should be considered a mandate for additional disclosure, and the FSP provides no detailed justification for its proposed disclosures.

For these and other reasons noted in the following paragraphs, the FSP's disclosures will certainly increase, but not necessarily improve, information regarding endowments.

First, the proposed disclosures, especially the "rollforward" tables, are long and technical enough to dissuade a careful reading by a general user, such as a donor, and yet not detailed enough to provide the information a rating agency or other sophisticated user might seek. Therefore, the additional disclosures may not replace other information that is already requested and provided to stakeholders outside the financial statements. The FSP's disclosures will increase my institution's financial statements by 3-4 full pages in order to show the components of endowment net assets, but endowment net assets are disclosed only in the notes to those financial statements. The activity numbers in the proposed "rollforward" disclosures will not agree to any number in the basic financial statements my institution prepares. The additional narrative disclosures, by necessity, will provide only basic information, as a technical discussion of endowment investment strategies necessarily involves a level of complexity not suited to the financial statements.

Second, the FSP's new information requirements focus on endowment *net* assets, while most users of financial statements are focused on *invested* endowment assets and/or the pooled investment funds most institutions use to manage their endowments. The significant differences between the two concepts may only confuse users. For example, the FSP's disclosures (absent clarification) will include the effect of contributions receivable to the endowment, since those are endowment net assets, while the endowment investments (reported in numerous surveys by different organizations) do not include contributions receivable. Attempts at analysis using the proposed rollforward information will be frustrated by these differences. In addition, many institutions invest other funds (that may not function as endowments) in the same pooled funds; those investments will not appear in the endowment net asset disclosures. Therefore the proposed disclosures' "appropriation for expenditure" and "investment return" figures may not agree to the figures users are accustomed to seeing in operating budgets or publications regarding the management of institutional investments.

Third, the inclusion of forward-looking information regarding subsequent years' appropriations for expenditure should not be the duty of financial statement preparers, but rather should remain confined to institutions' budgets. Appropriation figures always change from budget due to new contributions and divestments; preparers should not have to explain budget-to-actual differences via their financial statements and the FASB should avoid setting this precedent.

Finally, one of the main justifications cited for the disclosure requirements and proposed effective date has been that institutions should have the data to prepare these disclosures. That statement is true. However, preparation of financial statements is more than an issue of the availability of data. Adding disclosures such as these requires significant time on the part not

only of direct preparers, but of their colleagues in an institution's investment management area, who should be reviewing and certifying those disclosures, and on the part of auditors, who may raise fees for their additional work. These disclosure requirements continue the explosive growth of disclosure requirements of the past several years, in a sector that is already constrained with respect to resources.

For the reasons noted above, I request the FASB significantly reduce the proposed disclosures to those only directly required by the adoption of UPMIFA.

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?

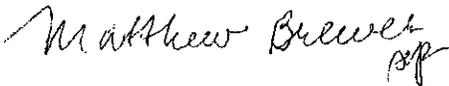
Although I oppose many of the FSP's additional disclosures, the FSP should be required regardless of whether a preparer's state has adopted UPMIFA, in the interest of consistency.

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 the early application permitted as long as the organization has not previously issued annual financial statements for that fiscal year? If not, why not?

The FASB should consider extending the effective date of the FSP in the interests of the consistent application of UPMIFA guidelines, and should work with professional organizations in order to issue temporary guidance. The disclosure requirements are too much in general, and, given the proposed effective date, certainly are too much, too soon. The FASB should use an extended comment period in order to analyze whether the proposed disclosures will truly improve the value of financial reports.

Thank you once again for this opportunity to comment on the proposed FSP.

Very Truly Yours,

A handwritten signature in cursive script that reads "Matthew Brewer" with a small "sp" written below the name.

Matthew Brewer
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