



STANFORD UNIVERSITY
Office of the Controller

Memorandum

April 18, 2008



From: Karen Craig
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LETTER OF COMMENT NO. 21

To: Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board

Subject: Proposed FSP FAS 117a

Thank you for the opportunity to comment on the above referenced FSP prior to its implementation. While California has not yet adopted UPMIFA, we will still be very much impacted by the disclosure requirements included in the FSP.

Before addressing the specific questions included in the FSP, a general discussion about endowments seems warranted. The current accounting literature has very limited guidance on endowments and, specifically, what should or should not be included in them. This lack of guidance has led to wide diversity in the types of assets included in an organization's endowment. For example, some organizations include pledges in their endowment, others do not; some include split interest agreement assets, others do not. This diversity in practice has created an inability to compare data across organizations.

In response to the questions that you have included in the FSP we provide the following points for consideration.

- 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?**

As noted above, there is already a lack of consistency across organizations with regard to endowments. Even today, some states have adopted different versions or interpretations of the UMIFA law, which has caused differences in reporting of net asset classifications and has led to confusion among readers of organizations' financial statements. Requiring governing boards in states where UPMIFA has been

passed to interpret the law and make determinations about what, if any, amounts should be retained permanently, introduces the possibility of further inconsistencies. Because governing boards have the fiduciary responsibility to protect the principal value of the endowment funds entrusted to their institutions, and since UPMIFA leaves that judgment to the institution, we agree that "View 4" is the appropriate guidance. However, we believe that this undermines FASB 117 which requires that net asset classification be based upon **Donor** restrictions.

We are concerned that elimination of a bright line test that determines what should be included in permanently restricted net assets will lead to lack of comparability across organizations and create further unnecessary complexity in reporting net assets. If the focus of the FSP is to increase comparability and enhance transparency for readers of not-for-profit organizations' financial statements, the more opportunities provided for diversity in practice, the less effective the reporting will be.

We believe that more time is needed to adequately study this issue and that it would be unwise to issue guidance before management and governing boards of institutions with sizable endowments have been given adequate time to digest the ramifications.

- 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 general concept of the disclosures which are detailed in the FSP. We offer the following commentary on the recommended disclosures in sections 12 a-e and 13 of the FSP:

Section 12:

- a) If individual governing boards are to establish permanently restricted net assets subject to their interpretation of the law underlying the organization's net asset classification of donor-restricted endowment funds, then we agree that this disclosure is vital to the financial statement user's ability to properly interpret the information presented.
- b) We agree that a description of the organization's spending policy would provide valuable information.
- c) While we agree with the disclosure requirement regarding assumptions used in determining the spending rate, there is likely to be hesitation on the part of many organizations to discuss investment and return strategies in detail. As a result, this disclosure requirement is likely to result in boiler-plate language such as that included in the sample disclosures accompanying the FSP.
- d) We agree that the composition of an organization's endowment by donor-restricted and board-designated funds is valuable information. Breaking that information down further into net asset classifications may be less valuable from a financial statement user's perspective. Donors, trustees and others are less

concerned about which net asset classification endowments are in and more interested in the overall composition of the endowment.

- e) Again, the recommended reconciliation of the beginning and ending balance of the endowment is valuable information for the reader of the financial statements as it relates to the composition of the endowment. The breakout into net asset categories, in our opinion, adds little additional value. Similarly, making a distinction between investment income and gains adds little in the way of transparency.

Section 13 – The recommendation to disclose, to the extent known, the planned appropriation for expenditure (payout amount) for the subsequent year is of particular concern. Financial statements, by their nature, should contain historical information and should omit, to the greatest extent possible, forward looking information. To include such information opens the door for similar disclosures in other areas (already there is a requirement to disclose the estimated subsequent year funding for pension and other post-retirement benefit plans). In addition, it may create the need to discuss any differences between the amount disclosed in one year and the amount actually paid in the subsequent year. Based on these issues, we would strongly recommend that this disclosure requirement be omitted from the final standard.

- 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?**

We agree that all organizations, regardless of whether or not they have adopted UPMIFA, should be required to provide the same disclosures. Again, with the goals of consistency and transparency in mind, users of financial statements should be able to easily compare one organization to other, similar organizations.

- 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?**

While we agree in principle with the disclosures proposed by the Board, in the interest of meaningful disclosure, organizations must be allowed the time to fully understand the requirements of the FSP, restructure processes where necessary and analyze the data to be disclosed.

Previous to this FSP, disclosures regarding endowments as a whole have not been required. While some organizations have provided disclosures for informational purposes, not all of the information required to be disclosed by the FSP is currently being tracked in sufficient detail to readily comply with the requirements. The disclosures recommended in the FSP, while in most cases valuable, are likely to cause the need for some organizations to begin tracking data differently.

To introduce a new set of disclosure requirements at what is, essentially, the end of many organizations' fiscal year would likely place an undue burden on them. For organizations that consolidate their financial statements with those of other organizations, there is the need to coordinate information in order to provide consolidated statements on a comparable basis.

For these reasons, we request that the Board delay the effective date by a reasonable period in order to allow organizations to provide comprehensive and meaningful information to the users of their financial statements.

Yours respectfully,

A handwritten signature in black ink, appearing to read 'Karen Craig', written in a cursive style.

Karen Craig