

CONTROLLER'S OFFICE

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April 15, 2008



LETTER OF COMMENT NO.

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

Dear Mr. Golden:

On behalf of the staff of the Controller's Office at the University of Notre Dame, please find enclosed our comments with respect to the proposed FASB Staff Position 117-a.

Please contact me at 574-631-6401 or by email at apaluf@nd.edu if we can clarify any of our comments, or be of further assistance.

Sincerely,

Drew M. Paluf

Assistant Vice President

and Controller

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?

We feel that the guidance with respect to the portion of a donor-restricted endowment that should be classified as permanently restricted is appropriate and can be applied consistently. However, based on discussions with peers from colleges and universities across the country, it seems the majority of the institutions anticipate no changes to their classification of net assets in the absence of language in the state's law that prescribes the addition to permanent endowment to protect purchasing power (e.g. Rhode Island). Accordingly, the illustrative example in Appendix C might be modified to reflect the situation in which an institution *does not* deem it necessary to add to permanently restricted (PERM) net assets based on an interpretation of law, in order to reflect the circumstances of the majority of institutions that will seek to apply the guidance of the FSP. Furthermore, reflection in the example of the exceptional situation in which an institution *does* add to PERM net assets may be interpreted to be the FASB's "preferred" approach, diminishing the emphasis placed on the institution's own interpretation of state law. In sum, it seems the situation in which an institution would be compelled to add to PERM net assets will be the exception rather than the rule, and that Appendix C should be modified to reflect this.

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 feel that presenting the information required in paragraphs 12(d) and 12(e) for <u>each</u> period reflected in the financial statements unnecessarily clutters the footnote disclosures without adding significantly useful information. Rather, we would suggest modifying the requirements with respect to paragraphs 12(d) and 12(e) so that the most recent period's information is reflected by net asset class (i.e., as currently written), but that any information with respect to prior periods is only required in total. The attached **Exhibit A** illustrates how these requirements might be reflected if modified accordingly.

Otherwise, we feel the proposed disclosures are needed. The disclosures are appropriate in providing the level of transparency demanded in today's reporting environment. Given that a significant portion of the net assets of many not-for-profit institutions is comprised of endowment, and that in many cases endowment provides substantial operational funding to the institution, the characteristics of the institution's endowment, including governance policies, flexibility as to use, and annual activity, warrant disclosure that is more substantive and uniform than is currently available.

However, with respect to the example in Appendix C illustrating the application of the disclosure requirements, some clarifications and additional illustrations might be helpful to many users. Specifically, we have two suggestions:

a. With respect to the disclosure requirement in paragraph 12(d) of the FSP, we would anticipate that our "donor-restricted" and "board-designated" funds would be mutually exclusive based on our interpretation of UPMIFA as adopted by the State of Indiana, as well as on our application of GAAP. Accordingly, if we were to construct a table such as the one put forth in the illustrative example from Appendix C (see excerpt below), we would anticipate the highlighted cells to contain zeros.

Endowment Net Asset Composition by Type of Fund As of June 30, 200Y

	Uni	restricted		nporarily estricted	Permanently Restricted		Total	
Donor-restricted endowment funds	\$	32,644	\$	10,834 570	\$	103,146	\$	146,624
Board-designated funds	<u>⊅</u>	8,786	\$_	5/0	Φ_		<u> </u>	9,356
Total Funds	\$_	41,430	\$	11,404	\$_	103,146	\$	155,980

Recognizing that different circumstances may exist among institutions as a result of their respective states' adopted version of UPMIFA, as well as institutions' interpretation of the law, we thought it might be helpful if some background information were included in the illustrative example that would help explain the scenarios that would give rise to the amounts appearing in each box of this table. Such additional information may reduce uncertainty with respect to how funds with a certain set of characteristics are intended to be reflected within the context of the required disclosure. For example, providing the characteristics of funds that the hypothetical institution in the example has categorized on the "Donor-restricted endowment funds" line within the "Unrestricted" column would be helpful.

- b. The illustrative example in Statement 124 uses a single theoretical endowment to illustrate how the activity (income, gains, appropriations for spending, restriction-lifting reclassifications, etc.) related to that endowment is reflected in the financial statements within each of the three net asset classes. Using a similar approach with the example in the FSP might be useful in illustrating how the guidance in the FSP might be applied to a fund with a particular set of characteristics, and how that fund's net assets would be classified for purposes of disclosures required by paragraphs 12(d) and 12(e).
- 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?

Yes. Requiring the additional disclosures concerning endowment policies, balances and yearly activity is a significant step toward improving transparency and consistency with regard to what for many organizations represents the most significant portion of its net assets and a vital source of operating revenue. The fact that an organization is not yet subject to a version of UPMIFA has no bearing on its ability to provide the information required in the disclosures, so exempting such organizations from the disclosure requirements on this basis is unnecessary.

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?

Yes--barring substantive changes to the proposed FSP. Organizations affected by the FSP likely have the information necessary to comply with the disclosure requirements by virtue of maintaining accounting records on a fund accounting basis. Thus, timely compliance should not be overly burdensome. However, if substantive changes to the FSP arise in the interim, then pushing back the required implementation date should be considered given the tight timeline between the proposed release date and the June 30 end of many institutions' fiscal years. In any case, the sooner the draft is finalized

he affected organizati f their compliance.		

Exhibit A

Endowment Net Asset Composition by Type of Fund As of June 30 (in thousands)

	Uı	restricted	Temporarily Restricted		Permanently Restricted*		200Y Total		200X Total
Donor-restricted endowment funds Board-designated funds	\$	32,644 8,786	\$	10,834 570	\$	103,146*	\$	146,624 9,356	\$ 140,772 8,228
Total funds	\$	41,430	\$	11,404	\$	103,146	\$	155,980	\$ 149,000

^{*}At June 30, 200Y, permanently restricted net assets include \$13,000 of cumulative investment return on donor-restricted endowment funds that Organization A has determined must be retained permanently to maintain the purchasing power of those funds, in accordance with the State Prudent Management of Institutional Funds Act of 2006, beyond the amount required by any explicit donor stipulations.

Changes in Endowment Net Assets For the Fiscal Year Ended June 30 (in thousands)

	L	Inrestricted	Temporarily Restricted	1	Permanently Restricted	200Y Total	200X Total
Net assets, beginning of year Investment return:	\$	37,921	\$ 12,879	\$	98,200	\$ 149,000	\$ 143,689
Investment income Net appreciation	\$	4,023	\$ 447	\$	-	\$ 4,470	\$ 4,311
(realized and unrealized)	\$	4,054	\$ 450	\$	2,946*	\$ 7,450	\$ 7,184
Total investment return	\$	8,077	\$ 897	\$	2,946	\$ 11,920	\$ 11,495
New gifts	\$	-	\$ -	\$	2,000	\$ 2,000	\$ 2,000
Appropriation of endowment assets for expenditure	\$	(7,077)	\$ (372)	\$	-	\$ (7,450)	\$ (7,184)
Other changes: Transfers to create/ (remove) board-							
designated funds	\$	500	\$ -	\$	-	\$ 500	\$ (1,000)
Other	_\$	10	\$ -	\$_		\$ 10	\$ <u> </u>
Total other changes	\$	510	\$ -	\$	-	\$ 510	\$ (1,000)
Released from restriction	\$	2,000	\$ (2,000)	\$_		\$ <u>-</u>	\$
Net assets, end of year	\$	41,340	\$ 11,404	\$	103,146	\$ 155,980	\$ 149,000

^{*}Investment returns classified as permanently restricted net assets at June 30, 200Y include \$2,500 that Organization A has determined must be retained permanently to maintain the purchasing power of those funds, in accordance with the State Prudent Management of Institutional Funds Act, beyond the amount required by any explicit donor stipulations. The remainder of the investment returns added to permanently restricted net assets represents amounts required to be retained permanently as a result of explicit donor stipulations.