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Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Dear Sir:

I am responding to your ED, "Consolidated Financial Statements: Policy and Procedures," strictly in terms of the impact it might have on not-for-profit organizations. In my response to your DM, I suggested that you scope out the not-for-profit organizations; clearly that is not going to happen. In fact, you have taken out language talking about differences in objectives, which you feel are irrelevant. I would still urge you to take out not-for-profits and either set a different standard, or leave it to the AICPA. At any rate, this response assumes that not-for-profit organizations will be included. Here are my comments:

1. I assume you are going to expect the AICPA to issue a revision to 94-3, which has much more detailed and complex guidance for not-for-profits. This document says nothing about disclosures required for related entities that are not consolidated and does not have guidance for the many complex situations that arise.
2. Appendix C of your document does not indicate which portions of AICPA SOP 94-3 are superseded. Yet, it seems that this Statement would supersede at least those portions of SOP 94-3 that define when consolidated statements are to be prepared. Will it also supersede those portions that talk about note disclosure?
3. In my letter on the DM, I suggested you include more examples of not-for-profit situations, including a situation where a not-for-profit has a foundation. Take, for example, a voluntary health and welfare organization that has a foundation that was created for tax and fund raising purposes. The foundation is designed to look as separate as possible; the board members are self-perpetuating, the assets are controlled by the foundation but only for income to be raised for the VWHO. However, the foundation board is not really controlled by the VWHO; money does not revert to the VWHO, etc. I think a lot of foundations are set up in this manner. Would you consolidate the foundation into the VWHO? Item (f) of Paragraph 158 of the ED is one indication that you would; everything else points in the other direction. I may not understand the ED, but I don't know how I would rule in this very common situation.
4. In the case of not-for-profits, how does one determine the extent of minority interest? How is it measured? The ED apparently calls for a separate section of "net assets" in the Statement of Net Assets and for a separate disclosure in the Statement of Activities. I would assume, in both cases, this would apply to each of the three net assets, or would a separate class be created? At any rate, some guidance would be necessary to determine how to measure the "percentage" that belongs to the minority. Do you plan to leave this to the AICPA?

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5. If I am right in that a lot must be done, probably by the AICPA, before this Statement could be implemented by not-for-profits, I would suggest a deferral of the effective date so that the AICPA would have time to pass a revision to 94-3. (My comments would also apply, it seems, to not-for-profit health care entities.)

Sincerely,



John H. Engstrom

cc: JoAnn Waggoner
Al Cohen
Herb Folpe