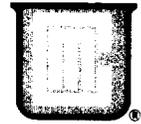


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CHARTER
MEDICAL
CORPORATION

January 10, 1996

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/Madam:

I have the following comments on the Exposure Draft of the Proposed Statement of Financial Accounting Standards titled "Consolidated Financial Statements: Policy and Procedures" dated October 16, 1995:

1. Definition of Control - I believe the Board's definition of control is clear and operational.
2. Reporting Noncontrolling Interest in Subsidiaries (Paragraph 22).
This paragraph requires that the aggregate amount of the noncontrolling interest in subsidiaries ("minority interest") be classified as a separate component of equity. I believe minority interest should be presented as a separate line item between liabilities and equity in the statement of financial position, which is consistent with current practice. Clearly, minority interest should not be considered a liability as the Board concluded. However, the Board provides no real theoretical argument as to why minority interest should be considered a separate component of equity other than the Board doesn't want to adjust its conceptual framework to create a fourth element in the balance sheet. Some reasons not to include minority interest as a separate component of equity are as follows:
 - A) Minority shareholders of consolidated subsidiaries have not contributed capital to the Parent Company and do not have an equity ownership interest in the Parent Company.
 - B) Comparability of financial statements between companies could be impaired. Companies that acquire less 100% ownership interests in subsidiaries will appear to be better capitalized since they would have "created" equity via minority interest.
 - C) Users of financial statements, such as investors, analysts and creditors will be required to become consolidation "experts" to understand the real capital structure of companies since minority interest should have no bearing on measuring financial ratios such as debt-to-equity, debt-to-capital, book value per share, etc.

3. Reporting Noncontrolling Interest in Subsidiaries (Paragraph 23-24)
I believe the Board's conclusions regarding income statement classification of minority interest are appropriate and are consistent with SEC regulation S-X, Article 5.
4. Acquisition of a Subsidiary (Paragraphs 26-27)
These paragraphs require that if a company acquires less than a 100% controlling interest in a subsidiary, minority interest is measured as the proportionate amount of the fair value of the subsidiaries net identifiable assets and liabilities, with goodwill being attributed to the Parent. I believe the Board's conclusions are appropriate and represent a positive change from the current "mix and match" approach of recording the Parent's interest in the net identifiable assets at fair value and the minority shareholders interest at historical cost.
5. Elimination of Intercompany Transactions and Balances (Paragraph 19)
This paragraph advocates the elimination of all intercompany transactions and balances and all profits or losses on transactions between affiliates of the group. Per paragraphs 129-130, the Board concludes that since minority interest is a residual interest in a consolidated entity, the earnings process is not viewed as complete and intercompany transactions, balances and profits and losses are fully eliminated and the effect of the elimination should be allocated between the Parent and minority shareholders. This conclusion is unclear and should be clarified. For example, Magellan Health Services ("Magellan") (formerly Charter Medical Corporation) has various agreements with less than wholly-owned, consolidated subsidiaries that are recorded as revenue by Magellan and expense by the subsidiary. Such transactions are eliminated in consolidation, but the residual effect on minority interest is not.
6. Push-Down Accounting
The issue of when to apply push-down accounting to less than 100% owned consolidated subsidiaries needs to be addressed in this proposed standard.

This proposed statement would have a significant impact on Magellan, as several subsidiaries are consolidated that are less than wholly owned. Magellan stockholder's equity would increase significantly as a result of this standard. The restatement provisions would be difficult but should be practicable.

Thank you for the opportunity to comment on this proposed standard.

Sincerely,



Jeffrey T. Hudkins
Senior Director - Financial Reporting

JTH/ah