



# THE UNIVERSITY OF TEXAS AT TYLER

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SCHOOL OF  
BUSINESS ADMINISTRATION

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

Dear Mr. Lucas:

The Government and Nonprofit Accounting Section Standards Committee of the American Accounting Association is charged with responding to requests by standard-setters on issues relating to government and nonprofit accounting and reporting. The comments submitted are those of the Committee and do not necessarily represent the opinions of all members of the Government and Nonprofit Accounting Section of the American Accounting Association.

Due to the specialized nature of accounting for nonprofit entities, a Subcommittee was formed to develop comments in response to the FASB Exposure Draft "Consolidated Financial Statements: Policy and Procedures." Members of the Subcommittee include: Mary L. Fischer, Chair, The University of Texas at Tyler; Ken W. Brown, Southwest Missouri State University; Teresa P. Gordon, University of Idaho; Saleha B. Khumawala, University of Houston; Denise Nitterhouse, DePaul University; and Robert M. Turner, Babson College. The following comments represent the majority opinion of the Subcommittee.

The committee agrees with the exposure draft that "a controlling entity shall consolidate all entities that it controls unless the control is temporary at the time that the entity becomes a subsidiary." We also agree that "once a subsidiary is consolidated, it shall continue to be consolidated until the parent's control ceases to exist." We further agree that the FASB's definition of control, i.e., "the power to use or direct the use of the individual assets of another entity" to achieve the objectives of the controlling entity is appropriate. This revised definition makes the connection between controlling entity and the controlled entity clearer. A careful reading of the appendices in the proposed standard would lead the reader to believe that the same entities should be consolidated in both private and public not-for-profit organizations. However by using the effective control measure as defined in paragraph 13, one might derive a different conclusion. We

recommend some expansion of the language in the final standard to further clarify that which is well described in paragraph 158 of the appendix. We feel this is most important as appendices are often omitted in the literature.

The requirement that the purchase price be assigned to the subsidiary's identifiable assets and liabilities based on fair value with the excess assigned to goodwill is appropriate. We also concur that the minority's noncontrolling interest should be reported as a component of the consolidated equity and part of the group's consolidated net income. Since the FASB is changing the term "minority interest" to "noncontrolling interest," we believe another improvement in terminology is warranted. We suggest that the FASB take this opportunity to abolish the peculiar term "negative goodwill" from the lexicon of accounting. A more descriptive term would be "bargain purchase" or deferred credit.

Although the committee is in agreement with many of the requirements presented in the exposure draft, we are concerned that the FASB is taking a different approach from the GASB concerning consolidation issues. We urge the staffs of FASB and GASB to work together so that uniform standards will be issued. In the next few paragraphs, we have provided comments and identified some concerns or issues that relate to specific paragraphs.

We found Appendix B which supplemented the guidance in paragraphs 10 to 15 to be very helpful. The Appendix provided more explanation and examples to understand the process of deciding whether effective control exists in the absence of legal control. Taken together, paragraphs 10 to 15 and Appendix B, the guidance is quite good and should provide an adequate guide for not-for-profit organizations and their auditors. However, there are a few points where the discussion could be improved.

Paragraph 4 could be more explicit in its exclusion. It would be helpful if the sentence, "Examples of those entities include..." were revised to read, "Examples of those entities likely to be excluded include ...."

Paragraphs 170 and 171 discuss federations and similar associations and suggest that a national organization or a judicatory does not normally have control over the member organizations or congregations. The reasoning seems sound, yet those who wish to use the financial statements of national organizations may find it useful to have combined statements for the entire group of local organizations in conjunction with the financial statements of the national organization. While this type of combination does not seem to be specifically precluded by paragraph 34, we believe it would be helpful to specifically include the possibility either in paragraph 34 or in a separate paragraph. Whether the national organization or judicatory's own assets and liabilities should be combined with those of the local entities is debatable. It would be appropriate to require the national organization's financial position be presented separately with a permissible combined total. With permissible combined financial data, the national organization's financial statement would include three columns: national, combined local entities, and total national and local. This information would allow potential donors to have a better feel of

the impact that the organization has on society, and a better understanding of the scope of the organization's financial operations taken as a whole.

Historically not-for-profit organizations, especially colleges and universities, have reported trusts for which they serve as trustee as assets on their financial position statement. Not consolidating these trust assets, but only reporting the right to receive future cash flows from the trust as an asset (paragraph 166) would be a significant change and departure from general practice. Since the institution controls the asset and will control the use of the asset at some future date, we believe the current method of reporting these trusts is appropriate. In addition, we believe that when a charitable remainder trust designating a not-for-profit organization as both trustee and remainderman is established, a charitable contribution should be recorded by the not-for-profit organization in accordance with the guidance contained in SFAS No. 116 and in Chapter 6 of the AICPA's Proposed Audit and Accounting Guide, *Not-for-Profit Organizations*.

More explanation and perhaps an example would be helpful in explaining how not-for-profit organizations and others should report the beneficial interest in a trust that they do not control, e.g., Example 7, paragraph 211. A recent GASB preliminary views on college and university reporting proposed presenting certain foundations and affiliated entities' financial information in a separate column with the financial information for the institution. This approach might be a useful presentation for private higher education institutions as well, particularly for controlled foundations similar to Example 4, paragraphs 190 to 194. We could find nothing in the exposure draft or SFAS No. 117 to preclude such a presentation with an included total column. Could a not-for-profit organization which is the sole beneficiary of a trust it does not control be permitted to present information about the trust in a column together with its own financial information? If so, should the organization be precluded from presenting a total column that would imply control over the assets of the trust? Alternately, should FASB prohibit any presentation of assets and liabilities of uncontrolled trusts on the face of the financial statements of the trust beneficiary?

We appreciate the opportunity to submit our comments regarding the Exposure Draft. We hope you will take our comments and suggestions into consideration as you develop the final standard.

Sincerely,



Rita Hartung Cheng  
GNP Accounting and Auditing  
Standards Committee  
American Accounting Association



Mary Fischer, Chair  
Nonprofit Subcommittee  
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