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January 4, 1996

Mr. Timothy J. Lucas, Director of Research and Technical Activities File Reference No. 154-D Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Dear Mr. Lucas:

The National Association of College and University Business Officers (NACUBO) appreciates the opportunity to respond to the Financial Accounting Standards Board's (FASB) Exposure Draft (ED), Consolidated Financial Statements: Policy and Procedures, (Project No. 154-D). We have examined the ED extensively, and are submitting our response for your consideration. NACUBO's membership comprises business officers and financial personnel at 2,100 institutions of higher education.

NACUBO has the following observations and suggestions relating to the ED.

NACUBO is in agreement with the scope of the proposed standard and feel that not-for-profit organizations should consolidate all subsidiaries over which the not-for-profit organization has control. We are also in agreement with the definitions of control as expanded to include effective control. NACUBO would like to reiterate, however, that we continue to believe that public and private colleges and universities should be subject to the same accounting standards. To that end, we continue to encourage collaborative efforts on the part of the FASB and the GASB in promulgating uniform accounting standards. We believe, even though the GASB standard for consolidation is not complete, the definitions are more descriptive and prescriptive in the GASB statement than in the FASB statement. A careful reading of the appendices in the proposed standard would lead one to believe that the same entities should be consolidated in both private and public universities, but by using a measure, strictly speaking, of effective control, one might arrive at differing conclusions. We recommend some expansion of the language in the standard itself to further clarify that which is well described in paragraph 158 of the appendix.

Another area of primary concern to NACUBO is the issue of charitable remainder trusts created for the benefit of a not-for-profit organization. A careful reading of the proposed standard does make it clear that while trusts are separate legal entities with the not-for-profit organization as the remainderman, the trust itself is not subject to consolidation. We do, however, believe that the final standard should be more specific and clear on how the beneficial interest in a trust should be reported in the external financial statements of a not-for-profit organization. Paragraphs 150, 166 and 211 are the only specific paragraphs which explain the exclusion of trusts from consolidation.

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Only paragraphs 166 and 211 mention the fact that the creation of a trust by an individual for the ultimate benefit of a not-for-profit organization is actually a transaction which does, in fact, create an asset which must be reported in the financial statements of a not-for-profit organization.

NACUBO, however, disagrees with the conclusion reached in paragraph 211 that where a not-for-profit organization is both the trustee and ultimate beneficiary of a trust (a charitable remainder trust) that only the right to receive the future cash flows "would be an asset." NACUBO believes 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 Chapter 6, Split-Interest Agreements of the AICPA's Proposed Audit and Accounting Guide, Not-for-Profit Organizations. This chapter states that the proper accounting treatment is to record the gross asset at fair value, the present value of the future estimated liability, and the difference as a charitable contribution. When a not-for-profit organization is both the trustee and beneficiary of a trust, the assets, liabilities and contribution are already recorded by the not-for-profit organization, therefore, consolidation is not necessary. Both NACUBO and the AICPA Not-for-Profit Committee have studied extensively the proper manner to report on these trusts where the not-forprofit organization is both the trustee and remainderman, and have concluded that these trusts should be reported gross (total assets, payment liabilities and net assets) on the financial statements of the not-for-profit organization. We urge the FASB to reach the came conclusion. We also urge the FASB to be more clear in the final standard on how they expect such trusts to be reported.

Just as the FASB has asked its staff to clarify the definition of an agent, trustee, and intermediary for SFAS #116, NACUBO feels that if the proposed standard is not clear on the subject of trusts, it will at best, lead to confusion in our industry, and at worst, make it appear that the standards are in conflict with one another which is not the case.

NACUBO appreciates the opportunity of responding to the ED. We hope you will take our comments and suggestions into consideration as you undertake the ED revision.

Sincerely,

Ingrid S. Stafford, Co-Chair Accounting Principles Committee

in S. Soffer

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