

44 INVERNESS DRIVE EAST BUILDING A & B DENVER, COLORADO 80112

P.O. BOX 131 GRANBY, COLORADO 80446 (303) 799-6826 FAX (303) 799-6926 GRANBY OFFICE (970) 887-2493

DENVER OFFICE

MANAGEMENT CONSULTANTS

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Financial Accounting Standards Board c/o Mr. Ron Bossio, Project Manager 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Consolidated Financial Statements: Policy and Procedures

Dear Mr. Bossio:

Thank you for the opportunity to respond to the Board's recent exposure draft concerning consolidated financial statements. Our firm audits primarily not-for-profit organizations and some consolidated for-profit companies. Thus, our comments on the exposure draft are made with these types of clients in mind.

We believe the underlying reasons for the exposure draft are appropriate. As organizations become more and more linked together through increasingly complex relationships, there are and will continue to be substantively related organizations even in the absence of the ownership of a majority voting interest. Thus, we support the exposure draft's attempt to define "control" and to set forth when such control is sufficient to warrant the preparation of consolidated financial statements. We also support the standardization of consolidation procedures and techniques which has been lacking in accounting standards for some time. Overall, we believe the proposed standard will enhance financial statement comparability and relevance.

We believe the exposure draft goes to great lengths to define control and to set forth the consolidation procedures to be used by preparers of financial statements. However, we would like for the Board to consider several detailed issues which we believe need to be addressed.

Our first concern involves the situation where a non-profit organization controls one or more separate non-profit organizations (e.g. national fraternal organizations that control



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"related" foundations, etc.). Specifically, how would such a non-profit quantify its percentage of control (e.g., 60%, 80%, or 100%) when stock ownership is not present? This question is especially critical when a non-profit is "owned" by more than one non-profit because the exposure draft contains specific requirements for the financial statement disclosure of minority interest figures such as for net assets and net income. Should the percentage of control be defined, for example, based upon the percentage of the board membership controlled? If so, what about situations described in the exposure draft in which control is present even though the ability to elect the majority of a board's membership is not? We believe the Board should consider adding guidance to the proposed standard on this issue. The guidance should address how to quantify the percentage level of control in sufficient detail so that subsequent changes in this level of control can also be readily recognized and quantified.

Second, we are unsure about the exposure draft's relation to AICPA Statement of Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations. Obviously, the proposed standard would have greater authority, but, would it not be useful for the appendices to at least explain the differences and similarities between the two consolidation principles and also confirm whether or not SOP 94-3 should be considered for application when the proposed SFAS does not apply?

Third, we believe the Board needs to consider adding more guidance for non-profits under the "Consolidation Procedures" section of the exposure draft. In particular, how does a non-profit recognize when it has acquired goodwill or negative goodwill in another non-profit, especially when its level of control is identified by other than stock ownership? Also, we believe the new standard needs to provide additional guidance on how a non-profit makes the necessary year-end entries to record a controlling interest in another non-profit when no stock ownership exists.

We would be glad to elaborate on the above concerns if desired. Thank you again for the opportunity to contribute to the development of this proposed standard.

Sincerely, **BONDI & Co.** 

Bert R. Bondi, CPA

Partner