**Len Tatore** 

Letter of Comment No: 14

Date Received:

From: Mary Hunter [bclc1@airmail.net] File Reference: 1082-194R

Sent: Monday, May 24, 1999 11:58 AM

5/25/99

To: director@fasb.org

Subject: Exposure Draft (Revised) Consolidated Financial Statements: Purpose and Policy dated February

23, 1999

May 24, 1999

Mr. Timothy S. Lucas Director of Research and Technical Activities Financial Accounting Standards Board P. O. Box 5116 Norwalk, CT 06856-5116

RE: Fire Reference No. 194-B Exposure Draft (Revised) Consolidated Financial Statements: Purpose and Policy dated February 23, 1999

Dear Mr. Lucas:

As financial officer for a religious not for profit corporation, exempt under 501(c)(3) of the Internal Revenue Code, and on behalf of that organization, I appreciate the opportunity to respond to the revised Exposure Draft on consolidated financial statements. Our corporation would like to express our concern that the revised Exposure Draft does not adequately address the nonprofit sector and its many unique organizational structures, especially those of religious organizations. While we appreciate the intent of the pronouncement to better serve the public by providing more complete information as to the assets controlled by an organization, we are concerned with what appears to be a confusing explanation of what constitutes the "control" that leads to a required consolidation of financial statements.

## Issue 1:

Under "Control of a Subsidiary" paragraph 10 you state control involves the presence of two essential characteristics--decision making ability regarding ongoing activities and ability to use power to increase benefits or limit losses from the activities of the subsidiary. However, in paragraph 18 you indicate that the existence of control is "presumed" if an entity has the power to elect or appoint the majority of the corporation's governing body. This would seem to imply that the form (election of board of directors) is the deciding factor as to consolidation and that the substance of decision making ability and economic gain or loss are not to be considered. I feel this needs to be clarified since there are situations where the ability to elect the majority of directors does not necessarily provide the ability to control operations of an organization for economic benefit or loss.

## Issue 2:

Under "Nonprofit Corporation" paragraphs 54-58 you do not sufficiently address the uniqueness of not-for-profit organizations--especially the relationships between religious

## organizations.

I will use our organization as a example. Baptist Church Loan Corporation is chartered by the State of Texas as a self-supporting not for profit organization to provide loans to Texas Baptist Churches for construction and/or renovation of worship facilities. We have been in existence since 1952. Our sources of funds are from bank loans, corporate bond issues and accumulated equity. Our twelve member board of directors is elected by a 204 member group which has been elected by messengers to the annual session of the Baptist General Convention of Texas. Those messengers represent more than 6,000 Baptist churches comprised of approximately 2.8 million members. The maximum number of messengers from any church does not exceed 25. Our Board of Directors have total control in the operational decisions of the Corporation and in the selection of management. We receive no support from the Baptist General Convention of Texas and/or its churches. Our charter provides that our funds can only be used to provide loans to the churches and that if the organization should liquidate all assets would go to a similar not for profit organization. Our bond offering circulars and borrowing covenants state that the BGCT cannot be looked to in case of default on our obligations.

How does the new Exposure Draft apply to us? We would contend that our financial statements should not be consolidated with those of the BGCT because the process that allows for the election of our directors is based on maintaining a relationship of a religious or common cause nature rather than economic nature and no economic benefit or loss can result from that relationship. Furthermore, we feel that consolidation of financial statements would be a source of confusion to constituents and a gross misstatement of the financial relationship which exists between the two organizations. However, we are unable to point to any one thing in the ED that is sufficiently clear to provide strong support for our position.

I appreciate the opportunity to comment on the Exposure Draft and would welcome the opportunity to provide further input by myself or some of my constituents in the nonprofit accounting arena as you finalize the proposed SFAS.

## Sincerely,

Mary L. Hunter, CPA
Vice President and Chief Financial Officer
Baptist Church Loan Corporation
P. O. Box 150098
Dallas, TX 75315-0098
214-828-5142
bclc1@airmail.net