Baruch College

Zicklin School of Business Baruch College The City University of New York

17 Lexington Avenue New York, New York 10010 (212) 802-6448

STAN ROSS DEPARTMENT OF ACCOUNTANCY

28 April 1999

Director of Research and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P. O. Box 5116 Norwalk, Connecticut 06856-5116

Comment Letter No. 5 File Reference: 1082-194R Date Received: 5/3/99

File Reference No. 194-B

Dear Sir:

This letter is in response to your invitation to comment on the revised Exposure Draft, "Consolidated Financial Statements: Purpose and Policy."

In general, I support the conclusions of the ED, but I am disappointed that it did not include consolidation procedures as covered in the 1995 ED. Of course, there are understandable reasons why the scope of the 1999 ED excludes consolidation procedures. The 1999 ED refers to the 1995 ED, including scope considerations. A limitation of the 1999 ED, however, is that it does not address the reasons for excluding consolidation procedures. This is easily rectified.

More important, explicit consideration should be given to the consolidated cash flow statement. In particular, the transition requirement (para. 29) should be amended to require disclosure of the effect of any restatement on the consolidated cash flows subtotals for operating activities, investing activities, and financing activities. For many corporations, the overall thrust of the ED is to require consolidation rather than equity method accounting. The overall income statement effects of restatement may be minimal, because the overall results of applying the equity method conform to a full consolidation. The cash flow statement effects of restatement are potentially much more significant. Alternatively, the Board should indicate why it does not require disclosure of the cash flow statement effects of restatement.

Sincerely,

Hugo Nurnberg

Hugo Kubuy

Professor

Secondly, Paragraph 77 asserts that upon termination of the licensing agreement, control does not exist because the offending licensee can control the net assets accumulated during the period of licensure. This later FASB assertion seems to fly in the face of virtually all charitable fundraising statutes dealing with the solicitation of funds and subsequent expenditure of funds by the soliciting tax-exempt organization. Aside from legislative requirements, there is also a well-established legal doctrine of "cy-pres" which calls for, in part, the judicial review and determination of whether funds raised in the name of one organization can be spent by that organization if they are no longer the organization, which solicited the funds. Consumer protection statutes refer to that practice as "bait & switch" and attorneys general typically have the standing to initiate "cy-pres" petitions to the court on behalf of the donor public when individual donors themselves do not initiate such actions. In light of these legislative and judicial provisions, how can FASB conclude that former licensee affiliated non-profit organizations are not controlled?

Accordingly, the exposure draft's exemption from the requirement to produce consolidated financial statements accorded to non-profit controlled groups is inappropriate and NCIB urges FASB to reconsider the language of the exposure draft particularly paragraphs 77 and 177 of Appendix A. Moreover, I believe contributors and other resource providers have a right to know about affiliation agreements, including the fact that they exist and the essential elements of operational and financial control contained in the agreements. I suggest that disclosure of the essential elements of these agreements be mandated in the consolidated financial statements of nonprofit groups. I suspect that the implications of such a pronouncement would have significant positive impact upon IRS Form 990 reporting as well and may in fact lead to streamlining of Form 990 reporting which is a further public contributor benefit. A complimentary benefit of streamlined Form 990 reporting is dramatically simplified state reporting on a consolidated basis. Frankly, with the divergence of practice allowed under Section 1501 of the Internal Revenue Service Code, contributors are rightfully confused about the corporate composition of GAAP financial statements and related Form 990 filings. FASB could take a giant step forward for contributors by eliminating much of that confusion and requiring consolidated financial statements for non- profit affiliated groups.

If you have, any questions concerning this response feel free to contact me at your convenience.

Sincerely,

Matthew A. Landv-