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Financial Accounting Standards Board
Director of Research and Technical Activities
File Reference No. 194-B
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 85
File Reference: 1082-194R
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Director:

This letter is in response to the Financial Accounting Standard Board's exposure draft titled Consolidated Financial Statements: Purpose and Policy.

The illustrative examples are very helpful. However, I am not completely clear as to whether the following scenario would require consolidation.

> The directors of Corporation N, a not for profit organization, establish a second not for profit, Corporation O, to construct and own an apartment building to be financed with non recourse debt guaranteed through a federal government program.
>
> Corporation O's articles of incorporation provide the names of its initial board members, who were chosen by the directors of Corporation N. The bylaws state that initial board members will serve a three-year term and future members of O's board are to be chosen by then existing board members. The initial and current board directors are Corporation N's president, chief financial officer and a vice president.
>
> This government program, guaranteeing the debt, limits management fees, to be paid from cash generated by rents, to 6% of revenues annually. It also limits up front developer fees, to be paid from cash generated by borrowed funds, to 8% of total construction costs. Other than these fees, the program precludes Corporation O from using its assets for any purpose, other than the care of and services to residents, as long as the debt and the guarantee are in place.

Would you consider adding verbiage to the final draft that may help us determine whether or not the proposed situation above would require consolidated financial statements?

Thank you for the opportunity to respond.

Sincerely,

Gary Zimmerman

Gary Zimmerman
Associate Vice President for Financial Management