

Letter of Comment No: 15
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May 20, 1999

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

Re: File Reference No. 194-B

Dear Mr. Lucas:

This letter is our response to the FASB's Exposure Draft (Revised) entitled, Consolidated Financial Statements: Purpose and Policy, dated February 23, 1999. We understand that responses are possible through May 24, 1999. For that reason, we are sending a copy electronically and following it with one by regular mail to comply with your date requirements.

We have reviewed the contents of the Exposure Draft and its possible application to us. Our intent is to be cooperative and compliant, yet we have concluded some sense of confusion as we read the document and discussed its possible application with other Nonprofit leadership. For example, we attended a recent statewide Nonprofit Organization (NPO) Conference here in Dallas with a Senior Manager of a Big Five firm's Assurance Section leading a session on the topic of "FASB Updates Related to NPO's". The speaker was not even aware of this exposure draft. We also visited with several other conference attendees and most of them were not apprised of this Exposure Draft's status. For an Exposure Draft proposal to be so unknown or limited in its publication seems unusual for such a significant possible impact.

It is our goal through this letter to convey our opinions regarding the Exposure Draft's viability for an organization like ours and the related understanding of its impact. Thank you for allowing our input.

Background

The Baptist General Convention of Texas (Convention) is a state chartered tax-exempt corporation, under section 501,c,3 of the Internal Revenue Code. The Convention, which meets two days per year in annual session, is composed of messengers from the 6,000 churches comprised of 2.8 million members affiliated with it. Messengers are church-elected representatives who attend and conduct the business of the Convention for that year. For other than those two days, the Executive Board of the BGCT conducts the business affairs of the Convention. The Board is composed of 204 elected Baptist board members for the religious organization. The Board holds the assets of the Convention and is the entity audited annually.

The Executive Board administers, as one of its primary functions, the Cooperative Program Budget, comprised of voluntary contributions from the 6,000 affiliated churches. The Executive Board also receives gifts and bequests from the estates of Texas Baptist individuals. The total assets of the Executive Board, as of December 31, 1999 were \$172 million.

To accomplish its religious and related missions, the Executive Board contributes to separate nonprofit Baptist affiliated institutions in healthcare (8 hospitals), Christian education (8 universities), child care (8), ministry to the aging (4), and other organizations, including a foundation. The Executive Board provides annual support for ministries through those institutions through the voluntary contributions of the affiliated 6,000 churches of the Convention. The Convention, not the Executive Board, elects part, or all, of the institution's trustees and approves charter changes of the institution's articles of incorporation. The financial obligations of the institutions, as described in our external audit report and any debt prospectus statements of the institutions, are solely those of the institutions and not the Executive Board. The financial statements of the Executive Board, accordingly, do not include those of the respective institutions. The aggregate amount of the assets of these institutions would be estimated in excess of \$3 billion.

The Convention is not a hierarchical organization, but one based on voluntary cooperation among its affiliates. Each church is autonomous with the Convention exercising no ecclesiastical authority over any church. Also, the Convention elects the trustees, or part, for the institutions but does not engage in setting policy, exercising controls, as your Exposure Draft defines the term, or directing management or controlling of the institution's operation.

Each of the institutions mentioned has independent financial audits with different fiscal years. Each is governed by a separate board of trustees. The Executive Board has a voluntary relationship with each institution. As such, the Executive Board supports ministries through each institution but does not fund the institution directly. In most cases, the funding provided by the Convention, administered by the Executive Board, is not a major source of funds for the institution, in that it averages from .01% to 8% of the institution's budget. Some would characterize this level of funding as symbolic.

Control

In reviewing the wording on "Control" in the Exposure Draft, the Convention has rights granted to it, which it "does" exercise. These include: election of trustees, approval of charter changes, and approval of debt for some entities. The purpose of the rights is simply to maintain a religious character to the institution's operation. The Convention "does not" engage in directing management, setting policies, approving capital or operating budgets, or engaging in controlling of budgets and actual performances. Likewise, the Convention, nor the Executive Board, does not direct use of or access to assets nor hold institutional managers accountable, which is an institutional board of trustee expectation. Therefore, it would be our understanding that such a relationship

does not constitute a condition where consolidation would be required. We are confused about the definition of terms in the Exposure Draft in defining “Control.”

The articles and bylaws for many of the institutions do not provide for their assets to be transferred to the Convention upon dissolution. The laws of Texas simply require the transfer recipient to be another nonprofit. Some of the institution’s dissolution provisions do provide for the assets to transfer to the Convention but there was never consideration given to the implication of such provisions in the context of consolidation and that could be easily modified to remove the Convention from these documents.

It is our further understanding of your terms that the Convention does not withhold the sharing of the affiliated institution’s decision-making authority, rather the institution has that right and has always had that right. Texas law appears to speak to this issue when it seems to convey that when a trustee is elected to serve on a governing board for an entity, that person’s primary responsibility is to the entity, not any other electing body.

Economic Interest

When addressing the elements of “Economic Interest” in the Exposure Draft, our Convention does not seem to be applicable in that we are not involved in institution’s day to day operations. The rights granted to the Convention are not on an economic basis but for maintaining a religious identity. Other than the specific designated ministries supported through the institutions mentioned, the Convention does not demand or direct funds of the institutions. As an example, we provided limited funds to a hospital for a chaplaincy ministry. We also provide scholarship support for a ministerial student at a university. The institutions do not provide us economic benefit or are our specific actions related to any change in a possible profit or loss condition in their institution’s operation.

Impact of Adoption

In this letter we have discussed our understandings and possible interpretations regarding certain aspects of the Exposure Draft in the context of our organization. You would expect this view. However, we also see more far-reaching impact for other nonprofits. These might include:

- 1) Confusion as to whom would be included and to whom would not be in a consolidation?
- 2) Who would the users be for such a report?
- 3) Would there be basis for significant misunderstandings by the readers?
- 4) Would there be significant cost issues for nonprofits as a result?

Conclusions

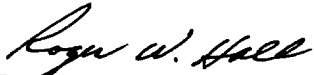
- 1) Perhaps more clarity as to nonprofit application might be helpful. This might include more study and publication of pending changes.
- 2) NPO’s expect accountability and disclosure but we question whether this is the best approach.
- 3) We would further ask that you move cautiously in application of the terms of control and economic interest in organizations where the understanding of the relationships is different than noted.

- 4) Many organizations apparently are not aware of this pending revision of the Exposure Draft. If the comments have to be in within a month of its publishing, it seems this is a faster track than normal. With such a diverse audience that will be impacted, perhaps further time and effort would be beneficial to all.

Our view is that while the Convention or the Executive Board does have some characteristics as to "Control", the Convention nor Executive Board neither receives nor provides any substantive "Economic Interest" in these institutions. We do not believe consolidation should be required, or even permitted, without the existence of both attributes of "Control" and "Economic Interest".

Thank you for the opportunity to share our views and concerns. We respect that the issue is a complex one and your task is not an easy one.

Sincerely,



Roger W. Hall, CPA
Chief Financial Officer/Treasurer
Executive Board of the BGCT
333 N. Washington
Dallas, Texas 75246-1798
214.828.5310
E-mail: hall@bgct.org

Copies to: Dr. William M. Pinson, Jr., Executive Director
BGCT Audit Committee Members
Randy Reid, Controller