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December 29, 1995

Timothy J. Lucas
Director of Research and Technical Activities
File Reference No.: 154-D
Financial Accounting Standards Board
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Dear Mr. Lucas:

This letter is being written as a response to the Financial Accounting Standards Board (FASB) Exposure Draft (ED), Consolidated Financial Statements: Policy and Procedures, (Project No. 154-D).

Generally, I am in agreement with the scope of the proposed standard and believe that not-for-profit organizations should consolidate all subsidiaries over which the not-for-profit organization has control. I am also generally in agreement with the definitions of control and effective control.

I would like to suggest, however, that the final statement adopted by FASB would clarify and would be more specific on how trusts should be recorded. It seems to me that there are two kinds of trusts that the reporting standards should address. These are:

- Trusts for which an entity serves as the trustee and a third party as the beneficiary.
- Trusts for which an entity serves as both the trustee and the ultimate beneficiary of the trust (charitable remainder trusts).

In the first case, the standard should make it clear that the entity serving as a trustee does not consolidate the trust assets and liabilities with those of the entity.

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The standard should also make it clear that in the case of the first type of trust, a not-for-profit organization who is a beneficiary of the trust should record the present value of the estimated future stream of cash flows from the trust as an asset of the not-for-profit organization.

In the case of the second kind of trust, where the trustee is also the remainderman (charitable remainder trust) it is my opinion that the assets and liabilities of these trusts should be consolidated into the financial statements of the trustee. I would disagree with the conclusion reached in paragraph 211 that where a charity is both trustee and the ultimate beneficiary of a trust "the trust would not be controlled by the charity" and only the present value of the estimated future cash flow "would be an asset". I believe that a charitable remainder trust designating a not-for-profit organization as both trustee and remainderman does meet the definition of control as stated in paragraphs 9-11 of the ED. The charity as trustee, has permanent physical control over the assets (paragraph 9); it has exclusive power (paragraph 10); and the charity will receive the "future economic benefit inherent in those assets" (paragraph 11). The future economic benefit from such trust could come as early as tomorrow or not for many years. The ED does not state a time factor when the future economic benefit must be realized. I would urge the FASB to reconsider the conclusion reached in paragraph 211 so that in those cases the trusts could be consolidated into the financial statements of the not-for-profit organization functioning as a trustee.

I believe that the ED is not clear on the subject of trusts and that further clarification should be made in the final standard. Thank you very much for the opportunity to respond to the ED.

Very truly yours,

eigh A. Jones

Vice President for Business

and Finance

cc: Robin Jenkins
Joe Blythe

Marcia Wood