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## Non-Profit Notes Newsletter

# Current Consolidation Guidance for NFPs That Are GPs/LPs in For-Profit Limited Partnerships

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Recently, we received a number of inquiries from our not-for-profit clients regarding rules requiring consolidation of certain affiliated entities, particularly those surrounding affordable housing. The Financial Accounting Standards Board (FASB or Board) addressed this subject in Accounting Standards Update (ASU) 2017-02, Not-for-Profit Entities—Consolidation (Subtopic 958-810): ***Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity.***

The purpose of ASU 2017-02 is to update previous guidance and to clarify when non-profit entities that are general partners or limited partners should consolidate their holdings in a for-profit limited partnership.

### In Brief

Previous guidance did not address when the general partner should consolidate a for-profit limited partnership, instead it only focused on how not-for-profit limited partners should consolidate the partnership.

Guidance for both limited and general partners is now set forth in the new standard and includes the following with respect to consolidation:

- Not-for-profits that are general partners are presumed to control a for-profit limited partnership regardless of ownership interest, unless that presumption is overcome.
- To be overcome, limited partners must have either substantive *kick-out rights* or substantive *participating rights*.
- To be considered substantive, kick-out rights must be exercisable by a simple majority vote by limited partners, or a lower threshold.

The Board believes that the new standard can impact non-profits involved with certain affordable housing agreements.

### Certain Definitions

The following definitions are provided in the ASU as applicable to the language contained in the bullet points above:

**Kick-out rights:** The rights underlying the limited partner's (or partners') ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause.

**Participating rights:** Participating rights allow the limited partners or noncontrolling shareholders to block or participate in certain significant financial and operating decisions of the limited

partnership or corporation that are made in the ordinary course of business. Participating rights do not require the holders of such rights to have the ability to initiate actions.

### **Full Text**

ASU 2017-02 can be accessed on the [FASB website](#).

### **Effective Date**

The amendments in ASU 2017-02 are effective for NFP entities for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.

### **Contact Us**

For more information about this new guidance or accounting and auditing services in the not-for-profit sector, please contact your PKF O'Connor Davies engagement partner or any of the following partners:

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