

MEMORANDUM



**To:** Board Members

**From:** Not-for-Profit Team  
(Budak, 847-891-6081;  
Maffei, ext. 273)

**Subject:** Minutes of February 26, 2003  
Board Meeting

**Date:** February 27, 2003

**cc:** NFP Combinations Team, Bielstein, Smith, Petrone, Leisenring, Swift, Polley, Gabriele, Sutay, Thompson, Schermann (GASB), FASB Intranet

Topic: Combinations of Not-for-Profit Organizations: Disclosures, Effective Date, and Transition

Basis for Discussion: Staff Memorandum dated February 18, 2003

Length of Discussion: Starting Time: 11:45 a.m. Concluding Time: 12:00 p.m.

Attendance:

Board members present: Herz, Crooch, Foster, Schipper, Trott, and Wulff

Board members absent: Scheineman

Staff in charge of topic: Budak

Other staff at Board table: Bielstein, Bossio, Cropsey, McIntosh, and Maffei

Summary for ACTION ALERT:

The Board discussed issues related to the disclosure required of an acquiring not-for-profit organization, and the effective date and transition method of the proposed statement. (Except where noted, all decisions were unanimous.)

The Board decided that the disclosures currently required by FASB Statement No. 141, *Business Combinations*, as modified to apply to the not-for-profit sector, should generally be required for acquiring not-for-profit organizations. Further, the Board decided that changes to the Statement's disclosure requirements as a result of the business combinations-purchase method procedures project should be applied to not-for-profit organizations. (Mr. Foster objected to requiring the disclosure required by paragraph 52 (c)(1) of Statement 141 for not-for-profit organizations.)

The Board directed the staff to further investigate the potential usefulness of supplemental pro forma disclosures similar to those required by paragraphs 54 and 55 of Statement 141, and will return to the discussion at a later date.

In addition to the disclosures required of business enterprises, the Board decided that not-for-profit organizations should be required to disclose the fair value of collection items acquired in a reciprocal combination and then written off in the same period. However, the Board also decided that that disclosure should not be required if the Board decides at a later date to require an immediate write-off of goodwill.

With respect to effective date and transition method, the Board decided the following:

- a. The proposed Statement should be effective upon issuance.
- b. The proposed Statement should apply prospectively to all combinations initiated after the effective date.
- c. The proposed Statement should preclude adjustments of amounts recognized in combinations occurring before the issuance date regardless of whether the combination was originally accounted for by the purchase or pooling-of-interests methods.
- d. The proposed Statement should include transition provisions for intangible assets and negative goodwill consistent with the guidance for business enterprises in paragraphs 61 and 62 of Statement 141.

Matters Discussed and Decisions Reached:

The Board generally agreed with the staff recommendations and reached the decisions reported in the action alert section of this memorandum.

Mr. Foster stated that the disclosure of the total amount of goodwill and the amount expected to be deductible for tax purposes, which is required by paragraph 52 (c)(1) of Statement 141, should not be required for not-for-profit organizations. He stated that users of financial statements for not-for-profit organizations generally would not find this information useful. The other Board members stated that the disclosure would not apply unless a not-for-profit organization was subject to taxes and if it were, some users might find the information useful. Those Board members preferred to require that disclosure.

Some Board members questioned the usefulness of the pro forma information that is required by paragraphs 54 and 55 of Statement 141 to users of financial statements of not-for-profit organizations. It was noted that during the February 13, 2003 meeting with the Users Advisory Council, there was discussion regarding the usefulness of, and potential improvements to, pro forma information, such as a disaggregation of “organic versus acquisition growth” and more forward-looking information. Mr. Bossio stated that the Business Combinations-Purchase Method Procedures team is already investigating those issues. Ms. Bielstein stated that it also would be helpful to research whether the currently required pro forma information or other proposed pro forma information would be useful, and if so, who would use it.

Mr. Wulff expressed concern that the staff’s modified definition of a public business enterprise for purposes of applying those pro forma disclosure requirements to not-for-profit organizations was too narrowly defined. He stated that in addition to not-for-profit organizations that issue financial statements for the purpose of issuing debt securities, not-for-profit organizations that issue financial statements in order to solicit contribution income also might be considered to be “public.”

Ms. Budak stated that the reasons originally given in FASB Statement 79, *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises*, for exempting nonpublic enterprises from the pro forma disclosure requirements were that the costs to provide the those disclosures generally exceed the benefits to the users of a nonpublic company's financial statements. Ms. Budak said that she believes the reasons cited in paragraphs 12–14 of Statement 79 apply equally to not-for-profit organizations.

Mr. Crooch suggested that the requirement to disclose the fair value of collection items that were acquired in a reciprocal combination and then written off in the same period might not be necessary if the Board decides to require an immediate write-off of goodwill. If collections were not measured, the consideration paid for the collection would be subsumed into goodwill. He stated that it does not make sense to require not-for-profit organizations to bear the costs of separately measuring a value if both the collection and goodwill would immediately be written off.

Follow-up Items:

- The staff will contact certain analysts in order to discuss whether and to what extent pro forma information in the financial statements of acquiring not-for-profit organizations would be likely to provide benefits that exceed the costs of preparing that information.

General Announcements:

Ms. Budak introduced Ann McIntosh as a new member of the combinations of not-for-profit organizations project team. She explained that Ms. McIntosh will assume the project manager duties. Ms. Budak stated that she will remain on the project team as a technical consultant through the issuance of the Exposure Draft.