

MINUTES



Financial Accounting
Standards Board

To: FASB Board Members

From: Not-for-Profit Team
(Clark, x443)

Subject: Minutes of the September 24, 2008 Board Meeting: Not-for-Profit Organizations—
Mergers and Acquisitions **Date:** October 6, 2008

cc: FASB: Golden, Bielstein, Proestakes, Stoklosa, Bossio, Mechanick, Clark, Prince, Anderson, Willis (consultant), Glotzer, Lott, C. Smith, Lapolla, Gabriele, Sutay, FASB Intranet, Chookaszian, Posta, Klimek, Allen; GASB: Reese, Schermann; IASB: Leisenring

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.

Topic: Not-for-Profit Organizations: Mergers and Acquisitions

Basis for Discussion: Board Memorandums 8, 9, and 10

Length of Discussion: 10:45 a.m.–12:00 p.m.

Attendance:

Board members present:	FASB: Herz, Batavick, Linsmeier, Seidman, and Smith
Board members participating by phone:	None
Board members absent:	None
Staff in charge of topic:	Bossio
Other staff at Board table:	FASB: Golden, Mechanick, Clark, Prince, and Willis (by phone)

Summary of Decisions Reached:

At the September 24, 2008 meeting, the Board discussed whether to require a different method of accounting for a merger of not-for-profit organizations than that required for an acquisition and, if so, how it should define a merger and clarify the proposed guidance. The Board affirmed its prior tentative decision to distinguish between a merger and an acquisition. The Board also decided to improve the workability of the definition and its related guidance by:

- Clarifying the scope of the final Statement by explicitly scoping out formations of joint ventures and making the merger definition more robust.
- Including a discussion that emphasizes that in a merger no one party dominates various aspects of the merger transaction and describes factors that are helpful in discerning a merger from other combination types.

The Board also directed the staff to develop case-based examples useful in applying the final Statement.

In addition, the Board also discussed whether to retain or modify the proposed requirements for (a) initial recognition and measurement of acquisitions and (b) subsequent accounting for any goodwill recognized as a result of the acquisition. That discussion will continue at the October 1, 2008 meeting.

Objective of Meeting:

The objectives of the meeting were for the Board to discuss (1) whether to require a different method of accounting for a merger of not-for-profit organizations than that required for an acquisition and, if so, how it should define a merger and clarify the proposed guidance, (2) the net asset approach to initial recognition and measurement of acquisitions, and (3) the subsequent accounting for any goodwill recognized. In addition, the staff desired to reach decisions regarding (1) and (2). The objective for (1) was met. The discussion of (2) and (3) will continue at the October 1, 2008 meeting.

Matters Discussed and Decisions Reached

Issue 1—Appropriateness and Workability of Distinction

Appropriateness

1. Ms. Clark made reference to the September, 18, 2008 meeting and the comments made by respondents to the May 2008 Request for Additional Comments on FASB Exposure Draft, *Not-for-Profit Organizations: Mergers and Acquisitions* (NFP M&A ED), and field visit participants. Ms. Clark noted that the respondents and participants agreed that the Board's tentative decision to distinguish between a merger of not-for-profit organizations and an acquisition by a not-for-profit organization is appropriate. She added that the staff concurs and asked the Board if it continues to believe that its tentative decision to distinguish between a merger of not-for-profit organizations and an acquisition by a not-for-profit organization is appropriate.

Workability

2. Ms. Clark noted that several comment letter respondents, field visit participants, and Board members previously had raised concerns about the workability of the proposed criterion and its related guidance. She added that the staff believes that such concerns can be addressed and the workability of the definition improved by providing (a) clarity with regard to the scope of the document, (b) additional guidance as related to the notion of dominance, and (c) additional guidance in the form of examples, indicators, narrative discussion, or some combination thereof.

3. Ms. Clark stated there are three options for clarifying the scope of the final Statement, especially as it relates to the formation of joint ventures and joint-venture-like arrangements. She added that the Board could (a) provide an explicit scope out of joint venture formations in the scope paragraphs of the final Statement, consistent with FASB Statement No. 141 (revised 2007), *Business Combinations*, and the intent of the NFP M&A ED, (b) revise the merger definition to more clearly exclude them, or (c) both. She added that the staff recommends that the Board do both, in part because distinguishing between a merger and a joint venture is particularly problematic and because that distinction was not necessary for Statement 141(R). However, that distinction is necessary for the final Statement on not-for-profit mergers and acquisitions and, thus, the staff thinks constituents would benefit from guidance in addition to the

scope-out. She added that the merger definition could be made more robust by adding to the current definition that “the combining organizations cease to exist as autonomous entities.”

4. Ms. Clark stated that the staff also recommends that the Board provide guidance that emphasizes the notion that no one party dominates the process leading up to the merger, including negotiations of the merger agreement. She added that doing so would reinforce the ceding of control criterion upon which the proposed definition of a merger is based without relying on a brightline. The guidance would still rely on auditors to exercise professional judgment. She added that the guidance should also clarify the meaning of *dominates the process leading up to the merger*.

5. Ms. Clark added that the staff also recommends that the final Statement include indicators that distinguish (a) a merger from an acquisition and (b) a merger from a joint venture. She emphasized that the intent is that the strength of each indicator not be judged on an individual basis; rather, when taken together, the indicators would be used to help practitioners, based on the preponderance of the evidence, ascertain the type of transaction that had occurred. The indicators serve as an aid, but do not replace the need for judgment.

6. Lastly, Ms. Clark stated that because the staff has differing views with regard to whether examples should be provided, the staff sought direction from the Board. The staff suggests that if the Board chooses to include examples as part of the implementation guidance to the final Statement, those examples should be of an ambiguous nature. She added that the staff suggests that the guidance contain at least one pair of contrasting facts and circumstances that illustrate and explain the conclusions reached for each type of transaction illustrated.

7. Ms. Clark asked the Board if it:

- Agrees to move forward with its tentative decision to distinguish a merger of not-for-profit organizations from an acquisition by a not-for-profit organization based on the appropriateness and workability of the ceding of control criterion.
- Agrees with the staff’s recommendations aimed at ensuring the workability of the distinction, definition, and related guidance and if not, what needed to be done to more clearly articulate the underlying principle and its scope and ensure its reasonably consistent application across practice.
- Prefers that the guidance for applying the distinction between a merger and an acquisition include illustrative case examples and if yes, if it concurs with the staff’s proposed direction for developing the examples.

Issue 1 Board Comments

8. The Board unanimously affirmed that it remains appropriate to distinguish between a merger of not-for-profit organizations and an acquisition by a not-for-profit organization.

9. Mr. Smith inquired as to whether the fact that two independent entities with separate boards merged with the independent affirmative vote of each entity would in and of itself answer the question as to whether one organization dominated the negotiation process. He stated that one board could take the lead in terms of doing the background work regarding whether a merger made strategic sense without much help from the other board. However, the other board would still evaluate the lead entity's analysis of the transaction and make its decision as to whether the entities should engage in the transaction. Mr. Smith inquired as to how such circumstances would influence the classification of the transaction.

10. Mr. Bossio stated that the same set of circumstances could be present in the making and acceptance of transaction offer that is clearly an acquisition transaction. Mr. Smith clarified his fact set by stating that there was no cash consideration involved and that a new board with representatives from both old boards was formed, but yet throughout the negotiation process one board took it upon itself to go through the process. Mr. Mechanick stated that based on his experience, it is almost inconceivable to observe one entity dominating as far as the negotiation process is concerned if such entities are negotiating from equal positions of strength. He added that an entity doing so is not consistent with the entities being interested in continuing to serve their respective constituencies; both organizations would actively be involved in the process.

11. Mr. Herz stated that he shares Mr. Smith's concerns that utilizing the notion that no one party dominates the process, including negotiations of the agreement, could be a false indicator. Mr. Smith expressed his concern that a number of small not-for-profit organizations currently involved in a nationwide trend to engage in merger transactions would have to account for their transactions as acquisitions just because they let the other boards with whom they combined take the lead as far as assessing the merits of the combination were concerned.

12. Mr. Linsmeier stated that there seemed to be a communication issue between the staff and the Board. He stated that the memorandum appears to state that dominance during the negotiation process is the governing factor with regard to the assessment of what type of combination has occurred. He noted that he agrees with the wording of the corresponding indicator in attachment

B of the audience handout, but is not comfortable with the emphasis placed by the memorandum on non-dominance of the negotiations of the merger agreement. Mr. Bossio stated that the staff did **not** intend to make dominance of the negotiations process an overriding or “super indicator;” it is merely one of several indicators that are to be assessed together. Mr. Linsmeier stated that the memorandum seems to suggest otherwise; he added that clarifying that the indicator was just one of many indicators would alleviate some of Mr. Smith’s concerns.

13. Mr. Smith stated that he is also concerned that practitioners could incorrectly interpret the indicators. As such, he is in favor of providing examples that demonstrate a circumstance in which an entity is not an active participant in the assessment of the transaction but still equally participate in the process. Mr. Mechanick stated that in almost all transactions there will be an entity that initiates the transaction. He added that initiation of the transaction does not imply dominance over the transaction. Rather, in assessing the facts and circumstances of the transaction to determine the type of combination that occurred, practitioners would look to the (a) terms of the agreement and whether such are imposed or carefully negotiated, (b) relative positions of strength of the entities, and (c) all other facts and circumstances.

14. Mr. Bossio referred the Board to the narrative drafted by the staff. He added that as part of the narrative the staff acknowledged that the process itself may not be visible to those outside the combining organizations. He reiterated that one would look at dominance over the process as an indicator and not as determinative of what type of combination had occurred. Mr. Smith agreed with Mr. Linsmeier’s observation that the memorandum seemed to emphasize the notion of dominance over the negotiations process as the governing consideration.

15. Mr. Golden inquired as to what level the dominance notion would be evaluated, for example, in circumstances in which the combining organizations have a relationship with a common national or umbrella organization. Mr. Mechanick clarified that the evaluation would be done at the level of the entities combining. Mr. Bossio stated that some of the affiliation arrangements of not-for-profit organizations are situations in which the umbrella organization controls the local affiliates or councils, but many are not. Mr. Mechanick added that the control is typically of a bottom-up nature in which the local organizations elect members to the governing board of the national organization.

16. Mr. Linsmeier stated that he is troubled by providing both an explicit scope-out similar to Statement 141(R) and a revision of the merger definition. He added that he would prefer to include only the explicit scope-out. Mr. Mechanick stated that he felt both were necessary. He emphasized the fact that Statement 141(R) does not make the distinction between acquisitions and mergers and, therefore, should only distinguish between acquisitions and joint ventures. He added that distinguishing between an acquisition and a joint venture is relatively clear whereas distinguishing between a merger and a joint venture involves a greater deal of ambiguity. Mr. Herz added that he is concerned that practitioners would structure around the terms of the suggested modification to the merger definition in order to qualify for the carryover method of accounting. He, too, would prefer an explicit scope-out.

17. Ms. Seidman stated that she favors both ways to communicate the Board's intent with regard to the scope of final Statement. She added that the underlying problem seems to be a lack of understanding that retaining shared control is not the same thing as having ceded control. She also stated that an opportunity does not exist for accounting arbitrage in Statement 141(R) but there would be for the final Statement on not-for-profit organizations. Mr. Bossio stated that the staff recommends making clearer both the scope and definition. He noted that Ms. Seidman's suggestion is another way of accomplishing that objective and perhaps a more direct way of clarifying the "ceding of control" notion.

18. Mr. Linsmeier stated that he prefers the draft narrative discussion and suggested that it include a presumption that combinations of not-for-combinations are acquisitions. He is concerned that people would seek out indicators for merger accounting and ignore indicators that indicate otherwise. All other Board members opposed inclusion of such a presumption. Mr. Herz added that he would not include the presumption because there are a large group of not-for-profit transactions that likely may be mergers. Mr. Smith reiterated the fact that there is a nationwide trend in the direction of encouraging mergers.

19. Mr. Linsmeier added that he prefers the narrative discussion, as opposed to a bulleted list of indicators, because he thinks the narrative will provide for more holistic evaluations. As such, practitioners will be inclined to weigh the evidence equally, rather than place emphasis on indicators that lead toward accounting for a transaction as a merger. Mr. Linsmeier also stated that he would like the staff to try to create illustrations. He stated that the United Way case does

not seem to be ambiguous enough to him to give sufficient insight about how to apply the considerations included in the draft narrative. He would like the examples to be even more ambiguous.

20. Mr. Herz suggested that the examples be of a similar design as those included in FASB Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities*. Mr. Batavick agreed with Mr. Herz's suggestion. He added that it is important that all of the Board members agree on the appropriate classification of the transaction given the set of circumstances for a particular case. He echoed Mr. Linsmeier's suggestion that the staff develop a set of examples and stated that the Board would consider whether to include or exclude them based on whether they were useful in applying the guidance in the final Statement. Ms. Seidman agreed.

21. Mr. Batavick stated that the work done by the staff with regard to constituent outreach has resulted in a workable not-for-profit combination model. Mr. Bossio added that the dynamics of the not-for-profit sector are such that mergers occur with greater frequency and that the staff thinks it is appropriate to make the distinction between a merger of not-for-profit organizations and an acquisition by a not-for-profit organization.

22. Mr. Linsmeier suggested that the staff consider the likely response of cooperative associations and other mutual entities to the final Statement. Mr. Bossio stated that he thinks that some cooperatives and other types of entities would clamor for similar carryover basis treatment. Mr. Bossio reiterated that there are fundamental economic differences between the underlying business models of not-for-profit organizations and the economic interests of members or shareholders of cooperatives, other mutual entities, and for-profit business entities. He added that the Board and staff had previously considered differences as part of assessing whether there are compelling reasons for differences in accounting for mergers and acquisitions of not-for-profit organizations. Although the NFP M&A ED does not distinguish between a merger and acquisition of not-for-profit organizations, the characteristics of not-for-profit organizations that distinguish them from other entities remain relevant to the Board's conclusions. Mr. Linsmeier stated that he is unsure if the guidance captured that the not-for-profit organization business model is different from that of other entities. The staff added that a discussion about the differences between not-for-profit organizations and cooperatives, mutual entities, and other entities would be part of the basis for conclusions section of the final Statement. That discussion

would explain why not-for-profit organizations, and not other types of organizations, are afforded merger accounting and the practical reasons for the Board's decision to use the carryover basis of accounting instead of the fresh-start method.

Issue 2 and Issue 3—Initial Recognition and Measurement of Acquisitions and Subsequent Accounting for Goodwill

23. Mr. Bossio stated that the initial recognition of goodwill is often tied to the costs and benefits of subsequent measure and, therefore, the staff would present the two issues together. He added that the staff would like the Board to reach a decision on the initial accounting of goodwill and narrow the list of potential alternatives for the subsequent accounting for any goodwill recognized for an acquisition. (Those alternatives are outlined in the audience handout.)

24. Mr. Bossio noted that Statement 141(R) includes certain post-Exposure Draft changes that make its accounting for an acquisition similar to that of the NFP M&A ED. He added, however, that there is currently a remaining difference since Statement 141(R) measures any noncontrolling interest recognized as a result of an acquisition at fair value but the NFP M&A ED proposes measuring any noncontrolling interest as a proportionate interest in the net assets recognized at acquisition. He stated that based on the comments received from resource group members and the Board's decision to adopt a differences-based approach to drafting the not-for-profit guidance, the staff thinks that measuring a noncontrolling ownership interest at fair value would not present significant problems. In addition, the staff thinks that outside of the health care sector, acquisitions involving a noncontrolling interest seldom occur. He added, however, that one of the responding resource group members expressed concern that requiring a fair value measure of a noncontrolling interest is, in effect, making the organization fair value an acquired entity as whole, which seems in conflict with net asset approach.

25. Mr. Bossio inquired as to whether the Board agreed that the post-Exposure Draft Statement 141(R) change to measure the noncontrolling interest recognized in an acquisition at fair value should be made to the final Statement on not-for-profit organizations to align the two documents and attempt to eliminate the differences remaining between the two. He stated that the staff had not identified any compelling reasons for not making that change to the not-for-profit guidance and, thus, recommends that change be made.

26. Mr. Bossio also inquired as to whether the Board would like to clarify (a) that the “residual excess debit” that is to be recognized as goodwill could be a “contribution made” in certain specific situations and (b) that the “residual excess credit” that is to be recognized as an inherent contribution received could be a “bargain purchase” in certain specific situations.

Issue 2 and Issue 3 Board Comments

27. Mr. Smith asked the staff to explain how one not-for-profit organization could acquire a less than 100 percent interest in another not-for-profit organization. Mr. Mechanick stated that he observed such an occurrence in the healthcare industry, especially among vertically integrated hospital chains. He stated that outside of the healthcare sector, not-for-profit organizations typically do not purchase other not-for-profit organizations. Instead, the organization obtains board representation on another organization. He added that the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*, states that in such circumstances the entity obtaining majority board representation would not recognize a noncontrolling interest for the remaining seats outside of its possession. It was noted that staff also had spoken with members of the not-for-profit resource group experienced in healthcare industry accounting and auditing. Those members stated that even in those rare cases in which a noncontrolling interest is recognized, there would be enough due diligence resulting from the combination arrangement to ascertain the fair value of the noncontrolling interest.

28. Mr. Linsmeier stated that he is convinced that the recognition of a noncontrolling interest in a not-for-profit acquisition is rare. Ms. Seidman stated that she is struggling with the issue. She added that she primarily dissented to Statement 141(R) because it (a) used the acquisition date instead of the announcement date or the date the deal was struck, (b) did not calculate goodwill as the excess of the transaction price over the fair value of identifiable net assets, and (3) measured noncontrolling interest at fair value. She noted that she is having trouble applying a business entity model to not-for-profit organizations that she believes does not result in a fair Day 1 transaction price presumption.

29. Mr. Smith stated that he was not a voting Board member for Statement 141(R). He added that he agrees with Ms. Seidman and that if he had voted, he would not have supported measuring the noncontrolling interest at its acquisition-date fair value. He believes the concept of goodwill is easily understandable when calculated as the difference between the amount paid

and the fair value of the net identifiable assets. However, when the noncontrolling interest is measured at fair value, the concept of goodwill becomes less understandable. He added that if he were voting solely from that point of view, then he would vote against measuring the noncontrolling interest recognized in an acquisition by a not-for-profit organization at fair value. However, he added that since the Board is primarily concerned about maintaining consistency with Statement 141(R) (unless there is a compelling reason for a difference) and given that the noncontrolling interest measurement requirement would primarily pertain to not-for-profit organization acquisitions of a for-profit entity, he will not object to the staff's recommendation. That is, to adopt the Statement 141(R) post-Exposure Draft change and require measurement of the noncontrolling interest at its acquisition-date fair value.

30. Mr. Batavick also voiced his support for measuring any noncontrolling interest in an acquiree at fair value. He stated that he is concerned the not-for-profit guidance will move too far away from Statement 141(R). He added that he had considered allowing the use of the IFRS option, but decided against doing so as the constituents had voiced their desire to keep the not-for-profit guidance as close as possible to the accounting guidance promulgated under Statement 141(R). Ms. Seidman stated that constituents had also raised essentially the same issue with her and that she also had considered allowing the use of the IFRS option. Ms. Seidman stated that she objects to the measurement of the noncontrolling interest in an acquiree at fair value, but stated that she does not think her objection rose to the level of dissent.

31. With regard to clarifying that the residual excess debit that is to be recognized as goodwill could in some cases be a contribution made, Mr. Bossio stated that the staff recommends that the Board not make this clarification. Mr. Linsmeier stated that, like the staff, he does not support making the distinction. Mr. Batavick agreed. Mr. Linsmeier added that it would be troublesome to get into a required evaluation of whether an entity overpaid or not and also stated that, most times, an acquiring entity is making a judgment to pay for the fair value of the acquired entity whether or not those assets for which it is paying are currently on the books of the acquiree. Requiring such an evaluation would put a burden on preparers. He added that, going forward, he would support the evaluation of whether the goodwill recognized at the acquisition date should be impaired immediately. Mr. Batavick stated that the issue raised is not a concern of a vast majority of the constituents. In addition, voting to clarify the difference between the terms

goodwill and *contribution made* would only precipitate the need for the Board to provide further implementation guidance to aid in application of the final Statement.

32. Mr. Herz suggested that the tracking of goodwill and recognition of the components of goodwill would be difficult. He added that instead of recognizing goodwill, not-for-profit organizations could have a mechanical “plug” figure that goes into the statement of activities as an excess of assets over liabilities or as an excess of liabilities over assets upon an acquisition transaction. Mr. Golden added that contributions to not-for-profit organizations are not necessarily made to acquire identifiable assets; often times, contributions are made for other reasons. He stated that it would be difficult to determine the extent to which each motivation was involved in a specific transaction. Ms. Seidman stated that if the intent was to recognize goodwill, but require a less rigorous impairment evaluation, an easier alternative would be to move the practicality of the impairment test to Day 1 and not recognize goodwill at all. She clarified that she was just speaking of net deficit acquisitions. Mr. Herz added that he was referring to acquisitions of not-for-profit organizations that are primarily supported by contributions and returns on investments.

33. Mr. Linsmeier stated that he is concerned about the criticisms that could be voiced by constituents in the not-for-profit sector, private entity sector, and small businesses sector. He added that he does not understand why exceptions would be made for not-for-profit organizations, especially when the exception would only serve to introduce complexity.

34. Mr. Smith noted that he asked the staff to look further into the utility of the information to users that does or does not result from recognizing goodwill. He added that it appears that recognition of goodwill as an asset is of minimal or no concern to users. Mr. Herz stated that there could be a benefit if goodwill recognition and subsequent impairment serve a meaningful signaling purpose. Mr. Mechanick added that often times those outside the healthcare sector do not even know what goodwill represents.

35. Mr. Bossio stated that as part of its outreach, the staff is attempting to schedule calls with three state regulators, The Boston Foundation, and others and that the staff has met with credit rating agencies in the past.. The credit rating agencies noted that impairment charges provide help as a “warning signal.” Mr. Bossio added that one accountant/consultant for a community foundation group stated that goodwill rarely occurs as many of the combinations that occur

between or among not-for-profit organizations are accounted for as pooling-of-interests transactions. He added that grant-makers do not seem to have much interest in assets that are not expected to result in direct cash inflows.

36. Mr. Herz suggested that AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, disclosures would provide a signal earlier than goodwill impairment. Mr. Linsmeier stated that the guidance in SOP 94-6 is not consistently applied by for-profit organizations. Mr. Herz suggested that if Mr. Linsmeier's assertion is true, then such disclosures may need to be emphasized.

37. Mr. Bossio stated that the decision would be whether to deal with a qualitative impairment approach or do something on Day 1 to take goodwill off the balance sheet. Mr. Batavick stated that he is sympathetic to Mr. Herz's suggestion, but that there is ambiguity as to where the line should be drawn with respect to what type of entity would not recognize goodwill and what type of entity would recognize goodwill. Mr. Linsmeier stated that the types of entities present in the not-for-profit sector are extremely diverse, which would make drawing such a line difficult.

38. Mr. Herz stated that he would prefer that an organization that is contribution-based recognize an increase to net assets for the excess of assets over liabilities or a decrease to net assets for an excess of liabilities over assets and that doing so would be prominently displayed on the face of the statement of activities. He added that an organization that was not predominately contribution-based would use current guidance under Statement 141(R). Ms. Seidman stated that she would take a more narrow view and allow only those contribution-based not-for-profit organizations acquiring other not-for-profit organizations in net deficit positions not explainable by unrecognized assets the ability to recognize an excess of liabilities over assets.

39. Mr. Batavick noted his concern that if Mr. Herz's approach was used, small organizations would try to structure the combination transactions in which they were involved so as to avoid recognition of goodwill. Ms. Seidman asked the staff about the degree to which comment letter respondents expressed concerns about the subsequent accounting for goodwill. Mr. Mechanick stated that many respondents raised such concerns.

40. Ms. Seidman stated that she would prefer, in terms of justifying the cost-benefit exception because it is unique to not-for-profit organizations, calling the excess of assets over liabilities a

“contribution [received].” However, she added that if one were to use Mr. Herz’s approach, she could understand why the term “contribution [received]” would not be used.

41. Mr. Mechanick inquired about how Mr. Herz would “operationalize” the notion of *predominantly contribution-based*. Mr. Herz said that the threshold would be met if an organization obtains at least 70–80 percent of its support from contributions. Mr. Bossio noted that the NFP G&OIA includes an analysis based on contribution and investment income. Mr. Herz agreed that such a notion would continue and the judgment would be as to whether or not it was predominately contribution-based in situations in which contributions included the notion of investment income. He suggested, alternatively, that the guidance could be written to reflect the notion that an entity was *not predominantly fee-based*, which would capture other types of not-for-profit organization income.

42. Mr. Golden questioned why not simply account for all not-for-profit combinations as mergers if the basis for allowing the non-recognition of goodwill to some entities is a cost-benefit consideration. To force the acquirers to fair value identifiable assets and liabilities and then recognize goodwill as a Day 1 gain through profit and loss seems at odds with acquisition accounting. Mr. Herz stated that different accounting would be used if the individual assets were purchased or the assets were gifted. Mr. Mechanick stated that, conceptually, the Board would have chosen the fresh-start method of accounting for mergers, but in acquisition accounting and subsequent impairment testing there are separate cost-benefit considerations. The staff added that further deliberations to consider the use of the fresh-start method would also delay moving forward with the improvements to not-for-profit acquisition accounting.

43. Mr. Mechanick stated that he understands the concerns, but that the significant material items being fair valued that were not already at fair value would be property, plant, and equipment. Mr. Golden added that intangible assets would be recognized as well. Mr. Linsmeier inquired as to whether Mr. Herz would reconsider the Board’s decision not to require recognition of donor relationships as a separate intangible asset. He stated that he would not because it would be too difficult an asset to measure and that doing so would not be operational.

44. Mr. Herz suggested that the staff consider his and Ms. Seidman’s proposed approach with regard to the initial recognition of goodwill on the date of acquisition and determine whether or not it contains a fatal flaw. Mr. Mechanick added that the staff’s suggested approach was like

Ms. Seidman's with a different label on the residual recognized. Mr. Batavick stated that he is concerned that utilizing Ms. Seidman's proposed approach would result in an entity not recognizing goodwill even if the acquiree was in a non-material net deficit position.

45. The Board determined that additional work may be necessary to determine the terminology to be used to refer to the "residual excess debit" and "residual excess credit" recognized as a result of an acquisition. Mr. Linsmeier stated that he sees no benefit in distinguishing between a contribution received and a bargain purchase. The rest of the Board members agreed. Ms. Seidman suggested that the staff speak with practitioners. Mr. Linsmeier added that it would be useful to have a list of the types of not-for-profit organizations that exist to help the Board determine the operationality of the notion of *predominantly contribution-based* and *not predominately fee-based*. The Board deferred any further discussion until its October 1, 2008 meeting.

Follow-Up Items:

The Board instructed the staff to draft illustrations to aid practitioners in applying the final Statement.

General Announcements:

None.