



**Exposure Draft, *Not-for-Profit Organizations: Mergers and Acquisitions*  
Comment Letter Summary  
(As of March 31, 2008)**

**OVERVIEW**

1. Twenty-four respondents commented on the October 2006 Exposure Draft, *Not-for-Profit Organizations: Mergers and Acquisitions* (NFP M&A ED). The comment period ended on January 29, 2007.

**Respondent Profile**

2. Exhibit A provides a list of the respondents. Their comment letters are available at the [FASB's web site](#). The types of respondents follows:

<b>Category</b>	<b>Total</b>
Public accounting associations, societies, and committees	8
Accounting firms	7
Preparers and representative organizations	6*
Users/Individuals	3
<i>Total</i>	<i>24</i>

**Overall Position**

3. Most respondents generally agreed that the acquisition method is appropriate for acquisition transactions. They also acknowledged that most merger and acquisition transactions are in substance acquisitions. However, most of those respondents also said that the substance of some transactions is that of a “true merger” or “merger of equals,” and the acquisition method would not faithfully represent those transactions.

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\* Fifteen separate United Way organizations responded by expressing support for United Way of America’s comment letter, specifically its comments on “true mergers” and donor-related intangible assets. For purposes of this summary, those 15 organizations and the United Way of America are deemed to be a single respondent.

They urged the Board to consider whether the pooling-of-interests method (pooling method) or another method, such as the fresh-start method, would be a better representation of those transactions.

4. Most respondents also agreed with the overall approach of requiring the same accounting treatment for acquisitions by and among for-profit entities and acquisitions by and among not-for-profit organizations, except in specific instances in which significantly different circumstances warrant different accounting. Many of those respondents noted, for example, that circumstances surrounding donor-related relationships differ significantly from customer-related relationships and, therefore, the proposed requirement to recognize customer-related relationships as intangible assets should not apply to donor-related relationships.

## **ISSUE SUMMARY**

5. The Notice for Recipients (Notice) of the NFP M&A ED requested comments on the proposed provisions and included specific questions about those provisions. The majority of respondents addressed most of the issues raised, but some addressed only a few specific issues. The following paragraphs summarize respondents' comments for each of the following issues raised in the NFP M&A ED:

- a. Accounting Method (paragraphs 6–16)
- b. Definition and Scope (paragraphs 7–25)
- c. Reliance on Existing Consolidation Guidance (paragraphs 26 and 27)
- d. Definitions of a Business and Nonprofit Activity (paragraphs 28–32)
- e. Identifying the Acquirer (paragraphs 33–36)
- f. Recognizing and Measuring the Identifiable Assets Acquired and Liabilities Assumed (paragraph 37)
- g. Donor-Related Intangible Assets (paragraphs 38–48)
- h. Exceptions to the Recognition and Measurement Requirements (paragraphs 50 and 51)
- i. Other Types of Identifiable Intangible Assets (paragraphs 52 and 53)

- j. Recognition and Measurement of Goodwill and Contribution Received (paragraphs 54–64)
- k. Measurement Period (paragraphs 65 and 66)
- l. Assessing What Is Part of the Merger or Acquisition (paragraph 67)
- m. Disclosure Objectives and Minimum Requirements (paragraphs 68–69)
- n. Disclosures by Public Entities (paragraphs 70 and 71)
- o. Noncontrolling Ownership Interests in a Subsidiary (paragraphs 72–77)
- p. Benefits and Costs of the Proposed Requirements (paragraphs 78–80)

In addition to receiving feedback in the comment letters, the Board solicited input from constituents on the NFP M&A ED at the March 27, 2007 roundtable meeting. At that meeting, the discussion focused on the following areas: "true mergers" among not-for-profit organizations, considerations for certain "small" not-for-profit organizations, recognition of donor-related intangible assets, recognition of goodwill, and accounting for acquired goodwill after the acquisition date. The minutes for the roundtable meeting are available on the FASB's website.

### **Topic 1: Accounting Method for Mergers and Acquisitions**

6. Question 1 of the Notice asked respondents whether the objectives in the NFP M&A ED are appropriate for **all** mergers and acquisitions by a not-for-profit organization. Those objectives, which are identified in paragraph 1 of the NFP M&A ED, are as follows:

- a. Recognize the identifiable assets acquired and liabilities assumed that compose the business or nonprofit activity acquired in a merger or acquisition, with certain exceptions.
- b. Measure those assets and liabilities at their fair values as of the acquisition date, with certain exceptions.
- c. Recognize either goodwill of the acquired business or nonprofit activity or the contribution inherent in the merger or acquisition as follows:
  - (1) Measure goodwill as the amount by which the value of the consideration transferred (if any) exceeds the net of the amounts assigned to identifiable assets acquired and liabilities assumed.

(2) Measure the contribution inherent in the transaction as the amount by which the values assigned to the identifiable assets acquired exceed the consideration transferred (if any) and the liabilities assumed.

d. Disclose information to enable users of the financial statements to evaluate the nature and financial effects of the merger or acquisition.

7. A few respondents agreed that the objectives in the NFP M&A ED are appropriate for accounting for **all** mergers and acquisitions by not-for-profit organizations and generally agreed that one accounting method (that is, the acquisition method) would improve the consistency and comparability of the financial results of not-for-profit organizations. For example, the North Carolina State Board of Certified Public Accountant Examiners (CL #1) agreed with the elimination of the pooling method and stated that “use of the acquisition method produces financial information that more accurately reflects the underlying economics of those events and by requiring consistency, increases the comparability of the financial results of not-for-profit organizations.”

8. Most respondents generally agreed that the acquisition method is appropriate when the economic substance of a transaction is an acquisition of an entity’s net assets by a controlling or surviving organization. However, some respondents argued that the acquisition method is not appropriate when not-for-profit entities of approximately equal size merge or when it is difficult to identify the acquirer (often referred to as a true merger or merger of equals). They said that a true merger or merger of equals is different from an acquisition and that the same accounting should not be applied to unlike transaction types. Those respondents generally recommended that the Board allow acquirers in those situations to apply a different accounting method, such as the fresh-start method or the pooling method. For example, the AICPA’s Accounting Standards Executive Committee (AICPA/AcSEC, CL #23) offered the following argument against use of the acquisition method in a merger of equals:

Applying acquisition accounting in such circumstances does a disservice to financial statement users and management wishing to analyze metrics such as operating margin, net margin, debt service coverage, days cash on hand, return on invested capital, and cost per

case for healthcare facilities. Management would likely repeatedly adjust amounts reported in the financial statements for purposes of budgeting, forecasting, and benchmarking.

9. Some respondents who expressed concerns about using the acquisition method for true mergers also questioned whether some of those transactions constitute a form of joint venture outside the scope of the NFP M&A ED.

10. Respondents who supported the fresh-start method claimed that it would produce more relevant information about the new entity than the pooling or acquisition method. For example, BDO Seidman, LLP (CL #9) stated:

We support fresh start, rather than carryover basis, for transactions in which an acquirer can not be identified, because we believe the resulting financial statements are more relevant and useful to key constituents and more consistent with the underlying principle that a new entity has been created, separate and apart from the two predecessors. In addition, we believe that if fresh start is the alternative to acquisition accounting, entities will not be tempted to inappropriately rebut the presumption that an acquirer exists.

11. Respondents who supported retaining the pooling method argued that it treats the merging organizations as equals and gives commonality to the value of assets of all parties to the combination, while the acquisition method produces distorted information. For example, United Way of America (CL #4) stated:

. . . The Pooling method, at book value, gives commonality to the value of assets while the Acquisition method, at FMV, balloons the assets of some parties to the combination while the assets of the “acquirer” remain at book value. This clouds carrying values of similar assets on the same financial statement and inflates net assets to a value that would not have been recorded if the transaction had not transpired. This type of distortion can have several negative implications for a NFP . . .

### **Cost-Benefit Considerations for “Small” Not-for-Profit Organizations**

12. Some respondents, specifically auditors, expressed concern that the cost of applying the acquisition method might be particularly burdensome for some small or nonpublic not-for-profit organizations. For example, the Florida Institute of CPAs (CL #19) suggested that the standard “should only be applied to large not-for-profit

organizations.” Those respondents generally supported allowing certain small or nonpublic organizations the option to continue using the pooling method or exempting those organizations from the requirements of the NFP M&A ED for cost-benefit reasons.

13. Some respondents suggested more specific ways to provide some relief from the expected application costs for certain small not-for-profit organizations. For example, Moss Adams (CL #11) stated:

We believe that the cost impact of implementing this proposed standard will be particularly burdensome because the level of merger and acquisition activity is more likely to be concentrated in smaller organizations coming together to achieve economies of scale. . . .

Accordingly we recommend two things:

1. In acquisitions where intangibles exist that are entered into by small acquirers (say, with pre-acquisition revenues of less than \$20 million), provide the option to assign to a single intangible asset the entire excess of identifiable tangible liabilities assumed and fair value transferred over the fair value of identifiable tangible assets acquired.
2. Provide computational guidance for valuing donor lists to assist the large acquirees and those small acquirees that do not elect the option proposed above.

14. Respondents commenting on cost-benefit issues expressed differing views about whether exempt organizations should be both nonpublic and small, how to define *small*, and whether the requirements should be optional or required. For example, Ernst & Young (CL #21) suggested that “nonpublic NPOs with total assets less than \$10 million and total annual expenses less than \$5 million be allowed the option of recording the assets of the acquiree at fair value or at carry-over basis.” Grant Thornton (CL #13) acknowledged that “any bright-line established to define *small* would be arbitrary.”

15. Some respondents also suggested delaying the effective dates of the Exposure Draft, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*, and the NFP M&A ED for certain small not-for-profit organizations. KPMG (CL #8) stated that “those organizations with more limited resources may benefit from the experiences of larger not-for-profit organizations as implementation issues are identified and resolved . . . .”

### **Subsequent Redeliberations for Topic 1**

16. At the September 2007 Board meeting, the Board considered the comments received on the matters discussed in Topic 1. The Board tentatively decided that a merger is different from an acquisition and, therefore, a different accounting treatment for mergers would be appropriate. The Board agreed that the feature that distinguishes a merger is control—in a merger, the governing bodies of two or more not-for-profit organizations cede control of those organizations to create a new organization. In an acquisition, one organization obtains control over the net assets of another organization or business. The Board affirmed that the acquisition method should be required for acquisitions by not-for-profit organizations and that, in the interim, the carryover method of accounting should be retained for mergers between not-for-profit organizations. The Board considered but rejected suggestions that it also permit use of the carryover method of accounting for acquisitions by smaller not-for-profit organizations.

### **Topic 2: Definition and Scope**

17. Question 2 of the Notice asked respondents whether they agreed with the proposed definition of *a merger or acquisition*. Paragraph 2 of the NFP M&A ED defines a merger or acquisition as “any event that results in the initial recognition of another business or nonprofit activity (acquiree) in the financial statements of a not-for-profit organization.” It adds, however, that its proposed provisions shall not apply to mergers and acquisitions between entities under common control. Thus, any event that requires an organization to consolidate a previously unconsolidated entity (not under common control) by initially recognizing its net assets is a merger or acquisition within the scope of the proposed provisions of the NFP M&A ED.

18. Respondents' views about the proposed definition and scope varied. Some respondents agreed with the proposed definition without providing reasons. Respondents who disagreed with the application of the acquisition method for all mergers and acquisitions by not-for-profit organizations generally did so because they believe mergers of not-for-profit organizations are economic events distinguishable from acquisitions. Therefore, they suggested that the final Statement include a separate definition (and a different accounting method) for a "merger." Another respondent who expressed concern that the definitions of a business or nonprofit activity are too broad suggested that the definition be limited to mergers and acquisitions that result in the initial recognition of another business or nonprofit **entity**. The following paragraphs provide further discussion about respondents' suggested clarifications to the definition or scope.

#### **Separate Definition for a Merger**

19. Respondents who said that the definition failed to distinguish a merger from an acquisition suggested that the overriding concept distinguishing a merger is that neither of the combining organizations is an acquirer of the other. One respondent emphasized that "a significant number of mergers are deliberately structured by the parties to be mergers of equals, and those mergers often would not occur if either party perceived that it was being acquired" [BDO Seidman (CL #9)]. Other respondents argued that the motivations driving combinations in the not-for-profit sector are different from for-profit entities. As noted by one respondent, "decision making often extends beyond profitability/economic sustainability to furtherance of the NPO's mission" [Ascension Health (CL #22)]. Several of those respondents added that the requirement to identify an acquirer for all transactions would deter socially motivated mergers.

20. Most respondents who suggested creating a separate definition for a merger expressed the view that a merger and an acquisition are economically dissimilar and should be accounted for differently. United Way of America (CL #4) suggested the following definitions and criteria for distinguishing between an acquisition and a merger:

Acquisition: Any event that results in the initial recognition of another business or nonprofit activity (acquiree) in the financial statement of another not-for-profit organization (acquirer), except when that event meets the criteria for classification as a merger.

Merger: A combination of two or more not-for-profit organizations that meet the following criteria:

1. No consideration beyond assumption of liabilities is given in the form of tangible form of assets by the surviving organization in exchange for the assets of the other organizations.
2. The Governing body of the surviving corporation is structured in such a way that no one party to the combination has majority control of the combined organization
3. The process for selecting the Chief Executive Officer of the combined organization is structured in such a way that no one party to the combination has majority control of the selection process
4. The respective Missions of the combining organizations are similar before the combination and the Mission of the combined organization reflects the key components of those prior mission statements.
5. The entity who initiated the combination and the relative size of the respective entities shall have no bearing on the determination provided the end result meets the four criteria above.

United Way of America added that the above will give the Board a sufficient basis for determining when to apply an alternative method for mergers of not-for-profit organizations that “are indeed contemplated primarily for purposes other than economics.”

21. Respondents who supported different accounting for true mergers (or mergers of equals) suggested that the Board create separate definitions for a merger and an acquisition and develop criteria to rebut a presumption of an acquisition or to identify a true merger [Ernst & Young (CL #21)]. Rebuttable presumptions often are suggested as a means to mitigate concerns about inconsistent reporting, particularly when alternative methods of accounting exist for similar but not identical economic circumstances.

## **Scope Clarifications**

22. Some respondents maintained that the scope of the final Statement should mirror FASB Statement No. 141 (revised 2007), *Business Combinations*, so that not-for-profit organizations can more clearly distinguish between combinations subject to the provisions of the NFP M&A ED and combinations subject to Statement 141(R). Some other respondents also provided other suggestions for clarifying the scope when drafting the final Statement.

## **Other Considerations**

### ***Alternative Investments (Non-Mission-Based Operations)***

23. Some respondents noted that not-for-profit organizations often hold significant alternative investments that are not part of the core mission-based operations of the organization. Those respondents argued that although the acquisition of such investments may fall within the proposed scope of this NFP M&A ED, those investments should not be subject to consolidation. Notre Dame (CL #6) stated:

The requirement to consolidate the types of entities involved in diverse investment activities might clutter and potentially misrepresent the statements of financial position and activities and related disclosures. Further, the requirement to consolidate entities that in substance represent investments would provide the users of college and university financial statements with less transparent and useful information when assessing the true cost of delivering the education activities and services in supporting the mission of these institutions.

### ***Acquisitions of For-Profit Investment Companies***

24. One respondent suggested that the NFP M&A ED be clarified to explicitly address circumstances in which a not-for-profit organization becomes the parent of a for-profit investment company. The respondent stated that the acquirer should consider whether to retain investment company accounting in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, as amended by the pending AICPA Statement of Position, which clarifies both the scope of that Guide and the accounting

by parent companies and equity method investors for investment in investment companies.<sup>†</sup>

### **Opt-Out Clauses**

25. Several respondents (mainly Big 4 Firms) suggested that the final Statement provide guidance for “opt-out” clauses in which one or both entities in a combination are allowed to terminate the merger without cause within a defined time period. For example, Deloitte stated:

If the clause is exercised, the entities cease to be merged and return to operating as individual entities as they existed before the attempted merger.

The existence of opt-out clauses, which may be unique to NPO mergers, raises recognition and measurement issues. Fundamentally, has a merger or acquisition substantively occurred? To the extent these clauses exist in practice, the Board should evaluate their effect on other significant provisions of the ED.

### **Topic 3: Reliance on Existing Consolidation Guidance**

26. Question 3 of the Notice asked respondents whether they agreed with the retention of and reliance on the existing guidance on consolidation in AICPA Statement of Position (SOP) 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and the AICPA Audit and Accounting Guide, *Health Care Organizations*. Many comment letters did not specifically respond to this question. Those that responded generally agreed with the proposal to rely on the existing guidance for not-for-profit entities.

27. Some of the respondents who agreed suggested modifications to SOP 94-3, such as revising the definition of a *majority voting interest in the board of another entity* and consistently using the term *controlling financial interest*, as used in the literature, rather than the term *control*. In addition, some respondents suggested that the Board consider consolidation guidance comprehensively because there is diversity in practice.

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<sup>†</sup> After the end of the comment period for the NFP M&A ED, AICPA Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, was issued on June 11, 2007, to be effective for fiscal years beginning on or after December 15, 2007, with early application encouraged. The Board recently issued FASB Staff Position SOP 07-1-1, *Deferral of SOP 07-1 Effective Date*.

However, they generally agreed that it is appropriate to rely on the guidance as it is currently written until the Board can consider it comprehensively.<sup>‡</sup>

#### **Topic 4: Definitions of a Business and a Nonprofit Activity**

28. Question 4 of the Notice asked respondents whether they agreed that the definitions of *a business* and *a nonprofit activity* were appropriate for distinguishing between a merger or acquisition that is subject to the proposed requirements and the purchase of assets that is not subject to the requirements and would be accounted for in accordance with other GAAP. The NFP M&A ED proposes the following definitions of a *business* or *nonprofit activity*:

A *business* is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing economic benefits in the form of return to investors. Those returns are reflected in the market price of the equity interests or through dividends or through other forms, such as lower costs that are provided directly and proportionately to owners, members, or participants. A business often is, but need not be, separate legal entity. [paragraph 4(d)]

A *nonprofit activity* is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an organization's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit organization, a nonprofit activity possesses characteristics that distinguish it from a business or for-profit business entity. A nonprofit activity often is, but need not be, a separate legal entity. [paragraph 4(p)]

29. Respondents generally agreed with the proposed definitions and guidance. Many did not provide reasons for their agreement, but some requested more guidance or noted that the definition of a business should be consistent with the definition in Statement 141(R).

30. Respondents who disagreed argued that the definition is too broad and that the Board should provide further guidance or illustrative examples to help determine which

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<sup>‡</sup> On September 27, 2007, the Board issued proposed FSP SOP 94-3-a and AAG HCO-a—*Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*. The Board plans to issue in the second quarter of 2008 a final FSP that will, among other provisions, revise the definition of a *majority voting interest in the board of another entity* in the SOP 94-3 and chapter 11 of the AICPA Audit and Accounting Guide, *Health Care Organizations*.

activities do and do not constitute a business or nonprofit activity. Similar to concerns expressed in Topic 2, respondents argued that not-for-profit organizations often hold significant alternative investments that may meet the definitions proposed in the NFP M&A ED but are not part of the core mission-based operations of the organization. University of Notre Dame (CL # 6) stated:

While we believe there are circumstances inherent in any business transaction that could require the need for consolidation, we would urge the Board to expand the definition and clarify what does and does not constitute a business or nonprofit activity and provide examples to support both positions.

31. A few respondents expressed concerns that the NFP M&A ED does not address the acquisition of a business or nonprofit activity in which the vast majority of the fair value is attributable to a single asset (similar to a real estate investments in which a piece of land is the only significant asset). Moss Adams recommended that the following additional guidance similar to Appendix C of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, be included in the final Statement:

If all but a de minimis (say, 3 percent) amount of the fair value of the set of activities and assets is represented by a single tangible or identifiable intangible asset, the concentration of value in the single asset is an indicator that an asset rather than a business is being evaluated.

32. With regard to implementation guidance in paragraphs A2–A7 about the definitions, Grant Thornton stated:

We do not believe that this guidance achieves its goal of distinguishing a business from an asset or asset group. The proposed guidance does not address how to determine the extent to which the inputs and processes of the seller's business could be excluded from the transaction without changing the nature of what was purchased from a business to an asset group. A market participant's ability to continue to produce outputs by acquiring something less than all of the seller's inputs and processes is not dependent on whether the acquired part is determined to be a business. Therefore, that ability is not sufficient to identify the acquired part as a business. We are concerned that paragraph A3 could be interpreted as effectively eliminating any distinction

between a business and an asset or asset group and could result in the inappropriate identification of an asset or asset group as a business.

### **Topic 5: Identifying the Acquirer**

33. Question 5 of the Notice asked respondents whether they agreed that control and the additional proposed factors for consideration are appropriate for determining the acquirer in a merger or acquisition by a not-for-profit organization. Consistent with the requirements for business entities engaging in business combinations in Statement 141(R), the NFP M&A ED proposes that an acquirer be identified in all mergers or acquisitions as the organization that obtains control of the acquiree. As previously discussed in Topic 3, existing consolidation guidance, including SOP 94-3 and the health care Guide, would be used to determine if an acquirer obtained control of an acquiree. If the acquirer cannot be determined by relying on that guidance, the NFP M&A ED proposes some additional factors to consider in identifying the acquirer. Those factors are as follows:

- a. The transfer of consideration
- b. The process used to select the governing body of the resulting organization
- c. The relative size of the entities
- d. The process for selecting management of the resulting organization, the mission, and name of the resulting organization
- e. The entity that initiated the transaction.

34. Most respondents generally agreed with the proposal for determining an acquirer for transactions that are acquisitions. However, respondents who suggested that mergers of equals or true mergers should not be accounted for as acquisitions noted that, in their view, an acquirer does not exist. Therefore, those respondents disagreed with the proposal to identify an acquirer in those circumstances.

35. Most respondents agreed that control should be the overriding criterion for identifying an acquirer. However, several respondents expressed varying views about the relative importance or appropriateness of one or more of the additional factors listed in paragraph 11. The following are examples of those views:

- a. AICPA/AcSEC (CL #23) stated that some factors should take priority over others in determining the acquirer. Specifically, they stated that the process used to select the governing body and the process used to select management (paragraph 11(b) and 11(c), respectively) are typically more relevant than the other factors listed.
- b. United Way of America (CL #4) argued that the proposed Statement relies too heavily on economic criteria, adding that in most cases economic size will be the only identifying factor. To avoid misinterpretation, they suggested that the Board explicitly state that this factor be given no greater weight than other indicators surrounding an acquisition. Conversely, PwC (CL #16) believes that relative size should be excluded as a factor. They noted that while this may be a strong indicator in a for-profit context, smaller organizations in a not-for-profit combination may possess compensating strengths that overcome the presumption of being the acquiree.

36. Some respondents who agreed that an acquirer can be identified in all combinations of not-for-profit organizations suggested that additional qualitative and quantitative indicators may be necessary for situations in which an acquirer cannot be easily identified. For example, KPMG (CL #8) noted that "identifying an acquirer may be difficult when organizations combine to pursue a common mission in a transaction that is not financially driven, and is not market-participant based. . . . Some additional qualitative and quantitative indicators to consider when identifying an acquirer in these situations are reputation of the organizations and the financial condition of each organization." Similarly, PricewaterhouseCoopers (CL #16) noted that acquisitions may take place solely to carry on the mission of a financially unsound organization. In such situations, the financial condition of the combining entities would indicate which entity is being acquired.

## **Topic 6: Recognizing and Measuring the Identifiable Assets Acquired and Liabilities Assumed**

37. Question 6 of the Notice asked respondents about the appropriateness of the proposed requirement that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition date fair values, with some exceptions. Respondents generally agreed that the recognition and measurement principles are appropriate when the transaction is an acquisition of a business or a nonprofit activity. Some respondents explicitly added that the principles should be consistent with the principles in Statement 141(R), and some added that the proposed accounting should be updated to reflect subsequent decisions that the Board reached during its redeliberations leading to the issuance of Statement 141(R). However, as previously discussed in Topic 1, some respondents argued that those principles are not appropriate in the case of a merger of equals or a true merger.

## **Topic 7: Donor-Related Intangible Assets**

38. Question 7 of the Notice asked respondents whether identifiable donor-related intangible assets can be measured with sufficient reliability to be recognized separately from goodwill. The NFP M&A ED proposes that the acquirer separately recognize the acquisition date fair values of identifiable intangible assets, including donor-related intangible assets, acquired in a merger or acquisition, with the exception of an assembled workforce. Consistent with U.S. GAAP for business entities, the NFP M&A ED adds that an intangible asset is identifiable if either of the following is true:

- a. It arises from contractual or other legal rights, regardless of whether they are separable from the entity (the contractual-legal criterion); or
- b. It is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged (regardless of whether there is an intent to do so) either individually or in combination with a related contract, asset, or liability (the separability criterion).

The Board observed that donor-related intangible assets are similar to customer-related intangible assets. Therefore, the proposal for donor-related intangible assets is consistent with its guidance for customer relationships.

39. Respondents expressed differing views on two separate issues regarding donor-related intangible assets: (a) whether donor-related intangible assets meet the recognition criteria and, even if they do, whether an exception to recognition should be made because of (b) measurement reliability concerns and/or (c) cost-benefit concerns.

### **Recognition Criteria**

40. Some respondents supported the recognition of donor-related intangible assets that are identifiable. However, views were mixed as to which donor-related intangible assets are identifiable. For example, some respondents identified and distinguished between two specific examples of donor-related intangible assets that a not-for-profit organization could possess—donor lists and donor relationships. Some explicitly offered donor lists as a clear example of an identifiable intangible asset but also questioned whether donor relationships are identifiable and should be recognized separately from goodwill.

41. Some respondents emphasized their disagreement with the proposed approach of developing recognition guidance for all donor-related intangible assets based on existing guidance for customer-related intangible assets. Those respondents argued that some or all donor-related intangible assets are significantly or sufficiently dissimilar to customer-related intangible assets. For example, United Way of America (CL #4) asserts that the Board is ignoring a key difference between the two sectors—“the motivation for associating with an organization.”

A customer comes to a for-profit entity in search of goods or services that they need personally so the relationship is based on supply and demand. The customer is less concerned with who supplies the goods or services and motivated instead by finding someone who can respond to their demand.

. . . The donor [of a not-for-profit entity] is primarily concerned with how the organization stewards their contribution to carry out its mission so they are deeply interested in the leadership and governance of that organization. Changes to the management and governance structure of the not-for-profit are perceived to have a direct effect on the quantity and quality of the services that the organization will provide to its community.

42. On the other hand, most respondents were not particularly troubled about recognizing donor lists but were concerned about the recognition of donor relationships. For example, Teresa Gordon (CL #5) raised several significant concerns about donor-relationships and suggested that a donor relationship does not qualify as an asset as defined in the Board's conceptual framework:

. . .I can think of no situation where a nonprofit entity could control others' access to "the donor relationship" they have with me. In fact, if they sell my name to too many other charities or send me too many requests for donations, I will probably decide that they were not the type of organization I want to support at all.

Accordingly, I strongly urge the Board to remove the discussion of "donor relationship" from the list of possible intangible assets that could arise during a merger or acquisition. . . On the other hand, donor lists can be exchanged among nonprofit entities and sold (with some risks!) and therefore might be worth recognizing. However, donor relationships (unlike customer relationships) do NOT meet the contractual-legal criteria for intangibles and are clearly not separable from the mission-related future activities of the charity. . . .

43. Other respondents disagreed with the recognition of some or all donor-related intangible assets because of concerns that such recognition may be comparable to recording contributions prior to meeting the contribution recognition criteria. For example, two respondents raised concerns that "premature" recognition of donor-related intangible assets would be comparable to recognizing contribution revenue before it meets the recognition criteria in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*. Other respondents also commented on the interaction between Statement 116 and the requirement to recognize donor-related intangible assets. PwC (CL #16) stated:

. . . we are concerned about the analogy drawn in paragraph A26 between donor promises to contribute and contractual customer relationships. For contractual customer relationships, an acquirer may ascribe value to the contracts because they will contribute to revenues in future periods. However, promises to contribute that exist as of the acquisition date will not contribute to revenues in future periods, because that revenue was recognized up front when the promise was received. NPOs may misinterpret the guidance as requiring them to recognize an intangible asset related to a promise to contribute in addition to

recognizing the gift itself. We also believe that confusion could arise as to the interaction between noncontractual donor relationships and intentions to give under FAS 116 unless the underlying principles are more clearly delineated and illustrated.

44. Furthermore, Grant Thornton (CL #13) suggested the Board address donor relationships arising from contributed services. They stated:

Promises to contribute services would appear to give rise to donor relationships that could meet the contractual-legal criterion for recognition as described in paragraph A28. However, Statement 116 does not require an organization to determine the value of contributed services that do not meet recognition criteria. Therefore, we think it might be difficult to determine the fair value of the donor relationship arising from unrecognized contributed services without also incurring the incremental cost and effort of valuing the services.

45. On the other hand, even respondents who thought that identifiable donor-related intangible assets should be recognized nonetheless also suggested that the Board further clarify which donor-related intangible assets are and are not separable from the acquired entity.

### **Measurement Reliability**

46. Some respondents who questioned or disagreed with the separate recognition of donor-related intangible assets emphasized concerns that some or all donor-related intangible assets cannot be measured with sufficient reliability at acquisition. Respondents identified specific difficulties with measurement, including the significant and unpredictable effects of the organization's structural change on donor relationships and the pattern of future contributions, the lack of available market information for donor lists, the unpredictable and nonrecurring patterns of donations, and that impairment testing is unduly cumbersome. Some respondents also suggested that the Board seek further input from valuation professionals about the feasibility and techniques of measurement before proceeding with the proposal.

47. Moss Adams (CL #11) commented that donor lists should not be recognized separately from goodwill because of the following valuation challenges:

- a. Many donors or groups of donors do not have a contribution pattern. For those who do, the pattern is driven by personal and philanthropic reasons that are inherently unpredictable. Historical patterns of donation are inherently unreliable indicators of future patterns of donation, and the effect of personal and philanthropic motivations cannot be determined with meaningful precision.
- b. Many not-for-profit organizations, especially smaller organizations, are supported by relatively small populations of donors, which increases the volatility of contribution patterns.
- c. Some organizations obtain a substantial portion of their donor support in the form of a few large bequests received upon the donors' deaths. Since bequests will not be repeated by those donors, the historical patterns do not indicate future expectations. In addition, organizations generally do not have knowledge of being named in potential donors' wills and, accordingly, could not make reliable estimates of the amount or timing of future bequests.
- d. A donor's continuing propensity to contribute is related, in part, to the donor's commitment to the not-for-profit organization's management and its method of fulfilling the organization's mission. A merger or acquisition itself creates potential variability and uncertainty in future donation patterns, as the acquiree's supporters may have a negative perception of the merger's effect on the organization's ability to continue its mission. There is no reliable way to anticipate a merger's effect on the public's perception and continuing support.
- e. The reputation of the acquirer would have an effect on post-merger contribution patterns (positive or negative). The influence of the acquirer on the contribution patterns is a factor that would be impossible to measure but would be a factor affecting the value of a donor list.

48. Others, such as PwC (CL #16), suggested more robust guidance on valuing donor relationships. They asserted that many constituents would generally default to valuing a donor relationship using a discounted cash flow valuation to determine the present value of future contributions over the expected lives of current donors. They argued that such an interpretation could result in an extremely large intangible asset valuation and “may not be consistent with the Board’s intent.”

### **Cost-Benefit Concerns**

49. In addition to citing primary concerns about reliable measurement, some respondents also argued that the organization’s cost to value all or some donor-related intangible assets is likely to exceed the benefits of that information. For example, National Association of College and University Business Officers (NACUBO, CL #7) stated:

[Valuation of donor-related intangible assets] is costly and it is unlikely the costs would outweigh the benefits. We learned from senior analysts at Moody’s Investor Services and Standard and Poor’s, that they would completely remove these intangibles from their calculations. In addition, the Department of Education removes intangible assets from the ratios it uses to establish financial viability for purposes of Title IV funding (student loans). Accordingly, it is unclear whether financial statement users would benefit from this potentially costly and unreliable reduction in the amount of goodwill that would otherwise be recorded.

### **Topic 8: Exceptions to the Recognition and Measurement Requirements**

50. Question 8 of the Notice asked respondents whether the departures from recognition and measurement requirements in the proposed Statement are appropriate accommodations to avoid additional difficulties and costs. That is, for cost-benefit reasons and simplicity, the NFP M&A ED proposes that organizations continue to recognize and measure certain identifiable assets acquired and liabilities assumed in accordance with other existing GAAP rather than at their acquisition date fair values. Those exceptions would apply to the following:

- a. Certain inexhaustible collection items
- b. Conditional promises to give
- c. Operating leases

- d. Assets held for sale
- e. Deferred taxes
- f. Pension and other postretirement benefits.

51. Respondents generally supported the proposed departures from the recognition and measurement requirements. However, some respondents questioned or disagreed with some of those exceptions. For example, Deloitte (CL #12) agreed with the exceptions except in the case of a merger of equals or a true merger (see discussion in Topic 1).

### **Topic 9: Other Types of Identifiable Intangible Assets**

52. Question 9 of the Notice asked respondents whether there are other types of identifiable intangible assets that are prevalent in not-for-profit organizations and should be included as examples in Appendix A. Some respondents noted that not-for-profit organizations do not have much experience identifying intangible assets; they recommended that the Board include additional examples in the final Statement, particularly for circumstances that are more common to not-for-profit organizations. Several respondents provided specific examples of additional intangible assets that are common to not-for-profit healthcare organizations. The most comprehensive list was provided by AICPA/AcSEC (CL #23):

#### Customer-related

- a. Physician relationships (employed, contract, admitting privileges)
- b. Patient lists (distinct from customer lists due to privacy regulations)

#### Technology-based

- c. Medical records and databases
- d. Intellectual property and in-process research and development

#### Marketing

- e. Religious sponsorships, designations
- f. Affiliation agreements (for example, with a prestigious medical school or research organization)
- g. Specialty treatment programs (for example, children's heart, women's health, cancer)
- h. Research programs, teaching programs

#### Contractual

- i. Licenses

- j. Certificates of Need (CONs)—The CON program is a regulatory process that requires certain healthcare providers to obtain state approval before offering new or expanded services or making major capital expenditures; required in many jurisdictions
- k. Accreditations or certifications (for example, Joint Commission accreditation, level 1 trauma center, sole community hospital status)
- l. Provider contracts, networks, and relationships
- m. Tax determination letter re-tax exempt status
- n. Other endorsements
- o. Grant contractual agreements.

53. Healthcare Financial Management Association [HFMA (CL #24)] also noted that there are unique differences between the intangible assets of a for-profit environment and a not-for-profit environment and recommended that the Board consider ways to make those differences and their implications more prominent in the final Statement. For example, HFMA noted that in a nonprofit organization “the future economic benefit embodied in an asset may often represent an enhanced ability to provide desired or needed goods or services to beneficiaries, rather than future cash inflows (as is common in the for-profit environment).”

#### **Topic 10: Recognition and Measurement of Goodwill or the Contribution Received**

54. Questions 10 and 11 of the Notice asked respondents whether the requirements of the net asset approach that limit the amount recognized for goodwill purchased and contribution received are appropriate. Respondents expressed mixed views about the initial recognition of goodwill. The NFP M&A ED proposes that the acquirer recognize either the goodwill purchased (either through the transfer of consideration or assumption of the acquiree’s liabilities) or the contribution received in the merger or acquisition. Rather than measuring the net goodwill acquired or contribution received in a merger or acquisition based on the fair value of the entity acquired, organizations would calculate and measure the goodwill purchased or the contribution received as a residual value, as follows:

**Goodwill** would be measured as the amount by which the fair value of the consideration transferred (if any) exceeds the net of the acquisition date values of the identifiable assets acquired and liabilities assumed. For transactions that occur without any transfer of consideration, goodwill would be measured as the amount by which the acquisition date value of the liabilities assumed exceed the identifiable assets acquired.

The **contribution** received in the merger or acquisition would be measured as the amount by which the acquisition date values of the identifiable assets acquired exceed the consideration transferred (if any) and the liabilities assumed.

### **Initial Recognition of Goodwill**

55. Some respondents agreed that purchased goodwill should be recognized as proposed in the NFP M&A ED. Most of those respondents did not elaborate on the reasons for their support but presumably agreed with the reasons given in the NFP M&A ED.

56. Respondents, including those who supported the differences-based approach, generally agreed that the accounting for goodwill in a merger or acquisition of not-for-profit organizations should differ from the accounting in a for-profit business combination under Statement 141(R). One respondent who preferred that goodwill be recognized and measured by not-for-profit organizations consistent with goodwill recognized and measured by for-profit entities noted that this would enhance comparability; however, the respondent added that “nonetheless, we would not object to a final standard that contains the proposed guidance” [Deloitte (CL #12)]. Similarly, Ascension Health (CL #22) supported the fair value measurement of business-like acquirees and the recognition of the full amount of the associated goodwill, if possible. It stated:

For business-oriented NPOs, fair value measurement of the acquiree as a whole in measuring goodwill should be required to enhance consistency and reliability of values recorded. Valuations of business-oriented NPOs as a whole are regularly and routinely performed for purposes of mergers and acquisitions and regulatory requirements. Furthermore, valuation approaches used to measure the value of business-oriented NPOs as a whole frequently employ the use of both the income and market approaches.

57. Some respondents disagreed with recognition of goodwill in even more specific instances and cited one or more of the following circumstance:

- a. Goodwill should not be recognized in certain net-deficit mergers or acquisitions
- b. For simplicity or cost-benefit reasons, goodwill should be expensed immediately because it usually does not exist in a merger or acquisition of not-for-profit organizations.
- c. Goodwill should only be recognized if the acquirer can demonstrate that it acquired goodwill.

58. With regard to net-deficit mergers and acquisitions, some respondents questioned whether goodwill should be recognized. For example, PwC stated:

. . . we believe that when a net deficit is acquired, the nature of the net deficit acquired should be assessed and the acquirer's motivation for entering the transactions should be considered. In situations where there is verifiable evidence that the deficit represents value that has been acquired (e.g., based on perceived operating synergies, or because the acquiree has unrecognized assets), the net deficit should be reported as goodwill. In all other situations, the acquired net deficit should be reported as a decrease in net assets at the acquisition date (and for a health care organization, reported below the performance indicator). We believe that this treatment is symmetrical to the ED's treatment of inherent contributions when the fair value of assets acquired exceeds the fair value of liabilities assumed.

59. Most respondents who disagreed with the proposed initial recognition and measurement of goodwill suggested that goodwill not be recognized or, if recognized, that it also be immediately expensed for particular transactions or circumstances. Most of those respondents asserted that recognition of goodwill does not provide useful or sufficiently useful information. They expressed varying views about the circumstances in which goodwill should not be recognized. For example, BDO Seidman (CL #9) suggested that a presumption be made that the excess of consideration transferred plus liabilities assumed over the identifiable assets acquired be recorded as a reduction of unrestricted net assets (an expense for an implied contribution made). It stated:

If an acquirer . . . can objectively demonstrate that it has acquired goodwill, representing either going concern value or synergies as described in paragraph B102 of FASB Statement No. 141, then it would overcome the presumption and would record goodwill at its estimated value, reducing or eliminating the implied contribution made. We believe that it will be exceedingly rare to identify goodwill in an acquisition of an organization that is supported by contributions or investment income. It will be rare, but not unheard of, to identify goodwill in an acquisition of an organization that is primarily supported by revenues from providing goods and services. Under our proposal, goodwill will be recorded only if an organization has an objective basis to demonstrate that goodwill exists.

60. Similarly, Ernst & Young (CL #21) suggested that goodwill resulting from a merger or acquisition that involves a traditional not-for-profit organization (an organization that is primarily supported by contributions and returns on investments) be expensed immediately. It stated that:

. . . the recognition of goodwill by traditional NPOs does not enhance the decision usefulness of their financial statements. The primary users of financial statements of traditional NPOs include current and prospective donors and creditors. Recorded goodwill will be of limited use to donors (and worse, confusing to them) and generally is ignored by creditors. While we recognize the Board's position that goodwill meets the definition of an asset, we believe the lack of its decision usefulness and the guidance in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made* (Statement 116) support our position that goodwill relating to traditional NPO mergers and acquisitions above should be written off immediately.

### **Contributions Inherent in a Merger or Acquisition**

61. The NFP M&A ED stipulates that an inherent contribution received in a merger or acquisition would be recognized and measured as the amount by which the acquisition date values of the identifiable assets acquired exceeds the consideration transferred (if any) and the liabilities assumed. As described in the basis for conclusions of the proposed Statement, that approach (referred to as the *net asset approach*) does not require measurement of the acquiree's fair value; thus, by using only the identifiable assets, it could understate both the amount of goodwill acquired and the full value of the contribution inherent in the merger or acquisition transaction.

62. Most respondents agreed that an acquirer should recognize a contribution inherent in an acquisition and measure that contribution as a residual, as proposed. Certain respondents supported different accounting in the case of a merger for the reasons discussed in Topic 1. Some respondents also acknowledged that the proposed treatment would be a departure from the treatment of “negative goodwill” in Statement 141(R). Given the difference in the nature of acquisitions occurring in a not-for-profit setting from those occurring in a for-profit setting, those respondents noted that the departure would be appropriate.

63. A few respondents expressed concerns about the way contributions related to a merger or acquisition are presented in financial statements. For example, Teresa Gordon (CL #5) stated:

There are lots of unsophisticated financial statement users. “Contributions” carries the connotation of liquid assets available for spending. In general, I like the presentation specified in paragraph 61 but would like some clarification for not-for-profits that report an intermediate operating measure.

64. The New York State Society of CPAs (CL #10) had a similar concern and stated:

In order to properly show the transaction in the statement of activities, we believe that the contribution generated from the merger or acquisition should be shown as an “other change in net assets”, in effect, below the line reporting. This presentation is consistent with the reporting in accordance with the AICPA Audit and Accounting Guide for Healthcare Organizations, whereby it is show outside of the measure of operations. This is necessary to properly distinguish the contribution generated from the transaction from general contributions (support) that are received from the public.

### **Topic 11: Measurement Period**

65. Question 12 of the Notice asked respondents whether a measurement period should be provided and, if so, whether it should be limited to one year. The NFP M&A ED proposes providing a period after the acquisition date during which the acquirer may adjust provisional amounts recognized at the acquisition date. That measurement period would end on the **earliest** of the following dates: when the acquirer receives the

necessary information about facts and circumstances that existed at the acquisition date, when the acquirer learns the information is unobtainable, or one year following the acquisition date. The objective of the measurement period is to provide the acquirer a reasonable amount of time to obtain the information necessary to identify and measure all the assets acquired, liabilities assumed, and consideration transferred.

66. All but two of the respondents who addressed this issue agreed that a measurement period should be provided and that a limit of one year following the acquisition date is appropriate. Those who added commentary generally stated that the proposal seemed practical and reasonable. The other two respondents expressed contrary concerns about the one-year period; one suggesting it may be too short and the other that it may be too long.

### **Topic 12: Assessing What Is Part of the Merger or Acquisition**

67. Question 13 of the Notice asked respondents whether the guidance is appropriate for assessing whether any portion of the transaction price or any assets acquired and liabilities assumed are not part of the acquisition accounting. The NFP M&A ED proposes that an acquirer assess whether multiple transactions should be bundled together. For example, an acquirer may transfer consideration in exchange for the acquiree, as well as consideration to compensate the acquiree's employees for future services. Only consideration transferred by (or on behalf of) the acquirer for the acquiree and the assets acquired or liabilities assumed that are part of the acquiree would be included in the acquisition accounting. Paragraphs 58–60 and A63–A73 of the proposal provide guidance for making the required assessment. Respondents generally agreed that the guidance is appropriate. Some respondents offered additional examples or suggestions to improve or clarify the proposed guidance.

### **Topic 13: Disclosure Objectives and Minimum Requirements**

68. Question 14 of the Notice asked respondents whether they agreed with the disclosure objectives and the specified minimum requirements to meet those objectives. The proposal includes the following three broad disclosure objectives to ensure that

users of financial statements receive adequate information to evaluate a merger or acquisition transaction:

- a. The nature and financial effect of mergers and acquisitions that occur during the reporting period and that occur after the balance sheet date but before the financial statements are issued (paragraph 64)
- b. The financial effects of adjustments recognized in the current reporting period relating to mergers and acquisitions that were effected in the current or previous reporting periods (paragraph 69)
- c. The changes in the carrying amount of goodwill during the reporting period (paragraph 71).

Those objectives would be supplemented by specific minimum disclosure requirements. In most instances, an acquirer could meet the objectives by disclosing the minimum requirements. However, in some circumstances, an acquirer might be required to disclose additional information necessary to meet the disclosure objectives.

69. Most respondents generally agreed with the disclosure objectives and minimum requirements. A few respondents agreed with the minimum disclosure requirements for acquisitions of not-for-profit organizations but noted that mergers should have different disclosure requirements. Some of those respondents who generally agreed with the disclosure objectives and minimum disclosure requirements requested that the Board consider adding a requirement to disclose information about the following:

- a. How the acquisition alters, changes, or adds to the mission of the not-for-profit organization [New York State Society of CPAs (CL #10)]
- b. Opt-out clauses, if any [Deloitte (CL #12) and AICPA/AcSEC (CL #23)]
- c. Any portion of the consideration transferred (payments or other arrangements) and any assets acquired or liabilities assumed or incurred that are not part of the merger or acquisition [PwC (CL #16), Ernst &Young (CL #21), and AICPA/AcSEC (CL #23)]

#### **Topic 14: Disclosure by Public Entities**

70. Question 15 of the Notice asked respondents whether they agreed that the disclosures for public entities would be useful to users (donor, creditors, and other users) of a not-for-profit organization's financial statements. The NFP M&A ED proposes that a not-for-profit organization that is a public entity (such as one that issues public debt securities or is obligated for public conduit debt securities issued by a governmental issuer) be required to disclose information, in addition to the minimum disclosures, about the operations of the following:

- a. The acquiree following the acquisition date
- b. The consolidated organization as if the acquisition had occurred as of the beginning of the annual reporting period.

If the disclosure of that information would be impracticable, the acquirer would be required to disclose that fact and the reasons why that disclosure is impracticable.

71. Respondents generally agreed with the proposed disclosures for not-for-profit organizations that are public entities. Some respondents suggested clarifications or revisions to the proposed disclosures. For example, Grant Thornton (CL #13) and PwC (CL #16) noted that disclosures in paragraph 67(a)–67(c) of the NFP M&A ED might be burdensome and impracticable. Grant Thornton noted that this might be the case because not-for-profit organizations do not report net income or earnings per share. PwC recommended that the guidance include specific examples of when such disclosures would be impractical.

#### **Topic 15: Noncontrolling Ownership Interests in a Subsidiary**

72. Questions 16 and 17 in the Notice asked respondents to comment on the prevalence of noncontrolling ownership interests in a not-for-profit organization's consolidated financial statements, whether the guidance provided in the NFP M&A ED was necessary and helpful, and whether they agreed with the presentation requirements in the proposal. The NFP M&A ED defines a noncontrolling ownership interest in the consolidated financial statements of a not-for-profit organization (parent) as the portion of the equity (net assets or residual interest) in a subsidiary attributable to

the owners of the subsidiary other than the parent and the parent's affiliates. The proposed guidance would establish standards for the accounting and reporting of noncontrolling ownership interests in the consolidated financial statements of the not-for-profit organization and for the loss of control of subsidiaries.

73. The NFP M&A ED also proposes that noncontrolling ownership interests be presented as a separate component of the appropriate class of net assets in the consolidated financial statements.

- a. **Attribution of changes in the consolidated net assets.** Changes in the consolidated net assets would be attributed to the controlling and noncontrolling ownership interests based on relative ownership interest, unless the controlling and noncontrolling ownership interests have entered into a contractual arrangement that requires a different attribution between them.
- b. **Changes in the ownership interests.** Changes in the ownership that do not result in loss of control and deconsolidation of a subsidiary would be reported as a separate line item in the consolidated statements of activities. If a not-for-profit organization loses control of a subsidiary, any gain or loss would be recognized in its consolidated statement of activities.

### **Prevalence of Noncontrolling Ownership Interests and Guidance for Not-for-Profit Organizations**

74. Less than half of the comment letters addressed noncontrolling interest issues related to not-for-profit organizations. A few respondents noted that noncontrolling interests are uncommon in not-for-profit organizations. Those respondents generally agreed that the guidance proposed for noncontrolling interests was appropriate, but they did not provide reasons for their support. One respondent stated that the guidance could be simplified by using references to for-profit guidance and providing examples specific to not-for-profit organizations.

75. Most respondents said that noncontrolling interests are reported frequently by business-type not-for-profit organizations (particularly in the healthcare sector) but are reported less frequently by traditional not-for-profit organizations. Several of those respondents stated that the guidance proposed in the NFP M&A ED is insufficient and should be clarified. Those respondents expressed concern that the proposed guidance

would result in continued diversity in practice in accounting for noncontrolling interests by not-for-profit organizations because of inconsistent guidance in the health care Guide and SOP 94-3. They suggested that the Board resolve those inconsistencies upon finalizing the guidance in the NFP M&A ED.

### **Presentation and Accounting Requirements of Noncontrolling Ownership Interests**

76. Most respondents agreed with the proposed presentation and accounting requirements for noncontrolling ownership interests but generally did not provide any reasons for their support. One respondent, PwC (CL #16), noted that they disagreed with the presentation proposals in the FASB Exposure Draft, *Noncontrolling Interests in Consolidated Financial Statements*, issued in 2005, but “in recognition of the differences-based approach being used for this project, [they] do not see any rationale for providing presentation standards for NPOs that are inconsistent with the conclusions reached by the Board in its noncontrolling interests project.”

77. Respondents who disagreed with the presentation requirements generally did not comment on the accounting for noncontrolling interests and the loss of control of subsidiaries. Those respondents suggested a variety of alternatives. For example, one donor expressed a preference for proportional consolidation and one preparer suggested allowing not-for-profit organizations the option of disclosing noncontrolling interests rather than requiring classification on the statement of financial position if noncontrolling ownership interests are immaterial. Also, the Maryland Association of CPAs, Accounting and Auditing Standards Committee (CL #3) suggested disclosure under the following circumstances:

- a. For publicly traded acquirers
- b. For not-for-profit organizations of a “certain size” using thresholds of revenue or other benchmarks
- c. When the disclosures would be meaningful for proper understanding of financial statements by the users.

## **Topic 16: Benefits and Costs of the Proposed Requirements**

78. Question 18 of the Notice asked respondents what costs and benefits they expected to incur if the proposed requirements were issued as a final Statement. The Notice also asked for suggestions to further reduce the related costs of applying the proposed requirements without significantly reducing the benefits.

79. Most respondents maintained that the proposed guidance will significantly increase costs such as auditing, accounting, and valuation fees. Some of those respondents also noted that the incremental benefits of the NFP M&A ED will exceed those costs because the proposed accounting will enhance comparability among both not-for-profit organizations and for-profit entities. However, other respondents stated that the costs of the proposed requirements outweigh the benefits, particularly in the case of a merger of equals or a true merger.

80. Some respondents expressed concern that the costs of implementing the proposed Statement would be particularly burdensome for small or nonpublic not-for-profit organizations. Therefore, some of those respondents suggested exempting small or nonpublic not-for-profit organizations from the requirements of the final Statement for cost-benefit reasons (see Topic 1).

**Exhibit A**  
**Comment Letter Index**  
**Exposure Draft, *Not-for-Profit Organizations: Mergers and Acquisitions***

1.	North Carolina State Board of CPA Examiners	Leonard Jones
*2.	Diocese of Charlotte	William Weldon
3.	Maryland Association of CPAs, Accounting And Auditing Standards Committee	Shirley Appleby
4.	United Way of America	Kenneth Euwema
*4A.	United Way of Coastal Georgia	Cathy Haney
*4B.	Heart of Kentucky United Way	Janie Pass
*4C.	United Way of SE Michigan	Cathy Adcock
*4D.	United Way of Montgomery County	Cathy Yowell
*4E.	United Way of the Greater Seacoast	Cindy Boyd
*4F.	United Way of Northern Fairfield County	June Renzulli
*4G.	United Way of Central Minnesota	JoAnn Henry
*4H.	United Way of Metropolitan Nashville	Mike Green
*4I.	United Way of Bergen County	Caroline Dorcey
*4J.	United Way AC	Ken Groome
*4K.	United Way of Eastern Maine	Karla McDougold
*4L.	United Way of Chester County	Karen Brown
*4M.	United Way of the Midlands	Richard Butcher
*4N.	Heart of West Michigan United Way	Susan Stoddard
*4O.	United Way of Warren County	Michael Schepers
5.	Individual	Teresa Gordon
6.	University of Notre Dame	The Controller's Group
*7.	NACUBO	Sue Menditto
*8.	KPMG	Mark Bielstein
*9.	BDO Seidman	Ben Neuhausen
10.	NYSS/CPA	Thomas Riley
11.	Moss Adams	Erica Forhan
12.	Deloitte	Stuart Moss
13.	Grant Thornton	Joseph Graziano
*14.	Individual	Richard Larkin
15.	Illinois CPA Society	Thomas Brean
*16.	PWC	Ray Beier
*17.	Connecticut Society of CPAs	Bruce Blasnik
18.	Individual	Stanley Dole
19.	Florida Institute of CPAs	Helen Painter
*20.	PCPS	Edward Knauf
21.	Ernst & Young	
*22.	Ascension Health	Barbara Potts
23.	AcSec	Ben Neuhausen
24.	HFMA	Richard Clarke

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\*These letters address the NFP M&A ED and the Exposure Draft, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*.