



KPMG LLP
757 Third Avenue
New York, NY 10017

Telephone 212-909-5600
Fax 212-909-5699
Internet www.us.kpmg.com

January 29, 2007

Technical Director
File Reference 1500-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116



LETTER OF COMMENT NO. 8

RE: Proposed FASB Statements, (i) *Not-for-Profit Organizations: Mergers and Acquisitions* and (ii) *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*

Dear Director:

We appreciate the opportunity to comment on the Board's proposed Statements, *Not-for-Profit Organizations: Mergers and Acquisitions* and *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*. We support many of the conclusions reached in these exposure drafts; however, as noted for each proposed Statement below, there are several areas that we believe merit further consideration.

Not-for-Profit Organizations: Mergers and Acquisitions

We agree with the Board's conclusion that the standards applicable to for-profit organizations, including proposed changes to FASB Statements No. 141, *Business Combinations*, and 142, *Goodwill and Other Intangible Assets*, generally should apply to not-for-profit organizations with exceptions applicable only for transactions and activities that are unique to not-for-profit organizations. Our comments on the proposed FASB Statement, *Business Combinations*, were previously submitted by letter dated October 28, 2005. As such, our comments in this letter are limited to matters contained in this exposure draft related to not-for-profit organizations and do not extend to the proposed replacement of Statement 141.

We agree that an acquirer should be identified for all mergers and acquisitions involving not-for-profit organizations. However, as in some instances it may be difficult to identify an acquirer as organizations may come together in a variety of manners purposely structured to be a "merger of equals" and the difficulties in identifying the acquirer in a combination of not-for-profit organizations may be different than issues related to the identification of the acquirer in a combination of for-profit organizations. For example,



Technical Director
Financial Accounting Standards Board
January 29, 2007
Page 2

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. We encourage the FASB to solicit input from both preparers and users of not-for-profit financial statements regarding approaches to identifying an acquirer and applying the acquisition method in situations where an acquirer cannot be easily identified. 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.

We agree that an acquirer should recognize identifiable assets acquired (including intangible assets) and liabilities assumed separately from goodwill. We also agree with the exceptions to the basic recognition principles of the proposed replacement of Statement 141 identified in paragraphs 25-29 of this exposure draft. Because many preparers of not-for-profit organization financial statements do not have significant experience with Statement 141, we believe the final statement should include additional examples of intangible assets that might be common in business combinations involving not-for-profit organizations to assist those preparers. Examples of such intangible assets could include:

- Certificates of need
- Licenses
- Physician relationships (employed, contract, admitting privileges)
- Patient lists (distinct from customer lists due to privacy regulations)
- Medical records and databases
- Religious sponsorships, designations, or affiliations.

Some business combinations between not-for-profit organizations include a termination (“opt-out”) clause in the merger agreement which allows either party to terminate the merger without cause during or at the end of a specified period of time. We believe these clauses are unique to not-for-profit business combinations. If the opt-out clause is invoked the merger is unwound and the organizations revert to operating as separate organizations under separate management and governance. We do not believe that such opt-out clauses preclude the consummation of a business combination, nor do we believe that value should be assigned to these clauses in the acquisition accounting. If a termination clause were to be exercised, we believe the termination would be accounted for in a manner similar to a spin-off. Because these clauses are unique to business combinations among certain not-for-profit organizations, the Board should include guidance as part of the proposed statement on the appropriate accounting for opt-out clauses both at the time of the business combination and when subsequently exercised.



Technical Director
Financial Accounting Standards Board
January 29, 2007
Page 3

Many not-for-profit organizations include a performance indicator in their statement of operations in accordance with the AICPA Audit and Accounting Guide, *Health Care Organizations*. The final statement should specify whether increases or decreases in net assets resulting from application of the guidance in the proposed statement should be included in or excluded from the performance indicator reported in the statement of operations. For example, the exposure draft provides that contingent consideration classified as a liability be measured at fair value with changes in the fair value recognized in changes in net assets each reporting period until settlement of the contingent consideration. We believe such changes in fair value should be included in the performance indicator for organizations that report a performance indicator in their statement of operations.

The Board should clarify the appropriate authoritative literature to be applied in circumstances where a for-profit subsidiary of a not-for-profit organization has effected a business combination. For example, it may be possible for a parent not-for-profit organization to effect a merger or acquisition using either its not-for-profit subsidiary or its for-profit subsidiary as the acquirer. The final statement should specify whether the accounting for a for-profit acquirer or a not-for-profit acquirer applies to those situations.

Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition

The exposure draft on business combinations for not-for-profit organizations proposes that the acquiring organization will recognize either goodwill or contributions as part of the business combination. Based on our experience, we believe that most not-for-profit business combinations will result in organizations recognizing contributions rather than goodwill.

This exposure draft would require goodwill to be assessed for impairment at the reporting unit level using the guidance in Statement 142 and FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*. As noted in paragraph 118 of Statement 131, the Board decided to exclude not-for-profit organizations from the scope of that statement, in part, because “there are likely to be unique characteristics of some of those entities ... which the Board has not studied.” We encourage the Board to examine the potential unique issues involved in identifying reporting units of not-for-profit organizations before requiring those organizations to apply certain elements of Statement 131 as part of the adoption of this proposed statement.

We support the use of different methods of analyzing impairment for goodwill assigned to reporting units that are primarily supported by contributions and returns on investments as compared to goodwill that is assigned to reporting units primarily supported by resources other than contributions and returns on investments (e.g., fees for services). However, we believe that further examples would be helpful in



Technical Director
Financial Accounting Standards Board
January 29, 2007
Page 4

determining primary support, changes in the nature of primary support, and application of the qualitative evaluation.

- Determination of Primary Support

There are many not-for-profit organizations that are supported by both contributions and returns on investments as well as other resources. While the exposure draft calls for consideration of both qualitative and quantitative factors in determining a reporting unit's source of primary support, additional examples would assist organizations in making this determination. For example, the Board should consider providing an example illustrating how funds received from contributions which are restricted to funding scholarships should be considered in determining the primary support.

- Change in the Nature of Primary Support

Unless there is evidence that the organization's primary support has changed and that is not a temporary situation, we believe that the organization generally would not need to make a reassessment. However, the Board should consider whether additional guidance would be helpful on how often reassessments should be made.

- Application of the Qualitative Evaluation

We agree that a not-for-profit organization with goodwill assigned to a reporting unit primarily supported by contributions and returns on investments should identify the reasons why goodwill arose in the acquisition, and that goodwill should be assessed for impairment using qualitative factors. However, we do not believe that it is necessary to develop a comprehensive list of events and circumstances that would indicate the goodwill assigned to a reporting unit is impaired. Paragraph 36 of the exposure draft notes that "there may be circumstances in which an impairment event occurs that was unidentified at the acquisition date." We believe that reporting units primarily supported by contributions and returns on investments should perform an annual qualitative evaluation of the recoverability of the goodwill assigned to the reporting unit. That evaluation should focus on the factors that gave rise to the goodwill and whether there have been significant changes in those factors.

Comments Applicable to Both Proposed Standards

While the exposure drafts do not specify an effective date, we would recommend a delayed effective date for smaller not-for-profit organizations. Those organizations with more limited resources may benefit from the experiences of larger not-for-profit organizations as implementation issues are identified and resolved as they begin applying the new standards.



Technical Director
Financial Accounting Standards Board
January 29, 2007
Page 5

Appendix C of the Mergers and Acquisitions exposure draft provides a comparison of the proposed standard to the principles in the proposed replacement of Statement 141 and we found this information particularly helpful in reviewing the exposure draft. Similarly, Appendix C of the exposure draft provides amended paragraphs of Statement 142 and we believe this information is particularly helpful in reviewing the exposure draft. However, many of the preparers that will be subject to the proposed Statements do not have significant exposure to the proposed replacement of Statement 141, we believe it would be helpful to include an additional appendix with a comparison of the new requirements with existing practice to assist preparers in better understanding the changes to existing guidance contained in this proposed statement.

We would like the Board to note that we wish to participate in the public roundtable meeting to be held on March 27, 2007.

* * * * *

If you have any questions about our comments, please contact Mark Bielstein at (212) 909-5419, Rick Corcoran at (212) 909-5479, or Joe Macina at (212) 909-5635.

Sincerely,

KPMG LLP