



LETTER OF COMMENT NO. 15

January 22, 2007

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CN 06856-5116

File Reference No. 1500-100

The Not-for-Profit Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the Exposure Draft of a Proposed Statement, *Not-for-Profit Organizations: Mergers and Acquisitions*. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

Our comments in response to the Questions raised in the document are as follows:

### **Objectives of the Proposed Statement**

Question 1 – In general we agree with the objectives of the proposed statements; however, we believe there are certain mergers between not-for-profit organizations which are not acquisitions of net assets, but rather are true combinations of organizations. Some of the criteria (characteristics) we believe distinguish these mergers include:

- Combinations in which no consideration exchanged.
- Combinations in which both organizations mutually agree upon the terms of the transaction.
- Combinations in which each organization receives equal representation on the newly formed organization's governing board.
- Combinations of organizations which are relatively similar in size.
- Combinations of organizations with dissimilar types of programs which will continue as part of the newly formed organization.

We suggest the standard should be revised to address mergers between not-for-profit organizations which are not acquisitions of net assets and consider whether other methods of accounting (such as pooling of interests) may be appropriate in these circumstances.

## **Scope and Definitions**

Question 2 – In general, we agree with the definitions of a merger or acquisition. As stated in our response to question 1 above, we would suggest the standard should be revised to address mergers between not-for-profit organizations which are not acquisitions of net assets and consider whether other methods of accounting (such as pooling of interests) may be appropriate in these circumstances.

Question 3 – In general, we agree with the continued retention of and reliance on the existing guidance on consolidation included in SOP 94-3 and healthcare guide. As stated in our response to question 1 above, we would suggest the standard should be revised to address mergers between not-for-profit organizations which are not acquisitions of net assets and consider whether other methods of accounting (such as pooling of interests) may be appropriate in these circumstances.

Question 4 – We agree the definitions of a business and a nonprofit activity are appropriate.

## **Identifying an Acquirer**

Question 5 – In general, we agree the factors for identifying an acquirer are appropriate. As stated in our response to question 1 above, we would suggest the standard should be revised to address mergers between not-for-profit organizations which are not acquisitions of net assets and consider whether other methods of accounting (such as pooling of interests) may be appropriate in these circumstances.

## **Recognizing and Measuring the Identifiable Assets Acquired and Liabilities Assumed**

Question 6 – In general, we agree the concept of measuring assets and liabilities at fair value are appropriate. As stated in our response to question 1 above, we would suggest the standard should be revised to address mergers between not-for-profit organizations which are not acquisitions of net assets and consider whether other methods of accounting (such as pooling of interests) may be appropriate in these circumstances.

## **Recognition of Identifiable Assets Apart from Goodwill and Departures from Those Requirements**

Question 7 – We believe the proposed guidance related to measuring intangible assets is unclear and is complicated by the non-exchange nature of certain transactions inherent in not-for-profit organizations. Although we understand why customer lists are required to be reported at fair value under FAS No. 141, *Business Combinations*, we believe it is difficult to apply these same concepts to non-exchange transactions given the non-reciprocal nature of the transactions. We also believe the methods not-for-profits would

use to determine the fair value of donor related intangibles would be akin to recording contributions prior to meeting the recognition criteria included in FAS No. 116, *Accounting for Contributions Received and Contributions Made*.

Question 8 – We agree with the proposed accommodations.

Question 9 – We would also recommend considering inclusion of other intangibles common to not-for-profits including: business licenses, accreditations, and other endorsements not-for-profit organizations may have.

### **Recognizing and Measuring the Goodwill or the Contribution Received**

Question 10 – We agree the requirement that limits the acquirer’s recognition of goodwill to the amount purchased is appropriate.

Question 11 – We agree the requirement that the acquirer recognize a contribution is appropriate. As stated in our response to question 1 above, we would suggest the standard should be revised to address mergers between not-for-profit organizations which are not acquisitions of net assets and consider whether other methods of accounting (such as pooling of interests) may be appropriate in these circumstances.

### **Measurement Period**

Question 12 – We agree that the measurement period should be provided and believe the limit of one year is appropriate.

### **Assessing What is Part of the Merger or Acquisition**

Question 13 – We agree that the guidance for assessing what is part of the merger or acquisition is appropriate.

### **Disclosures**

Question 14 – We agree with the disclosure objectives and specified minimum disclosure requirements.

### **Disclosures by Public Entities**

Question 15 – We agree that the disclosures for public entities are useful to the users of the financial statements.

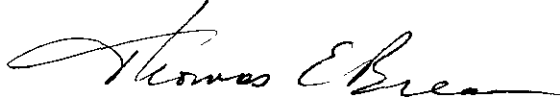
### **Noncontrolling Ownership Interests in a Subsidiary**

Question 16 – We do not believe noncontrolling ownership interests in not-for-profit organizations are prevalent. We believe the guidance provided is appropriate.

Question 17 – We agree with the presentation requirements and accounting for noncontrolling ownership interests in a not-for-profit organizations.

We appreciate the opportunity to offer our comments.

Sincerely,

A handwritten signature in cursive script that reads "Thomas E. Brean". The signature is written in black ink and is positioned above the printed name.

Thomas E. Brean, CPA  
Chair, Not-for-Profit Committee