

March 8, 2007



LETTER OF COMMENT NO. 21

Ms. Sue Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1500-200

Dear Ms. Bielstein:

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) is pleased to offer comments on the FASB's October 9, 2006 Exposure Draft of a proposed Statement of Financial Accounting Standards, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*.

AcSEC supports the Board's decision to provide guidance on goodwill and other intangible assets acquired in a merger or acquisition. We believe the proposed statement is a step in the right direction. We support the differences-based approach (differences from Statement No. 142, *Goodwill and Other Intangible Assets*) in developing standards for not-for-profit organizations in this area. As stated in our March 1, 2007 comment letter on the FASB's October 9, 2006 Exposure Draft of a proposed Statement of Financial Accounting Standards, *Not-for-Profit Organizations: Mergers and Acquisitions*, we believe goodwill should be recognized only in circumstances in which it can objectively be demonstrated that goodwill has been acquired. If the Board accepts our view that goodwill should be recognized only in circumstances in which it can objectively be demonstrated that goodwill has been acquired, goodwill impairment should be based on a quantitative model in all circumstances, rather than a qualitative model in circumstances in which the NPO reporting unit is primarily supported by contributions and returns on investments. If the Board rejects our view that goodwill should be recognized as an asset only in circumstances in which it can objectively be demonstrated that goodwill has been acquired, our alternate view is that goodwill should be written off immediately after accounting for the acquisition (commonly referred to as "on day 2") for NPO reporting units primarily supported by contributions and returns on investments.

We are concerned that NPOs, which are scoped out of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, will now be effectively required to apply certain guidance in FASB Statement No. 131 in identifying reporting units. Given that NPOs have not applied Statement No. 131, we are concerned that this may result in unintended consequences and

unforeseen issues pertaining to operationality. Accordingly, we suggest the Board research (possibly through field testing) and deliberate these issues prior to effectively imposing certain guidance in Statement No. 131 on NPOs. We have provided more specific comments in the attachments to this letter.

* * * * *

We appreciate the opportunity to comment on the proposed Statement and request the opportunity to discuss our comments at the March 27, 2007 Roundtable. In addition, we are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Ben Neuhausen
Chairman
Accounting Standards Executive Committee

Martha Garner
Chair
Not-for-Profit Goodwill
Comment Letter
Task Force

Attachment A

Question 1—Are the accounting requirements for intangible assets appropriate, understandable, and sufficient for identifiable intangible assets acquired by a not-for-profit organization in a merger or acquisition? If not, why and what alternative do you suggest?

Yes.

Question 2—Is the departure from the goodwill impairment evaluation in Statement 142 appropriate for reporting units that are primarily supported by contributions and returns on investments? If not, why and how should goodwill be evaluated for impairment?

As stated in our March 1, 2007 comment letter on the FASB's October 9, 2006 Exposure Draft of a proposed Statement of Financial Accounting Standards, *Not-for-Profit Organizations: Mergers and Acquisitions*, we believe goodwill should be recognized only in circumstances in which it can objectively be demonstrated that goodwill has been acquired. If the Board accepts our view that goodwill should be recognized only in circumstances in which it can objectively be demonstrated that goodwill has been acquired, goodwill impairment should be based on a quantitative model in all circumstances, rather than a qualitative model in circumstances in which the NPO reporting unit is primarily supported by contributions and returns on investments. If the Board rejects our view that goodwill should be recognized as an asset only in circumstances in which it can objectively be demonstrated that goodwill has been acquired, our alternate view is that goodwill should be written off immediately after accounting for the acquisition (commonly referred to as "on day 2") for NPO reporting units primarily supported by contributions and returns on investments.

If FASB decides to retain the qualitative impairment test, we offer the following comment:

Goodwill for a reporting unit may be related to contributions even though the primary means of support for the reporting unit is other than contributions and returns on investments. In circumstances in which goodwill can clearly be attributed to economic benefits pertaining to contributions and returns on investments, the goodwill impairment test should be qualitative, rather than quantitative, regardless of the primary means of support of the reporting unit. For example,

- Assume a college and university is supported primarily from tuition revenue and has only one reporting unit. The University acquires an NPO in a transaction that creates goodwill that pertains to research staff that is

supported by contributions. That goodwill should be tested for impairment using the qualitative evaluation.

- Assume NPO A is supported primarily from fees charged for services provided and has only one reporting unit. NPO A acquires NPO B without consideration. NPO B's liabilities exceed its assets. NPO A therefore reports goodwill in connection with the acquisition. NPO B performed program B, with goods and services distributed at no charge. NPO B anticipated funding programs B with contributions from its donor base, but was unable to adequately fund program B from those contributions. In circumstances in which NPO A intends to fund program B with assets received from fees for services, the goodwill impairment test should be quantitative. In circumstances in which NPO A intends to fund program B with contributions, the goodwill impairment test should be qualitative.

Question 3—Are the criteria for determining which impairment evaluation to apply appropriate, understandable, and sufficient? If not, why and how should the guidance be modified or clarified?

If the Board retains the qualitative impairment test, we offer the following comments:

As noted in our response to Question 2, in circumstances in which goodwill can clearly be attributed to economic benefits pertaining to contributions and returns on investments, the goodwill impairment test should be qualitative, rather than quantitative, regardless of the primary means of support of the reporting unit.

Additionally, the ED provides that evaluating goodwill for impairment includes, among other matters, determining a reporting unit's "primary support." We believe that additional guidance is needed in order for the concept of "primary support" to be applied in a consistent and reasonable manner. Our comments are explained in more detail in the following paragraphs.

From the context of other sections of the ED, we believe the Board intends for "primary support" to mean over 50% of support. If this is the Board's intent, we suggest that be explicitly stated in paragraph 8c. In addition,

Example 3 in Appendix A is not particularly helpful, because all sources of support are contributions. The example would be more helpful if some revenue was from exchange transactions.

The Statement should provide more challenging examples to help apply the guidance for determining the primary support. We suggest the following as examples:

- What if the support is primarily contributions, but the NPO gets a three-year grant that is an exchange transaction and that swings primary support to exchange transaction for at least the next three years? What if its a two-year grant? One-year grant?
- What if the support from contributions/investment income vs fees is roughly equal and the determination of which is greater swings back and forth based on the total investment return on a year-by-year basis?
- What if primary support is revenue from exchange transactions for the past several years, but the NPO has a large endowment and total return on investments is uncharacteristically high in a particular year (say 40%), so that revenue from contributions/investments exceeds revenue from exchange transactions for that year?

We observe that in practice diversity exists in reporting government grants as either exchange transactions or contributions.¹ That diversity will unavoidably spill over into determinations involving the primary means of support. The Board should address this issue in the final standard to help ensure reasonable and consistent application.

Paragraph 22 of the ED provides that in determining the nature of a reporting unit's primary support, NPOs should consider all forms of contributed support, including contributions that are precluded from being recognized or are not required to be recognized in the financial statements (such as certain contributed services and collection items and conditional promise to give). Conditional promises to give should not be considered as support because (a) they provide *no support to the NPO unless and until the conditions are met and (b) considering conditional promises to give as support would be double counting in circumstances in which the conditions are met and contributions received.*

¹ Paragraph 56 in the *Basis for Conclusions* of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, provides that whether a grant is from a government agency, private foundation, or corporation, the difficulties in determining whether a transfer is an exchange transaction or a contribution are substantially the same. Applying the provisions of Statement No. 116 requires a careful assessment of the characteristics of the transfers. Nevertheless, diversity and practice exists.

Question 4—Is the proposed qualitative evaluation operational for the intended reporting units and will it adequately identify an impairment of goodwill in the correct period? If not, why and how should the guidance be modified or what alternative evaluation would capture an impairment of goodwill on a more timely basis?

No. The qualitative evaluation is too subjective and will result in diversity in practice.

As stated in our response to Question 2, we believe goodwill should be recognized only in circumstances in which it can objectively be demonstrated that goodwill has been acquired. If the Board rejects our view that goodwill should be recognized as an asset only in circumstances in which it can objectively be demonstrated that goodwill has been acquired, our alternate view is that goodwill should be written off immediately after accounting for the acquisition (commonly referred to as "on day 2") for NPO reporting units primarily supported by contributions and returns on investments.² While various approaches to goodwill accounting all have some flaws, immediately writing off goodwill on day 2 for NPO reporting units supported primarily by contributions and returns on investments is most appropriate because it is the most relevant, reliable and

representationally faithful reporting from among the various methods considered. The primary flaws of the method proposed in the ED are as follows:

- Reporting Goodwill (and related impairment) for NPO's is not Decision Useful
- The impairment test for NPO goodwill pertaining to reporting units supported primarily by contributions and returns on investments would result in impairment reporting that is less relevant, reliable, and representationally faithful than reporting resulting from impairment tests for other NPO goodwill

² Many of the reasons supporting writing off goodwill immediately on day two for NPO reporting units primarily supported by contributions and returns on investments apply also to NPO reporting units primarily supported by other than contributions and returns on investments. We acknowledge and support, however, the differences-based approach in accounting for NPO goodwill and therefore suggest that only goodwill pertaining to reporting units primarily supported by contributions and returns on investments be written off on day 2, as opposed to writing off all NPO goodwill on day 2.

Reporting Goodwill (and related impairment) for NPO's is not Decision Useful

Information about goodwill (both initially reported as an asset and amounts reported as impairment losses), is likely to be of limited usefulness to NPO financial statement users for NPOs that are supported primarily by contributions. In particular, such information is likely to be irrelevant at best, and misleading at worst, to donors in their assessment of whether to provide resources to NPOs.

As discussed in Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, the objectives of financial reporting by NPOs that are supported primarily by contributions may differ to some extent from the objectives of financial reporting by for-profit entities. For example, users of NPO's financial statements are interested in information useful in assessing the services that an NPO provides, how managers have discharged their stewardship responsibilities, and information about service efforts and accomplishments. The objectives in Concepts Statement No. 4 and needs of NPO financial statement users typically result in placing less emphasis on the "bottom line" than typically exists for entities other than NPOs. Accordingly, goodwill impairment, including allocating an impairment loss to a specific operating period based on the occurrence of certain identified triggering events, is less relevant to NPO financial statement users than to financial statement users for entities other than NPOs.

In addition, as discussed in paragraphs B132 - B138 of the October 9, 2006 Exposure Draft, *Not-for-Profit Organizations: Mergers and Acquisitions*, the amount of goodwill reported as an asset (and corresponding amount reported as net assets) typically would not be relevant to an NPO financial statement user.

The impairment test for NPO goodwill pertaining to reporting units primarily supported by contributions and returns on investments would result in impairment reporting that is less relevant, reliable, and representationally faithful than reporting resulting from impairment tests for other NPO goodwill

While we appreciate the Board's intent in proposing the qualitative evaluation as an exception for testing goodwill impairment for reporting units supported

primarily by contributions and returns on investments, rather than a fair value test, we note that the trade-off to such an exception is a lack of comparability and a loss of relevance and reliability in reporting both the goodwill asset as well its impairment. As indicated in our response to Question 2, we believe that if goodwill recognition is limited to situations where it is clear that value has been obtained, it should be operational for organizations supported primarily by contributions and investment returns to perform the quantitative assessment

In practice, it will be difficult to develop qualitative impairment triggers that will be *all encompassing and applied and interpreted consistently*. To the extent that such triggers are not developed and applied consistently, diversity in practice and a lack of comparability will exist.

Because impairment sometimes occurs incrementally, the amount of goodwill could be overstated for a period of time until the trigger is activated, and then goodwill would be completely written off, and possibly understated because one triggering event may in reality partially impair the amount of goodwill initially reported, without completely impairing the amount of goodwill initially reported.

Question 5—Is the guidance for identifying the triggering events appropriate, understandable, and sufficient? If not, why and how should the guidance be modified and are there additional examples that should be included?

No. It is unclear from the ED whether the occurrence of an identified impairment event should necessarily result in a goodwill impairment loss, *and how much judgment is permitted subsequent to acquisition in determining whether a triggering event has occurred pertaining to goodwill impairment*. Further, if the Board decides to retain the qualitative trigger-based method, the *final Statement should expand on the notion of whether a change in the primary means of support itself indicates a significant impairment*.

The ED appears internally inconsistent about whether the occurrence of an identified impairment event results in an impairment loss in all circumstances or, whether the occurrence of an identified impairment event results in an impairment loss only in circumstances in which the negative consequences of the impairment event are determined (at the time of the event's occurrence) to be of a continuing nature. Paragraphs A13 and the example disclosure in paragraph A17 indicate that in order for an impairment event to result in goodwill impairment, the negative consequences of the impairment event should be of a continuing nature. This appears inconsistent with paragraphs 36 and A14, which indicate that

an impairment event should result in goodwill impairment, with no mention of whether the consequences of the impairment event are or are expected to be of a continuing nature.

We understood from paragraphs 33 to 35 that an organization should identify impairment events at the time the acquisition takes place. Depending on the identified impairment events, judgment may be required at a later date in determining whether an impairment event has occurred, but if in fact an impairment event has occurred, an impairment loss should be recognized pursuant to paragraphs 36 and A14. Paragraph 36 appears to provide no latitude for additional judgment at a later date to conclude that though the identified impairment event took place, no goodwill impairment occurred. We understood this provision to impose a discipline at the acquisition date to consider the implications of various potential events and whether in fact they would result in impairment. So not only does evaluating whether an impairment event has occurred require the application of judgment, but defining an impairment event requires the application of judgment. Defining an impairment event should include considering the circumstances in which the negative consequences of an event may be mitigated and concluding, at the time the impairment event is defined, which facts and circumstances will and will not result in impairment events. NPO's should be prohibited from using judgment at a later date to conclude that though the impairment event occurred, no impairment loss should be recognized.

Paragraph 33 of the ED provides that "an organization also shall identify a comprehensive list of events and circumstances that would indicate that goodwill assigned to the reporting unit is impaired." We question whether the word "would" is appropriate in this sentence and whether the Board's intent is more closely served by deleting the word "would" or changing "would indicate" to "lead to the conclusion..."

If the Board decides to retain the qualitative trigger-based method, the final Statement should expand on the notion of whether a change in the primary means of support itself indicates a significant impairment. The ED (paragraph 27b) provides that as of the time that there has been a change in the nature of primary support, an NPO should evaluate goodwill for impairment. NPOs should "consider whether the change in the nature of support indicates that goodwill has been significantly impaired when goodwill is assigned to a reporting unit that becomes supported primarily by contributions and returns on investments. In those circumstances, an organization shall not perform a fair-value-based evaluation of goodwill. Rather, the organization shall make an assessment about whether the goodwill is significantly impaired based on its judgment about whether the change itself indicates a significant impairment. That consideration should be made based on the facts and circumstances that existed at the time of

the change.” We believe the final Statement should include further guidance, perhaps through examples, for making assessments about whether the goodwill is significantly impaired based on a judgment about whether the change itself indicates a significant impairment.

Question 6—If an identified triggering event occurs, do you agree with the measurement of the impairment loss (equal to the carrying amount of goodwill related to the acquisition within the reporting unit)? If not, why and what alternative do you suggest?

If the Board decides to retain the qualitative trigger-based method, all goodwill related to the acquisition within the reporting unit should be written off if an identified triggering event occurs.

Question 7—Is the guidance for determining what method of impairment should be applied when there is a change in the nature of a reporting unit’s primary support appropriate, understandable, and sufficient? If not, why and how should the guidance be modified or clarified?

If the Board decides to retain the qualitative trigger-based method, an organization should not necessarily switch to a fair value evaluation when support shifts from contributions to fees. For example, assume NPO A purchases NPO B and pays a premium because Super Scientist Joe works at NPO B, and NPO A expects great things from Scientist Joe. In addition, donors make significant contributions in support of Scientist Joe’s work. At the time of the purchase support was \$60 from contributions and \$40 from fees. Only one reporting unit exists. The following year, fees increased significantly for reasons unrelated to Scientist Joe, but Scientist Joe is still employed by NPO A and goodwill associated with his status as an employee continues to exist. The evaluation of goodwill should continue to be qualitative, because Scientist Joe is the reason for the goodwill and nothing has changed in relation to Scientist Joe.

Other related comments are included in our response to Question 3.

Question 8—What costs do you expect to incur if the requirements of the proposed Statement were issued as a final Statement? What benefits do you expect? How could the Board further reduce the related costs of applying the requirements of the proposed Statement without significantly reducing the benefits?

Many nonbusiness not-for-profit organizations do not undertake mergers and acquisitions on a regular basis. Many nonbusiness not-for-profit organizations do, however, occasionally undertake mergers and acquisitions. Business not-for-

profit organizations commonly undertake mergers and acquisitions. For those entities undertaking mergers and acquisitions that would result in goodwill, costs of applying the proposed Statement would be significant. The primary costs incurred would be (a) tracking goodwill and (b) performing the annual impairment tests. In addition, but perhaps more significantly, costs to the not-for-profit sector as a whole could be high if not-for-profit organizations' financial statements are (or are perceived to be) less reliable than expected. Specifically, the proposed guidance opens the door for potential abuse and fraudulent or misleading financial reporting may result from entities overstating the fair value of goodwill. Given that not-for-profit organizations as a whole have public accountability, financial reporting improprieties for any one entity, whether real or perceived, tend to have a chilling effect on the industry as a whole.

If the Board accepts our view that goodwill should not be recognized unless it is clear that value is obtained, we believe costs related to goodwill impairment testing would be reduced, because such goodwill would rarely be recognized.

For those entities undertaking transactions within the scope of the proposed Statement, we believe the benefits of applying the guidance in the proposed Statement will be that they need not report annual amortization of goodwill, if any. In that respect, financial reporting for NPOs would more closely parallel business reporting. We question, however, whether the benefits justify the costs.

ATTACHMENT B - Comments on issues not specifically addressed in the Questions in the "Notice to Recipients"

Definition of an asset - Economic benefits for NPOs includes service potential in addition to future cash flows For NPOs, the economic benefits of goodwill and other assets, including intangible assets, may be tied to service potential rather than cash flows, as discussed in FASB Concept Statement No. 6, *Elements of Financial Statements*. The ED's discussion of goodwill and other intangible assets (both with respect to recognition and subsequent measurement) focuses on cash flows. For example, paragraph 4j and amended paragraph 11 in Appendix C provide that the useful life of an intangible asset to an entity is "the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity." As another example, paragraph B20 discusses goodwill and its continued existence in the context of cash flows from either contributions, investments, or fees. The cash flow model in the ED does not contemplate the service potential to an NPO of certain intangible assets, such as certain patents that may accomplish mission without generating cash flows. For example, an NPO may hold a patent that advances research in the cure for cancer. The NPO may license out that patent for no fee in order to obtain mission accomplishments. The ED should be revised to contemplate that for NPOs, economic benefits may be realized in the form of service potential, rather than cash flows.

Applying certain provisions of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information* - Pursuant to the ED, NPOs will now be effectively required to apply certain guidance in FASB Statement No. 131 in identifying reporting units. NPOs are scoped out of FASB Statement No. 131. Paragraph 118 of FASB Statement No. 131, in discussing the reasons for exempting NPOs from its provisions, notes that there are likely to be unique characteristics of some NPOs which the Board has not studied. The Board decided not to undertake the research and deliberations that will be necessary to adapt the requirements of Statement No. 131 to NPO's at the time Statement No. 131 was issued. Given that NPOs have not applied Statement No. 131, we are concerned that this may result in unintended consequences and unforeseen issues pertaining to operationality. Accordingly, we suggest the Board research (possibly through field testing) and deliberate these issues prior to effectively imposing certain guidance in Statement No. 131 on NPOs.

Definition of a reporting unit The ED should address circumstances in which certain operations are intertwined to such an extent that what may seem like a separate reporting unit actually is not; and also clarify the primary source of support in such circumstances. For example, a large healthcare system may acquire an inner-city hospital to serve the community. The inner-city hospital may operate at a loss on a stand-alone basis and appear to be an operating segment pursuant to the provisions of paragraphs 10 - 14 of the Exposure Draft.

At the same time, however, the inner-city hospital may generate patients and other sources of revenue for other entities within the healthcare system. Further, the losses of that inner-city hospital may be funded by transfers from the parent company health care system. In such circumstances, perhaps the inner-city hospital should not be treated as a separate reporting unit.

Paragraph 50 – The ED provides that an NPO should present the aggregate amount of goodwill as a separate line item in the statement of financial position and the aggregate amount of goodwill impairment losses recognized in the reporting period as a separate line item in the statement of activities. The Statement should provide guidance about which net asset class should be reduced by an impairment loss of goodwill. If the Board’s intent is that readers look to FASB Statement No. 117 in determining which net asset class should be reduced by an impairment loss of goodwill, that should be explicitly stated, and illustrations provided to help implement that guidance. In addition, the Statement should provide that for organizations within the scope of the Healthcare Guide, goodwill impairment losses, if any, should be included in the performance indicator.

Editorial Comments

Paragraph 14 – The example in the ED provides that “The characteristics in paragraph 10 may apply to two or more overlapping sets of parts for which managers are held responsible. That structure is sometimes referred to as a matrix form of organization. For example, in some not-for-profit organizations, certain managers are responsible for specific geographic areas. The chief operating decision maker regularly reviews the operating results of *both sets of parts*, and financial information is available for both. In that situation, the parts based on services should constitute the operating segments.” [*emphasis added*] In the phrase “both sets of parts,” it is unclear what are those sets of parts. Is it intended that *both sets of parts* are geographic areas and services?

Paragraph 25a - The ED should be revised to read “for example, a 1-year decline in support from fees from 75 percent to 49 percent of total support...”

Paragraph 25b – The implications of these changing circumstances on determinations about whether there has been a change in the nature of the primary support should be stated more explicitly.

Paragraph 29 – The example in the last sentence of the paragraph should be clarified to state that in this fact pattern goodwill is reassigned from a reporting unit that is supported primarily by resources other than contributions and returns on investments.

Paragraph 30 – The last sentence of this paragraph should be revised as follows “similarly, the goodwill associated with a business or nonprofit activity shall be included in the carrying amount of that business or nonprofit activity in determining the gain or loss on disposal.”

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Paragraph 31 – The first sentence of this paragraph should be revised as follows “a not-for-profit organization shall determine the amount of goodwill to be included in the carrying amount of a business or nonprofit activity when disposing of the business or nonprofit activity based on the goodwill assigned to a specific acquisition within the reporting unit, if possible.”

Paragraph 32b – The last sentence should be revised to include a cross reference to the section of the ED discussing the fair-value-based evaluation.

Paragraph 34 - It is unclear whether goodwill is intended to be identified and quantified in total for each acquisition or identified and quantified on a disaggregated basis for a particular acquisition based on the various events creating the goodwill. The ED should be clarified. Assuming that goodwill should be identified and quantified in total for each acquisition, the ED should be revised as follows:

The qualitative evaluation inherently requires specific identification of the event(s) creating the goodwill and the amount of goodwill for which a specific set of impairment events has been identified. Goodwill should be identified and quantified in total for each acquisition, rather than identified and quantified on a disaggregated basis for a particular acquisition based on the various events creating the goodwill. Because the list of impairment events and circumstances is identified for each assignment or reassignment (such as reorganization or a change in the nature of reporting unit) of goodwill to a reporting unit, information about each assignment shall be maintained separately. For example, if goodwill from two different acquisitions is assigned to the same reporting unit, the event(s) creating the goodwill, list of impairment events and any goodwill impairment, shall be identified by acquisition.

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Paragraph 36 – This paragraph should be revised as follows:

If no identified impairment event has occurred, an organization shall not recognize an impairment loss pertaining to the carrying amount of goodwill assigned to a reporting unit. However, if any of the

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identified impairment events has occurred, an organization shall recognize an impairment loss equal to the carrying amount of goodwill assigned to the applicable reporting unit and attributable to a specific acquisition for which the impairment event relates...

Paragraphs 46 and 47 – Revise the last sentence as follows “only if goodwill of that higher-level reporting unit is impaired would an additional goodwill impairment loss be recognized at the consolidated level.”

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Paragraph 49 – Revise the first sentence as follows “a not-for-profit organization shall not amortize the portion of the difference between (a) the cost of an investment and (b) the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 19 (b) of APB Opinion No. 18.....”

Paragraph A3 – This paragraph should be revised as follows:

NFP-A has a reporting unit that provides career counseling services. That reporting unit provides those services to the needy for a fee. The counseling services, are provided by volunteers and do not meet the recognition criteria for contributed services in FASB Statement No. 116. NFP-A does not quantify the contributed services for financial reporting or other purposes. Based solely on the reported financial information about the support from fees, the reporting unit would appear to be supported by fees. However, in analyzing a reporting unit's support, this Statement requires a not-for-profit organization to consider information about a reporting unit's support on a qualitative basis if quantitative information is unavailable. Therefore, NFP-A should consider on a qualitative basis how its support from contributed services received relate to the reporting unit's total support. NFP-A concludes that, the majority of the support is from the donated services of volunteers. Accordingly, NFP-A concludes that its career counseling services reporting unit is supported primarily by contributions.

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Paragraph A4 - This paragraph should be revised as follows:

...however, the majority of the services are provided by compensated health service professionals. The volunteer services do not meet the recognition criteria for contributed services in FASB Statement No. 116. NFP-B does not quantify the contributed services for financial reporting or other purposes. Based solely on the reported financial information about the support from fees, the reporting unit would appear to be supported by fees. However, in analyzing on a qualitative basis how it's support from contributed

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services received relate to the reporting unit's total support, NFP-B concludes that because the majority of the support is from fees for services, its health services reporting unit is supported primarily by resources other than contributions and returns on investments....

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Paragraph A8 – The third sentence should be revised to read along the lines of the following:

NFP D budgets for the year just ended and the current year reflect an expectation that one third of RU-D's total support will be from fees.

The fourth through sixth sentences should then indicate what portion of total support was from fees versus contributions, given that the fund-raising efforts fell short.

Paragraph A11 – This paragraph should be revised as follows:

...Additionally, NFP-E identifies damage to its reputation as an impairment event, because that would reduce NFP-E's ability to attract contributions and to continue operations. After the acquisition date, NFP-E's reputation is severely damaged, NFP-E recognizes an impairment loss equal to the carrying amount of goodwill attributable to NFP-F.

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Paragraph A12 – This paragraph should be revised as follows:

Due to an unforeseen event after the acquisition date, NFP-G's reputation is severely damaged, reducing NFP-H's ability to attract contributions and to continue operations. NFP-G had not identified that event as an impairment event at the date of acquisition, NFP-G considers that event an impairment event...

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Paragraph A15 – This paragraph should be revised as follows:

NFP-I acquires NFP-J and NFP-K in two separate acquisition transactions. NFP-I identifies impairment events related to each of those acquisitions as of the acquisition date, including the loss of Employee X as an impairment event for the goodwill that is assigned to NFP-J. Because of the similarities between NFP-J and NFP-K, NFP-I aggregates NFP-J and NFP-K into a single reporting unit that is supported primarily by contributions and returns on investments. NFP-J loses Employee X. NFP-J's loss of,

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| Employee X has no effect on NFP-K's operations. NFP-I should recognize an impairment loss equal to the carrying amount of goodwill assigned to the reporting unit related to the acquisition of NFP-J.

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Paragraph A17 – Note C – We observe that in applying accounting standards, some entities use example notes to financial statements as a template for the notes to be included in their own financial statements. We suggest, therefore, that the example disclosure include expanded descriptions of “qualitative evaluation” and “fair value based evaluation” to provide context for financial statement readers. Also, we suggest explaining the reasons for and implications of the comprehensive list of events related to the reasons goodwill arose.

Paragraph B17 - This paragraph should be revised as follows:

| ...Statement 131 excludes not-for-profit organizations from its requirements to report information about its operating segments. Nevertheless, this proposed Statement would require a not-for-profit organization to apply the guidance in Statement 131 for determining its reporting units because the Board concluded that the guidance in Statement 131 is relevant to not-for-profit organizations, in determining their operating segments. The relevant guidance from Statement 131 for determining the operating segments is summarized in paragraphs 9 - 16. In reaching its conclusions to extend, certain requirements of Statement 131 to not-for-profit organizations for this limited purpose, the board noted that...

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| Paragraph B30 - While the header that precedes this paragraph indicates this paragraph applies to circumstances in which a reporting unit becomes primarily supported by contributions and returns on investments, this is not evident from the paragraph itself. It would be helpful if the second sentence began with the phrase "In circumstances in which a reporting unit becomes supported primarily by contributions and returns on investments,...

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