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Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
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LETTER OF COMMENT NO. 22

File Reference 1500-200

Dear Ms. Bielstein:

Thank you for the opportunity to offer comments on the FASB's October 9, 2006 Exposure Draft of Proposed Statement of Financial Accounting Standards, *Not-for-Profit Organizations: Mergers and Acquisitions* (ED). As the Director of Financial Reporting for Ascension Health, the nation's largest not-for-profit health care system, I appreciate the development of further guidance on mergers and acquisitions of not-for-profit organizations (NPOs). Ascension Health has over \$11 billion in operating revenues and approximately \$4.2 billion of taxable and tax-exempt debt in the public markets. We have a complex structure with over 700 legal entities, including NPOs and for-profit entities. During the past eight years, we have undertaken numerous business combination transactions, including a merger of equals, buyouts of entities previously under joint control, and acquisitions of systems and stand-alone hospitals.

The issues I have identified for further clarification are as follows:

Identification of Acquirer: Paragraph B26 concludes that the acquisition method is appropriate accounting for all mergers and acquisitions for which the economic substance is an acquisition of the net assets of a business or nonprofit organization by a controlling NPO. The conclusion is supported by the statement that NPOs merge for the same reasons as businesses. Certainly the economic reasons listed within the ED are important considerations in mergers and acquisitions; however, within the NPO sector, decision making often extends beyond profitability/economic sustainability to furtherance of the NPO's mission. For instance, a financially strong health care system may merge with a weak system in order to ensure that the weaker system is able to continue to serve a particularly vulnerable segment of the population in an economically depressed environment. In some cases, these mergers involve two providers with a religious affiliation/sponsorship. The merger may be planned in order to ensure that a provider with a religious affiliation continues operating in the specific market place. In some instances, the sponsoring religious congregations may be forming alliances or merging at a congregational level, and the merging of the health care providers will allow the missions of the predecessor congregations to be continued.

As outlined above, NPO mergers frequently occur for reasons that extend beyond economics to mission. Occasionally, these mergers are designed to ensure that neither of the providers to be merged will control or be controlled by the other provider. I have experienced such a merger, where the following steps were taken:

- The governing board was appointed equally by the sponsoring organizations .
- A new entity, with a new name, articles of incorporation and by-laws , was formed.
- A new mission statement for the organization was developed.
- Policies and procedures were developed for the new organization.
- The capital structure of the new organization was re-designed, and substantially all existing debt was extinguished and new debt was issued.

For mergers that do not represent the acquisition of one entity by another, there would be no meaningful method to designate one entity as the acquirer. The resulting accounting treatment would result in recorded asset/liability values that are artificially skewed and that do not reflect the true essence of the transaction. For those instances in which mergers do not represent acquisitions of one entity by another, it may be more appropriate to retain the carryover basis or to apply fresh start accounting.

This also raises the question of whether the formation of a new system with neither predecessor assuming control is actually the formation of a joint venture (recalling that religiously-affiliated organizations are frequently involved as sponsors of such providers). If deemed to be a joint venture, greater clarity is needed to understand whether this would fall within the scope of this ED. Additionally, further guidance in the area of joint venture formation, including the existence of provisions to dissolve the joint venture, would be welcomed by financial statement preparers in the health care industry.

Scope: Non-controlling interests in NPOs. The ED specifically excludes accounting considerations for NPOs with a non-controlling interest in other NPOs. This is also an area of accounting that is in need of clarification. Such arrangements abound in the health care industry. Financial statement preparers generally look to the AICPA Health Care Organizations Audit Guide (the Guide) when seeking guidance; however, the Guide conflicts with SOP 94-3, "Reporting of Related Entities by Not-for-Profit Organizations," as cited in paragraph D5a of the ED. Due to the prevalence of these arrangements in health care, additional guidance would be welcomed by both preparers and users of financial statements.

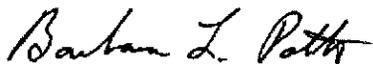
Basis for Conclusions: Goodwill. Paragraph B147 states that goodwill should be recognized rather than contribution expense primarily because "the fiduciary responsibilities of an acquiring organization and its directors would preclude them from assuming liabilities of a financially weaker organization unless they believed there was some unidentifiable intangible asset, such as goodwill." As outlined earlier in this letter, such economic considerations clearly enter into the decision making in NPO mergers; however, there are many times that mission considerations override economic concerns and decisions are made for the good of the communities served rather than for the financial well-being of the NPO. This fundamental difference between NPOs and for profit businesses should not be overlooked in the final Statement. The impact on recorded goodwill would need to be considered by the Board.

Fair value determination: 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.

Costs and benefits of applying the guidance. The cost of applying this guidance would be significant, primarily as it relates to determining the fair value of the assets and liabilities as well as the subsequent accounting for any goodwill. These costs will be more easily borne by larger organizations, and it would be helpful if the Board could find some way to provide relief to small NPOs. The benefits of the Statement include enhancing consistency among organizations in accounting for mergers and acquisitions, recording transactions in a way that is more representationally faithful, and ultimately, facilitating more understandable reporting to users of financial statements.

I appreciate the opportunity to comment, and I look forward to the finalization of enhanced accounting guidance in this area.

Sincerely,



Barbara L. Potts  
Director of Financial Reporting  
Ascension Health