MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Business Combinations—Not-for-Profit Team (Hansen, ext. 298)		
Subject:	Minutes of the July 27, 2004 Board Meeting	**Date:**	July 30, 2004
cc:	FASB: McIntosh, Bielstein, Smith, Bossio, Tamulis, Posta, Hamilton, Hansen, Westerlund, Swift, Polley, Gabriele, Getz, Thompson, Mahoney, FASB Intranet; IASB: Leisenring, Kimmitt, Ryltosova, Lloyd; CICA: Walsh		

Topic: Combinations by Not-for-Profit Organizations: Scope

Basis for Discussion: Memorandum dated July 14, 2004

Length of Discussion: 9:45 a.m. to 10:00 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, and Trott

Board members absent: None

Staff in charge of topic: McIntosh

Other staff at Board table: Bielstein, Bossio, and Hansen

Outside participants: Leisenring (IASB)

Summary of Decisions Reached:

The Board decided to define a not-for-profit combination as any event that results in the initial inclusion of a *combined set of assets and activities* (as defined) in a not-for-profit organization's consolidated financial statements. The following events would continue to be excluded from the scope of this project:

1. The formation of a joint venture
2. The acquisition of noncontrolling interests after consolidation
3. A transfer of net assets or exchange of equity interests between entities under common control.

The scope of the proposed Statement would include acquisitions of net assets that are not separate entities and all initial consolidation events, but would not describe those events as transactions or other events in which an acquiring entity obtains control over one or more combined sets of assets and activities. Therefore, the scope of the not-for-profit combinations project would be consistent with the proposed revision of Statement 141, but would be described in a manner that clarifies that the guidance on combinations accounting would not change existing consolidation policy for not-for-profit organizations provided by other accounting standards.

The Board decided to use a term such as *combined set of assets and activities* to differentiate acquisitions of a group of assets from combinations of an integrated set of assets and activities that are within the scope of this project. The Board also decided to define a combined set of assets and activities in a manner that conforms to the revised definition of a *business* in the proposed revision of FASB Statement No. 141, *Business Combinations*, except for differences applicable to not-for-profit organizations. Thus, a combined set would be defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing:

1. A return to investors
2. Lower costs or other economic benefits directly and proportionately to owners, members, or participants, or
3. Goods or services to beneficiaries, customers, or members that fulfill the purpose or mission for which a not-for-profit organization exists.

A combined set would consist of inputs and processes applied to those inputs, which together have the ability to create outputs that have the ability to be used for the specified purposes.

<u>Objective of Meeting</u>:

The objectives of the meeting were to:

1. Expand the scope of the project to be consistent with the scope of the proposed revision of Statement 141.
2. Conform the guidance on distinguishing combinations within the scope of the not-for-profit combinations project from acquisitions of a group of assets to the definition of a business in the proposed revision of Statement 141(R).

<u>Matters Discussed and Decisions Reached</u>:

Ms. McIntosh reviewed the Board's previous scope decisions on this project. Those decisions excluded from the scope transactions in which control is obtained by means other than acquisition by purchase or gift of net assets that constitute an *activity* or of equity interest. The Board subsequently expanded the scope of the purchase method procedures project as follows:

> A business combination would be a transaction or other event in which an acquiring entity obtains *control* over one or more businesses. A business combination typically occurs through the purchase of the net assets or equity interests of a business (or businesses) *but could occur through other means*.

Ms. McIntosh explained that the staff believes that this expanded scope would result in the application of combinations accounting guidance to the acquisition of a business that is not separate entity as well as to initial consolidation events described in ARB 51, *Consolidated Financial Statements*, and FASB Interpretation 46 (revised December 2003), *Consolidation of Variable Interest Entities*. Accordingly, the staff considered whether such an expanded scope would be consistent with existing consolidation policy for consolidations by not-for-profit organizations. Ms. McIntosh observed that under AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations,* and the AICPA Audit and Accounting Guide, *Heath Care Organizations*, (the Guide) consolidation of a not-for-profit organization is optional for certain types of control arrangements. Therefore, the staff did not recommend defining a combination by a not-for-profit organization in terms of control.

The staff recommended defining a not-for-profit organization as any event that results in the initial inclusion of a *business* or *not-for-profit activity* in a not-for-profit organization's consolidated financial statements.

Ms. McIntosh explained that the staff believes the recommended scope would be consistent with the proposed revision of Statement 141 because it would include acquisitions of net assets that are not separate entities as well as initial consolidation events defined by applicable consolidation policy. The following events would continue to be excluded from the scope of this project:

1. The formation of a joint venture
2. The acquisition of noncontrolling interests after consolidation
3. A transfer of net assets or exchange of equity interests between entities under common control.

The Board agreed unanimously.

Mr. Leisenring questioned the staff on whether SOP 94-3 would be amended as part of the combinations project.

Ms. McIntosh stated that the combinations project would provide procedures for initial consolidation events, but not consolidation policy, which is provided in SOP 94-3 and the Guide. That is, the combinations project would not define the event that results in consolidation, but would describe how to account for that event when it occurs. Accordingly, SOP 94-3 and the Guide would not be amended by the combinations project.

Ms. McIntosh introduced the second issue for discussion: whether to conform the guidance on distinguishing combinations within the scope of the not-for-profit combinations project from acquisitions of a group of assets to the definition of a business in the proposed revision of Statement 141(R). For not-for-profit combinations, the Board previously defined an activity based on the definition of a business in EITF Issue No. 98-3, "Determining Whether a Nonmonetary

Transaction Involves Receipt of Productive Assets or of a Business." In the purchase methods procedures project, the Board subsequently decided to revise the definition of a business to:

1. Include mutual enterprises
2. Include some development stage companies
3. Focus on whether an integrated set of activities and assets is capable of being used for the specified purpose, rather than on its current use
4. Does not include the concept of continuing normal operations after separation from a transferor
5. Includes a presumption that an acquired set is a business if the going-concern element of goodwill is present.

Because the term *activity* is used within the definition of a business and within the financial statements of a not-for-profit organization, the staff recommended that the Board replace the term *activity* with something that would minimize ambiguity, such as *combined set of assets and activities.* Second, the staff recommended conforming the definition of a combined set to the definition of a business in the proposed revision of Statement 141, except for differences applicable to not-for-profit organizations.

The Board unanimously agreed with the staff's recommendations. However, Mr. Batavick would prefer to use a different term than *combined set*.

<u>Follow-up Items</u>:

Mr. Batavick will provide the staff with possible alternatives to the term *combined set*.

<u>General Announcements</u>:

None