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ACCOUNTING STANDARDS UPDATE

No. 2010-07
January 2010

Not-for-Profit Entities (Topic 958)

Not-for-Profit Entities: Mergers and Acquisitions

An Amendment of the *FASB Accounting Standards Codification*[™]

Financial Accounting Standards Board
of the Financial Accounting Foundation

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401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116

Accounting Standards Update 2010-07

Not-for-Profit Entities (Topic 958)

amendments based on

Not-for-Profit Entities: Mergers and Acquisitions

January 2010

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Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–122 as a result of the issuance of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. Terms from the Master Glossary are in **bold** type. Text added to existing Subsections of the Accounting Standards Codification is underlined. Deleted text of existing paragraphs is ~~struck out~~. **Newly added Subsections, tables, and Master Glossary terms and definitions are not underlined to enhance readability.** New paragraphs presented in **bold** type state the main principles, although all paragraphs have equal authority.

Amendments to the Master Glossary

2. Add the following terms and their definitions to the Master Glossary, with a link to transition paragraph 958-805-65-1, as follows:

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. **[FAS 164, paragraph 3(c), sequence 3.1.3]** When applicable guidance in Topic 805 is applied by a **not-for-profit entity**, the term **business combination** has the same meaning as this term has for a not-for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Control of a Not-for-Profit Entity

See **Control**. **{Use definition of control from Subtopics 954-810 and 958-810} [FAS 164, paragraph 3(k), sequence 3.2.2]**

Inherent Contribution

A contribution that results if an entity voluntarily transfers assets (or net assets) or performs services for another entity in exchange for either no assets or for assets of substantially lower value and unstated rights or privileges of a commensurate value are not involved. **[FAS 164, paragraph 3(h), sequence 3.1.8]**

Merger Date

The date on which the merger becomes effective. [FAS 164, paragraph 3(r), sequence 3.2.9]

Merger of Not-for-Profit Entities

A transaction or other event in which the governing bodies of two or more not-for-profit entities cede control of those entities to create a new not-for-profit entity. [FAS 164, paragraph 3(q), sequence 3.2.8]

3. Amend the following definition of *Contribution* in the Master Glossary, with no link to a transition paragraph, as follows:

Contribution

An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Those characteristics distinguish contributions from exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximately equal value; from investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners; and from other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers. In a contribution transaction, the value, if any, returned to the resource provider is incidental to potential public benefits. In an exchange transaction, the potential public benefits are secondary to the potential proprietary benefits to the resource provider. The term *contribution revenue* is used to apply to transactions that are part of the entity's ongoing major or central activities (revenues), or are peripheral or incidental to the entity (gains). See also **Inherent Contribution**.

4. Amend the following definitions of *Acquiree*, *Business Combination*, *Equity Interests*, *Goodwill*, and *Owners* in the Master Glossary, with no link to a transition paragraph, as follows:

Acquiree

The **business** or **businesses** that the **acquirer** obtains control of in a **business combination**. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an **acquisition by a not-for-profit entity**. [FAS 164, paragraph 3(a), sequence 3.1.1]

Business Combination

A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

Equity Interests

Used broadly to mean ownership interests of investor-owned entities; ~~entities and owner, member, or participant interests of mutual entities; and owner or member interests in the net assets of not-for-profit entities.~~ **[FAS 164, paragraph 3(l), sequence 3.2.3]**

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a **business combination** or an acquisition by a not-for-profit entity that are not individually identified and separately recognized. **[FAS 164, paragraph 3(n), sequence 3.2.5]** For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29. **[FAS 164, paragraph 22 FN3, sequence 22.1.5]**

Owners

~~The term owners is used~~ Used broadly to include holders of ownership interests **{Glossary link} (equity interests) {Glossary link}** of investor-owned entities, ~~or mutual entities, or not-for-profit entities.~~ Owners include shareholders, partners, proprietors, or members or participants of mutual entities. Owners also include owner and member interests in the net assets of not-for-profit entities. **[FAS 164, paragraph 3(v), sequence 3.3.4]**

5. Amend the following Master Glossary definition of *Public Entity* used in Topic 280 and Topic 805, with a link to transition paragraph 958-805-65-1, as follows:

Public Entity

A business entity or a not-for-profit entity **[FAS 164, paragraph 3(w), sequence 3.3.5]** that meets any of the following conditions:

- a. It has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- b. It is required to file financial statements with the Securities and Exchange Commission (SEC).
- c. It provides financial statements for the purpose of issuing any class of securities in a public market.

Amendments to Topic 958

Amendment to Subtopic 958-10

6. Amend paragraph 958-10-05-2, with a link to transition paragraph 958-805-65-1, as follows:

Not-for-Profit Entities—Overall

958-10-05-2 This Topic includes the following Subtopics:

- a. Overall
- b. Financially Interrelated Entities
- c. Split-Interest Agreements
- d. Presentation of Financial Statements
- e. Balance Sheet
- f. Income Statement
- g. Statement of Cash Flows
- h. Receivables
- i. Investments—Debt and Equity Securities
- j. Investments—Other
- k. Property, Plant, and Equipment
- l. Liabilities
- m. Contingencies
- n. Revenue Recognition
- o. Compensation—Retirement Benefits
- p. Other Expenses
- pp. Business Combinations (Mergers and Acquisitions)
- q. Consolidation.

Addition of Subtopic 958-805

7. Add Subtopic 958-805. All paragraphs in this new Subtopic are linked to transition paragraph 958-805-65-1.

Not-for-Profit Entities—Business Combinations

Overview and Background

General

958-805-05-1 This Subtopic provides guidance on a transaction or other event [FAS 164, paragraph 2, sequence 2.1] in which a **not-for-profit entity** (NFP) that is the reporting entity combines with one or more other NFPs, **businesses**, or **nonprofit activities** [FAS 164, paragraph 1, sequence 1.1] in a transaction that meets the definition of a **merger of not-for-profit entities** [FAS 164,

paragraph 2, sequence 2.1.1] or an **acquisition by a not-for-profit entity**. **[FAS 164, paragraph 2, sequence 2.1.2]** The guidance is presented in the following three Subsections:

- a. General
- b. Merger of Not-for-Profit Entities
- c. Acquisition by a Not-for-Profit Entity.

958-805-05-2 The General Subsections provide overall guidance on the recognition of combinations involving NFPs, and they provide implementation guidance for determining whether a combination between an NFP and one or more businesses, nonprofit activities, or another NFP is a merger or an acquisition.

958-805-05-3 Paragraphs presented in **bold** type in this Subtopic state the main principles. All paragraphs have equal authority. **[FAS 164, paragraph 1, sequence 1.3]**

Merger of Not-for-Profit Entities

958-805-05-4 The Merger of Not-for-Profit Entities Subsections establish standards of financial accounting and reporting for transactions or other events that meet the definition of a **merger of not-for-profit entities**. Specifically, these Subsections establish principles and requirements for how a **not-for-profit entity** (NFP) does both of the following:

- a. Applies the carryover method in accounting for a merger **[FAS 164, paragraph 1(b), sequence 1.1.2]**
- b. Determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger. **[FAS 164, paragraph 1(d), sequence 1.1.4]**

Acquisition by a Not-for-Profit Entity

958-805-05-5 The Acquisition by a Not-for-Profit Entity Subsections establish standards of financial accounting and reporting for transactions or other events that meet the definition of an **acquisition by a not-for-profit entity**. Those standards are incremental to the guidance in Subtopics 805-10, 805-20, and 805-40. Specifically, these Subsections establish principles and requirements for how a not-for-profit entity does both of the following:

- a. Applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the **acquirer** **[FAS 164, paragraph 1(c), sequence 1.1.3]**
- b. Determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of an acquisition. **[FAS 164, paragraph 1(d), sequence 1.1.4]**

Objectives

General

958-805-10-1 The objective of this Subtopic is to improve the relevance, representational faithfulness, and comparability of the information that a **not-for-profit entity** (NFP) that is a reporting entity provides in its financial reports about a combination with one or more other NFPs, businesses, or nonprofit activities. **[FAS 164, paragraph 1, sequence 1.1]**

Scope and Scope Exceptions

General

> Overall Guidance

958-805-15-1 This Subtopic follows the same scope and scope exceptions as the Overall Subtopic, see Section 958-10-15.

958-805-15-2 The General Subsection of this Section establishes the pervasive scope for this Subtopic.

> Transactions

958-805-15-3 The guidance in this Subtopic applies to a transaction or other event that meets the definition of either of the following: **[FAS 164, paragraph 2, sequence 2.1]**

- a. A **merger of not-for-profit entities** **[FAS 164, paragraph 2, sequence 2.1.1]**
- b. An **acquisition by a not-for-profit entity**. **[FAS 164, paragraph 2, sequence 2.1.2]**

958-805-15-4 This Subtopic does not apply to all of the following: **[FAS 164, paragraph 2, sequence 2.1.3]**

- a. The formation of a joint venture **[FAS 164, paragraph 2, sequence 2.1.3.1]**
- b. The acquisition of an asset or a group of assets that does not constitute either a **business** or a **nonprofit activity**. (Subtopic 805-50 addresses the typical accounting for an asset acquisition.) **[FAS 164, paragraph 2, sequence 2.1.3.2]**
- c. A combination between **not-for-profit entities** (NFPs), businesses, or nonprofit activities under common control. (Subtopic 805-50 addresses the typical accounting for a transfer of assets or an exchange of shares between entities under common control.) **[FAS 164, paragraph 2, sequence 2.1.3.3]**
- d. A transaction or other event in which an NFP obtains **control of another not-for-profit entity** but does not consolidate that entity, as

permitted or required by Section 958-810-25. Similarly, this Subtopic does not apply if an NFP that obtained control in a transaction or other event in which consolidation was permitted but not required decides in a subsequent annual reporting period to begin consolidating a controlled entity that it initially chose not to consolidate. **[FAS 164, paragraph 2, sequence 2.1.3.4]**

Merger of Not-for-Profit Entities

> Overall Guidance

958-805-15-5 The Merger of Not-for-Profit Entities Subsections follow the same Scope and Scope Exceptions as the General Subsections of this Subtopic, see Section 958-805-15, with specific exceptions noted below.

> Transactions

958-805-15-6 The guidance in the Merger of Not-for-Profit Entities Subsections applies only to transactions or other events that meet the definition of a **[FAS 164, paragraph 2, sequence 2.1] merger of not-for-profit entities**. **[FAS 164, paragraph 2, sequence 2.1.1]**

Acquisition by a Not-for-Profit Entity

> Overall Guidance

958-805-15-7 The Acquisition by a Not-for-Profit Entity Subsections follow the same Scope and Scope Exceptions as the General Subsections of this Subtopic, see Section 958-805-15, with specific exceptions noted below.

> Transactions

958-805-15-8 The guidance in the Acquisition by a Not-for-Profit Entity Subsections applies only to transactions or other events that meet the definition of an **[FAS 164, paragraph 2, sequence 2.1.1] acquisition by a not-for-profit entity**. **[FAS 164, paragraph 2, sequence 2.1.2]**

Recognition

General

958-805-25-1 A **{Glossary link} not-for-profit entity {Glossary link} (NFP)** shall determine whether a transaction or other event is a **{Glossary link} merger of not-for-profit entities {Glossary link}** or an **{Glossary link} acquisition by a not-for-profit entity {Glossary link}** by applying the definitions. **[FAS 164, paragraph 4, sequence 4]**

958-805-25-2 Paragraphs 958-805-55-1 through 55-31 provide guidance on distinguishing between a merger and an acquisition. **[FAS 164, paragraph 5, sequence 5]**

Merger of Not-for-Profit Entities

958-805-25-3 The {Glossary link} not-for-profit entity {Glossary link} (NFP) resulting from a merger (the new entity) shall account for the merger by applying the carryover method described in the Merger of Not-for-Profit Entities Subsections of this Subtopic. [FAS 164, paragraph 6, sequence 6]

958-805-25-4 Applying the carryover method requires combining the assets and liabilities recognized in the separate financial statements of the merging entities as of the **merger date** (or that would be recognized if the entities issued financial statements as of that date), adjusted as necessary in accordance with paragraph 958-805-25-7 and paragraphs 958-805-30-2 through 30-4. [FAS 164, paragraph 7, sequence 7.1]

958-805-25-5 The remainder of the discussion of the carryover method refers to *financial statements of the merging entities*, rather than a more precise, but longer, phrase such as *assets and liabilities that would be recognized in the financial statements of the merging entities if statements are prepared*. Use of the shorter phrase is not intended to exclude, for example, an NFP that has not prepared or issued financial statements. In that situation, the phrase refers to the items in the entity's financial records that would be the basis for preparing financial statements. [FAS 164, paragraph 7 FN2, Sequence 7.1.1]

958-805-25-6 The new NFP shall recognize in its financial statements the assets and liabilities reported in the separate financial statements of the merging entities as of the merger date in accordance with generally accepted accounting principles (GAAP). [FAS 164, paragraph 8, sequence 8]

958-805-25-7 The new NFP does not recognize additional assets or liabilities, such as internally developed intangible assets, that GAAP did not require or permit the merging entities to recognize. However, if a merging entity's separate financial statements are not prepared in accordance with GAAP, those statements shall be adjusted to GAAP before the new entity recognizes the assets and liabilities. [FAS 164, paragraph 9, sequence 9]

> Classifying or Designating Assets and Liabilities in a Merger

958-805-25-8 The new NFP shall carry forward at the merger date the merging entities' classifications and designations of their assets and liabilities unless one of the exceptions in the following paragraph applies. [FAS 164, paragraph 10, sequence 10]

958-805-25-9 In some situations, GAAP provides for different accounting depending on how an entity classifies or designates a particular asset or liability. Paragraphs 805-20-25-7 through 25-8 provide examples of such classifications and designations. The new NFP shall carry forward into the opening balances in its financial statements (see paragraph 958-805-45-2(a)) the merging entities'

classifications and designations unless either of the following situations applies: **[FAS 164, paragraph 11, sequence 11.1]**

- a. The merger results in a modification of a contract in a manner that would change those previous classifications or designations **[FAS 164, paragraph 11, sequence 11.1.1]**; for example, if the provisions of a lease are modified in a way that would require the revised agreement to be considered a new agreement under paragraph 840-10-35-4 **[FIN 21, paragraph 13, sequence 34]**
- b. Reclassifications are necessary to conform accounting policies in accordance with paragraph 958-805-30-2. **[FAS 164, paragraph 11, sequence 11.1.2]**

958-805-25-10 In situation (a) in the preceding paragraph, the new NFP shall classify or designate the asset or liability on the basis of the contractual terms, economic conditions, its operating or accounting policies, and other pertinent conditions as they exist at the date of that modification. In situation (b) in the preceding paragraph, the new NFP shall classify or designate the asset or liability on the basis of the conformed accounting policies at the merger date. **[FAS 164, paragraph 11, sequence 11.2]**

958-805-25-11 At the merger date, the new NFP may contemplate renegotiating and modifying leases of the business or nonprofit activity acquired. Modifications made after the merger date, including those that were planned at the time of the combination, are postcombination events that should be accounted for separately by the new NFP in accordance with Topic 840. **[FIN 21, paragraph 15, sequence 136.1.1.2]**

Acquisition by a Not-for-Profit Entity

958-805-25-12 A [{Glossary link}](#) not-for-profit entity [{Glossary link}](#) (NFP) shall account for each acquisition of a [{Glossary link}](#) business [{Glossary link}](#) or [{Glossary link}](#) nonprofit activity [{Glossary link}](#) by applying the acquisition method described in the Acquisition by a Not-for-Profit Entity Subsections of this Subtopic. **[FAS 164, paragraph 20, sequence 20]**

958-805-25-13 The acquisition method in the Acquisition by a Not-for-Profit Entity Subsections is the same as the acquisition method described in Topic 805. However, these Subsections include guidance on aspects of the following items that are unique or especially significant to an NFP: **[FAS 164, paragraph 22, sequence 22.1]**

- a. Identifying the **acquirer** **[FAS 164, paragraph 22, sequence 22.1.1]**
- b. Identifying the **acquisition date** **[FAS 164, paragraph 22, sequence 22.1.2]**
- c. Recognizing the **identifiable** assets acquired, the liabilities assumed, and any **noncontrolling interest** in the acquiree **[FAS 164, paragraph 22, sequence 22.1.3]**

- d. Recognizing **goodwill** acquired or a **contribution** received, including consideration transferred **[FAS 164, paragraph 22, sequence 22.1.4]**
- e. Determining what is part of the acquisition transaction.

958-805-25-14 Differences in the application of the acquisition method by a NFP acquirer from the application of the acquisition method by a business entity include all of the following:

- a. The identification of the acquirer in accordance with paragraphs 958-805-25-15 through 25-16, instead of the guidance in paragraph 805-10-25-5
- b. The recognition and measurement of goodwill (or the immediate charge to the statement of activities) in accordance with paragraphs 958-805-25-27 through 25-30, instead of the guidance in paragraph 805-30-25-1 and paragraphs 805-30-30-1 through 30-3
- c. The recognition and measurement of an **inherent contribution** received in accordance with paragraph 958-805-25-31 and paragraphs 958-805-30-8 through 30-9, instead of the guidance for a gain from a bargain purchase in paragraphs 805-30-25-2 through 25-4 and paragraphs 805-30-30-4 through 30-6.

> Identifying the Acquirer

958-805-25-15 Paragraph 805-10-25-4 requires that one of the combining entities be identified as the acquirer. Instead of applying the guidance in paragraph 805-10-25-5, the following guidance on control and consolidation of NFPs shall be used to identify the acquirer: **[FAS 164, paragraph 24, sequence 24.1]**

- a. For an NFP acquirer other than a health care entity within the scope of Topic 954, the guidance in Subtopic 958-810, including the guidance referenced in paragraph 958-810-15-4. **[FAS 164, paragraph 24, sequence 24.1.1]**
- b. For a not-for-profit health care acquirer within the scope of Topic 954 (see Section 954-10-15), the guidance referenced in paragraph 954-810-15-3. **[FAS 164, paragraph 24, sequence 24.1.2]**
- c. Control of a for-profit business has the meaning of controlling financial interest in paragraph 810-10-15-8. **[FAS 164, paragraph 3(j), sequence 3.2.1]**
- d. Control of a not-for-profit entity has the meaning of **control {Use definition of control from Subtopics 954-810 and 958-810}** used in Subtopic 954-810 and Subtopic 958-810. **[FAS 164, paragraph 3(k), sequence 3.2.2]**

958-805-25-16 If an **acquisition by a not-for-profit entity** has occurred but applying the guidance in the previous paragraph does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 958-805-55-42

through 55-46 shall be considered in making that determination. **[FAS 164, paragraph 24, sequence 24.2]**

> Identifying the Acquisition Date

958-805-25-17 Paragraphs 805-10-25-6 through 25-7 require identifying the **acquisition date** and provide guidance for doing so. In addition to that guidance, the date on which an NFP acquirer obtains **control of an NFP** with sole corporate membership generally also is the date on which the acquirer becomes the sole corporate member of that entity. **[FAS 164, paragraph 26, sequence 26.2]**

> Recognizing the Identifiable Assets Acquired, the Liabilities Assumed, and Any Noncontrolling Interest in the Acquiree

958-805-25-18 This Subsection includes the following guidance that is incremental to Subtopic 805-20 for the recognition of identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree:

- a. Recognition conditions
- b. Classifying or designating identifiable assets acquired and liabilities assumed
- c. Additional exceptions to the recognition principle.

>> Recognition Conditions

958-805-25-19 When considering whether an identifiable asset or liability assumed qualifies for recognition as part of applying the acquisition method as described in paragraph 805-20-25-3, an identifiable asset or liability also qualifies if it is part of what was contributed in an acquisition that includes an inherent contribution (see paragraph 958-805-25-31). **[FAS 164, paragraph 29, sequence 29]**

>> Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed

958-805-25-20 An NFP acquirer is not required to classify investments as described in paragraph 805-20-25-7(a). However, an NFP acquirer that is a health care entity (see Section 954-10-15) shall classify particular investments as described in paragraph 954-805-25-1. **[FAS 164, paragraph 33(a), sequence 33.1.1]**

>> Additional Exceptions to the Recognition Principle

958-805-25-21 This Subsection provides the following limited exceptions to the recognition principle in paragraph 805-20-25-1, which are incremental to the exceptions provided by paragraphs 805-20-25-16 through 25-28:

- a. Donor relationships
- b. **Collections**
- c. **Conditional promises to give.**

> > Donor Relationships

958-805-25-22 An NFP acquirer shall not recognize an acquired donor relationship as an identifiable intangible asset separate from goodwill. **[FAS 164, paragraph 38, sequence 38]** Unlike acquired customer relationships (see paragraphs 805-20-55-23 through 55-25), acquired donor relationships are not recognized separately; they are instead subsumed into goodwill. **[FAS 164, paragraph A72, sequence 173.3]**

> > Collections

958-805-25-23 An NFP acquirer that has an organizational policy of not capitalizing collections in accordance with paragraph 958-360-25-3 shall not recognize as an asset those items (works of art, historical treasures, or similar assets) that it acquires as part of an acquisition and adds to its collection. Rather, the acquirer shall do both of the following: **[FAS 164, paragraph 39, sequence 39.1]**

- a. Recognize the cost of the collection items purchased (either by the transfer of consideration or the assumption of liabilities in excess of assets acquired) as a decrease in the appropriate class of net assets in the statement of activities and as a cash outflow for investing activities **[FAS 164, paragraph 39, sequence 39.1.1]**
- b. Not recognize the fair value of collection items contributed—either as an asset or as contribution revenue. **[FAS 164, paragraph 39, sequence 39.1.2]**

958-805-25-24 An acquired item that is not added to the acquirer's collection shall be recognized as an asset in accordance with paragraph 805-20-25-1. **[FAS 164, paragraph 39, sequence 39.2]**

958-805-25-25 Example 1 (see paragraphs 958-805-55-49 through 55-50) and Example 2 (see paragraphs 958-805-55-51 through 55-54) provide guidance on determining whether an acquired collection item is purchased or contributed and, if purchased, the appropriate amount of cost to attribute to it. **[FAS 164, paragraph 39, sequence 39.2]**

> > Conditional Promises to Give

958-805-25-26 An NFP acquirer shall apply the guidance in paragraphs 958-605-25-11 through 25-15 to account for conditional promises to give. That guidance requires the acquirer to do either of the following: **[FAS 164, paragraph 40, sequence 40.1]**

- a. Recognize a conditional promise only if the conditions on which it depends are substantially met as of the acquisition date **[FAS 164, paragraph 40, sequence 40.1.1]**
- b. Recognize a transfer of assets with a conditional promise to contribute them as a refundable advance unless the conditions have been

substantially met as of the acquisition date. [FAS 164, paragraph 40, sequence 40.1.2]

> Recognizing Goodwill Acquired or a Contribution Received, Including Consideration Transferred

958-805-25-27 An NFP acquirer applies the guidance in this Subsection instead of Subtopic 805-30 for the recognition of the following items:

- a. Goodwill acquired, whether recognized as an asset or as an immediate charge to the statement of activities
- b. A contribution received in an acquisition
- c. Consideration transferred, including **contingent consideration**.

>> Goodwill Acquired, Whether Recognized as an Asset or as an Immediate Charge to the Statement of Activities

958-805-25-28 Unless the operations of the acquiree are expected to be predominantly supported by contributions and returns on investments (see paragraphs 958-805-25-29 through 25-30), an NFP acquirer shall recognize goodwill as of the acquisition date, measured in accordance with paragraph 958-805-30-6. [FAS 164, paragraph 50, sequence 50.1]

958-805-25-29 If the operations of the acquiree as part of the combined entity are expected to be predominantly supported by contributions and returns on investments, an NFP acquirer shall recognize a separate charge in its statement of activities as of the acquisition date, measured in accordance with paragraph 958-805-30-6, rather than goodwill. *Predominantly supported by* means that contributions and returns on investments are expected to be significantly more than the total of all other sources of revenues. [FAS 164, paragraph 51, sequence 51]

958-805-25-30 An NFP acquirer shall consider all relevant qualitative and quantitative factors in determining the expected nature of the predominant source of support for an acquiree's operations as part of the combined entity. For example, an NFP acquirer shall consider qualitative and quantitative information about 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 promises to give). [FAS 164, paragraph 52, sequence 52]

>> A Contribution Received in an Acquisition

958-805-25-31 An NFP acquirer shall recognize an inherent contribution received, measured in accordance with paragraph 958-805-30-8, as a separate credit in its statement of activities as of the acquisition date. [FAS 164, paragraph 54, sequence 54] Example 1 (see paragraphs 958-805-55-49 through 55-50) and Example 6 (see paragraphs 958-805-55-62 through 55-67) illustrate acquisitions with inherent contributions.

> > Consideration Transferred, including Contingent Consideration

958-805-25-32 An NFP acquirer might transfer consideration to the former owner of the acquiree or to a designee of the former owner. The NFP acquirer also might receive assistance from an unrelated third party, which shall be taken into account in measuring the consideration transferred. Examples of potential forms of consideration include any of the following: **[FAS 164, paragraph 56, sequence 56.2]**

- a. Cash **[FAS 164, paragraph 56, sequence 56.2.1]**
- b. Other assets **[FAS 164, paragraph 56, sequence 56.2.2]**
- c. A business or a nonprofit activity of the acquirer **[FAS 164, paragraph 56, sequence 56.2.3]**
- d. Contingent consideration. **[FAS 164, paragraph 56, sequence 56.2.4]**

958-805-25-33 An asset transferred by an NFP acquirer to an unrelated third party as a required condition of an acquisition shall be accounted for as consideration transferred for the acquiree unless the NFP acquirer retains control over the transferred assets. **[FAS 164, paragraph 57, sequence 57.1]** Example 4 (see paragraphs 958-805-55-57 through 55-58) illustrates assistance received from a third party.

958-805-25-34 The consideration transferred may include assets or liabilities of the NFP acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, nonmonetary assets or a business of the acquirer). If so, the NFP acquirer shall recognize the resulting gains or losses, if any, in the statement of activities. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition, and the acquirer therefore retains control of them. **[FAS 141(R), paragraph 40, sequence 107]** An NFP acquirer that retains control over the transferred assets shall not recognize a gain or loss in the statement of activities on assets or liabilities it controls both before and after the acquisition. **[FAS 164, paragraph 57, sequence 57.1.2]**

958-805-25-35 Examples of asset transfers in which control over the future economic benefits of the transferred assets is retained by the acquirer include all of the following: **[FAS 164, paragraph 57, sequence 57.1.3]**

- a. The assets are transferred to the acquiree rather than to its former owners or are otherwise transferred to a recipient that is controlled by the acquirer. By virtue of its control over the recipient, the acquiring entity has the ability to revoke the transfer or to direct the use of the assets to itself or an affiliate. **[FAS 164, paragraph 57, sequence 57.1.3.1]**
- b. The asset transfer is otherwise revocable, repayable, or refundable. **[FAS 164, paragraph 57, sequence 57.1.3.2]**
- c. The assets are transferred with the stipulation that they be used on behalf of, or for the benefit of, the acquiree, the acquirer, the

consolidated entity, or their affiliates. Example 3 (see paragraphs 958-805-55-55 through 55-56) illustrates an asset transfer in which the NFP acquirer retains control over the future economic benefits after the acquisition. **[FAS 164, paragraph 57, sequence 57.1.3.3]**

> > Contingent Consideration

958-805-25-36 The consideration an NFP acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The NFP acquirer shall recognize the contingent consideration as part of the consideration transferred in exchange for the acquiree. **[FAS 164, paragraph 58, sequence 58]**

> Determining What Is Part of the Acquisition Transaction

958-805-25-37 In addition to the examples in paragraph 805-10-25-21, a payment by a former owner of an acquired business that is unrelated to the acquiree, such as a contribution to fund activities of the acquirer or its affiliates that are unrelated to those of the acquiree, is an example of a separate transaction that is not to be included in applying the acquisition method. Those contributions made shall be accounted for in accordance with the guidance in Subtopic 720-25. **[FAS 164, paragraph 68(d), sequence 68.1.4]**

Initial Measurement

Merger of Not-for-Profit Entities

958-805-30-1 The new {Glossary link} not-for-profit entity {Glossary link} (NFP) shall measure the assets and liabilities in its financial statements as of the {Glossary link} merger date {Glossary link} at the amounts reported in the financial statements of the merging entities as of that date prepared in accordance with GAAP, adjusted as necessary in accordance with paragraphs 958-805-30-2 through 30-3. **[FAS 164, paragraph 12, sequence 12]**

958-805-30-2 The merging entities may have measured assets and liabilities using different methods of accounting in their separate financial statements. The new NFP shall adjust the amounts of those assets and liabilities as necessary to reflect a consistent method of accounting. **[FAS 164, paragraph 13, sequence 13.1]**

958-805-30-3 However, because the carryover method does not reflect a fresh-start measurement, a merger is not an event that permits the election of accounting options that are restricted to the entity's initial acquisition or recognition of an item (or the reversal of a previous election). Thus, for example, one merging entity's election to apply the Fair Value Option Subsections of Subtopic 825-10 for a particular financial asset or liability permits neither the new NFP's election of the fair value option for other financial assets or liabilities at the

merger date nor the reversal of the previous selection of the fair value option. [FAS 164, paragraph 13, sequence 13.2]

958-805-30-4 The new NFP shall eliminate the effects of any intra-entity transactions on its assets, liabilities, and net assets as of the merger date. [FAS 164, paragraph 14, sequence 14]

Acquisition by a Not-for-Profit Entity

958-805-30-5 A **not-for-profit entity** (NFP) that is an **acquirer** applies the guidance in this Subsection instead of Subtopic 805-30 for the measurement of the following items:

- a. **Goodwill** acquired, whether recognized as an asset or an immediate charge to the statement of activities
- b. A **contribution** received in an acquisition
- c. Consideration transferred, including **contingent consideration**.

> Goodwill Acquired, Whether Recognized as an Asset or an Immediate Charge to the Statement of Activities

958-805-30-6 An NFP acquirer shall measure goodwill acquired, including goodwill recognized as an immediate charge to the statement of activities, as of the {Glossary link} acquisition date {Glossary link} as the excess of (a) over (b): [FAS 164, paragraph 50, sequence 50.1]

- a. The aggregate of the following: [FAS 164, paragraph 50, sequence 50.1.1]
 1. The consideration transferred measured at its acquisition-date fair value (see paragraphs 958-805-30-10 through 30-13) [FAS 164, paragraph 50, sequence 50.1.1.1]
 2. The fair value of any {Glossary link} noncontrolling interest {Glossary link} in the {Glossary link} acquiree {Glossary link} [FAS 164, paragraph 50, sequence 50.1.1.2]
 3. In an {Glossary link} acquisition by a not-for-profit entity {Glossary link} achieved in stages, the acquisition-date fair value of the acquirer's previously held {Glossary link} equity interest {Glossary link} in the acquiree. [FAS 164, paragraph 50, sequence 50.1.1.3]
- b. The net of the acquisition-date amounts of the {Glossary link} identifiable {Glossary link} assets acquired and the liabilities assumed measured in accordance with Subtopic 805-20 and this Subtopic. [FAS 164, paragraph 50, sequence 50.1.2]

958-805-30-7 The result of the equation in the preceding paragraph will be to measure goodwill or the separate charge to the statement of activities as the excess of liabilities assumed over assets acquired if the acquisition by the NFP meets all of the following criteria: [FAS 164, paragraph 53, sequence 53.4]

- a. No consideration is transferred. **[FAS 164, paragraph 53, sequence 53.1]**
- b. There is no noncontrolling interest in an acquiree. **[FAS 164, paragraph 53, sequence 53.2]**
- c. The acquisition was not achieved in stages. **[FAS 164, paragraph 53, sequence 53.3]**

> A Contribution Received in an Acquisition

958-805-30-8 An {Glossary link} inherent contribution {Glossary link} recognized in accordance with paragraph 958-805-25-31 shall be measured as the excess of the amount in paragraph 958-805-30-6b over the amount in paragraph 958-805-30-6(a). **[FAS 164, paragraph 54, sequence 54.1]**

958-805-30-9 The inherent contribution received will be measured as the excess of assets acquired over liabilities assumed if the acquisition meets all of the following criteria: **[FAS 164, paragraph 55, sequence 55.1.4]**

- a. That acquisition is effected without the transfer of consideration. **[FAS 164, paragraph 55, sequence 55.1.1]**
- b. There is no noncontrolling interest in an acquiree. **[FAS 164, paragraph 55, sequence 55.1.2]**
- c. The acquisition was not achieved in stages. **[FAS 164, paragraph 55, sequence 55.1.3]**

Example 6 (see paragraphs 958-805-55-62 through 55-67) illustrates an inherent contribution.

> Consideration Transferred, Including Contingent Consideration

958-805-30-10 The consideration transferred in an acquisition by an NFP shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer and the liabilities incurred by the acquirer. **[FAS 164, paragraph 56, sequence 56.1]**

958-805-30-11 If the consideration transferred includes assets or liabilities of the NFP acquirer that have carrying amounts that differ from their fair values at the acquisition date, as discussed in paragraph 958-805-25-34, the NFP acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date. **[FAS 141(R), paragraph 40, sequence 107]**

958-805-30-12 An NFP acquirer that retains control over the transferred assets as described in paragraphs 958-805-25-33 through 25-34 shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date. **[FAS 164, paragraph 57, sequence 57.1.2]**

> > Contingent Consideration

958-805-30-13 Contingent consideration shall be measured initially at acquisition-date fair value. **[FAS 164, paragraph 58, sequence 58.1]**

Subsequent Measurement

Acquisition by a Not-for-Profit Entity

958-805-35-1 The guidance in this Section together with the guidance in paragraph 805-10-35-1 and Section 805-20-35 applies to a **not-for-profit entity** (NFP) that is an **acquirer**. This Section provides the following incremental guidance for assets acquired and liabilities assumed or incurred in an **acquisition by a not-for-profit entity**:

- a. **Contingent consideration**, including contingent consideration arrangements assumed by an acquirer
- b. **Goodwill** acquired.

> Contingent Consideration, Including Contingent Consideration Arrangements Assumed by an Acquirer

958-805-35-2 Some changes in the fair value of contingent consideration and contingent consideration arrangements assumed from an acquiree that the acquirer recognizes after the **acquisition date** may be the result of additional information about facts and circumstances that existed at the acquisition date that the acquirer obtained after that date. Such changes are measurement period adjustments in accordance with paragraphs 805-10-25-13 through 25-18 and Section 805-10-30. **[FAS 164, paragraph 80, sequence 80.1]**

958-805-35-3 Changes resulting from events after the acquisition date, such as meeting an earnings or other performance target, reaching a specified share price, or reaching a milestone on a research and development project, are not measurement period adjustments. An NFP acquirer shall account for such changes by remeasuring the related asset or liability to fair value at each reporting date until the contingency is resolved and recognizing the changes in fair value in the statement of activities. **[FAS 164, paragraph 80, sequence 80.2]**

958-805-35-4 Contingent consideration arrangements of an acquiree assumed by the acquirer shall be measured subsequently in accordance with the guidance for contingent consideration arrangements in paragraphs 958-805-35-2 through 35-3. **[FAS 164, paragraph 81, sequence 81]**

> Goodwill Acquired

958-805-35-5 For guidance on subsequently measuring goodwill recognized in an acquisition of a business or a nonprofit activity, see Subtopic 350-20. **[FAS 164, paragraph 82, sequence 82.1]**

Other Presentation Matters

Merger of Not-for-Profit Entities

958-805-45-1 The {Glossary link} not-for-profit entity {Glossary link} (NFP) resulting from a {Glossary link} merger of not-for-profit entities {Glossary link} is a new reporting entity, with no activities before the {Glossary link} merger date {Glossary link}. Thus, the new NFP's initial reporting period begins with the merger date, and the merger itself shall not be reported as activity of the new NFP's initial reporting period. Rather, the combined assets, liabilities, and net assets of the merging entities are included in the statement of position as of the beginning of that initial reporting period, if presented. [FAS 164, paragraph 15, sequence 15]

958-805-45-2 The new NFP's statement of activities and statement of cash flows for its initial reporting period shall do both of the following: [FAS 164, paragraph 16, sequence 16.1]

- a. Include in the reported amounts as of the beginning of the period (the opening amounts), such as cash and cash equivalents at the beginning of the period, the combined amounts of the merging entities' assets, liabilities, and net assets (in total and by classes of net assets) as of the merger date. The following changes shall be reflected in the opening amounts: [FAS 164, paragraph 16, sequence 16.1.1]
 1. Accounting changes necessary to adjust a merging entity's financial statements to generally accepted accounting principles (GAAP) in accordance with paragraph 958-805-25-7 [FAS 164, paragraph 16, sequence 16.1.1.1]
 2. Accounting changes to conform the individual accounting policies of the merging entities in accordance with paragraph 958-805-30-2 [FAS 164, paragraph 16, sequence 16.1.1.2]
 3. Changes to eliminate intra-entity balances in accordance with paragraph 958-805-30-4. [FAS 164, paragraph 16, sequence 16.1.1.3]
- b. Report activity from the merger date through the end of the reporting period. [FAS 164, paragraph 16, sequence 16.1.2]

Acquisition by a Not-for-Profit Entity

958-805-45-3 The financial statements of an {Glossary link} acquirer {Glossary link} (the combined entity) shall report an {Glossary link} acquisition by a not-for-profit entity {Glossary link} as activity of the period in which it occurs. [FAS 164, paragraph 70, sequence 70]

> Statement of Activities

958-805-45-4 A not-for-profit entity (NFP) acquirer shall report the excess amount recognized in accordance with the guidance in paragraph 958-805-25-29

as a separate line item on the face of its statement of activities. The separate line item shall be appropriately described, for example, as *excess of consideration paid over net assets acquired in acquisition of Entity AB* (or as *excess of liabilities assumed over assets acquired in acquisition of Entity AB*). **[FAS 164, paragraph 71, sequence 71.1]** Example 5 (see paragraphs 958-805-55-59 through 55-61) illustrates one way an acquirer might present that amount in its statement of activities. **[FAS 164, paragraph 71, sequence 71.2]**

958-805-45-5 An NFP acquirer shall report the **inherent contribution** recognized in accordance with paragraph 958-805-25-31 as a separate line item on the face of the statement of activities. The separate line item shall be appropriately described, for example, as *excess of assets acquired over liabilities assumed in donation of Entity XY* or as *contribution received in donation of Entity XY*. In another situation, that excess might be described as *excess of fair value of net assets acquired over consideration paid in acquisition of Entity XY*. **[FAS 164, paragraph 72, sequence 72.1]**

958-805-45-6 An NFP acquirer shall classify the inherent contribution received presented in accordance with the preceding paragraph on the basis of the type of restrictions imposed on the related net assets. In classifying those net assets, an acquirer shall do both of the following: **[FAS 164, paragraph 73, sequence 73.1]**

- a. Include restrictions imposed on the net assets of the **acquiree** by a donor before the acquisition and those imposed by the donor of the **business** or **nonprofit activity** acquired, if any, in accordance with Section 958-605-45. **[FAS 164, paragraph 73, sequence 73.1.1]**
- b. Report donor-restricted contributions as restricted support even if the restrictions are met in the same reporting period in which the acquisition occurs. That is, the acquirer shall not apply the reporting exception in paragraph 958-605-45-4 to restricted net assets acquired in an acquisition. **[FAS 164, paragraph 73, sequence 73.1.2]**

958-805-45-7 Thus, the inherent contribution received may increase **permanently restricted net assets**, **temporarily restricted net assets**, **unrestricted net assets**, or some combination of those items. Example 6 (see paragraphs 958-805-55-62 through 55-67) illustrates the application of the preceding paragraph's guidance on reporting **donor-imposed restrictions** on an inherent contribution received. **[FAS 164, paragraph 73, sequence 73.2]**

958-805-45-8 An NFP acquirer that transfers assets as consideration for an acquired nonprofit activity or business shall assess whether that transaction satisfies a donor-imposed restriction (see the following paragraph) or otherwise results in a change in its net asset classifications (see paragraph 958-805-45-10). **[FAS 164, paragraph 74, sequence 74.1]**

958-805-45-9 For example, transferring consideration in an acquisition might satisfy a donor-imposed restriction on the acquirer's net assets that were restricted for acquisition of land, buildings, works of art, or other long-lived assets

if the acquiree has the qualifying assets. If so, the acquirer may either report the expiration of those restrictions separately or aggregate and report them together with other similar expirations of donor-imposed restrictions during the period in which the acquisition occurs. **[FAS 164, paragraph 74, sequence 74.1.1.]**

958-805-45-10 If transferring consideration results in changes in net asset classifications other than those described in the preceding paragraph, an NFP acquirer shall report those changes separately from both any other **reclassifications** and any expiration of those restrictions during the period in which the acquisition occurs. For example, an acquirer that transfers as consideration its unrestricted assets and acquires assets from the acquiree that have permanent or temporary donor restrictions shall recognize a reclassification in its statement of activities. **[FAS 164, paragraph 74, sequence 74.1.2]**

> Statement of Cash Flows

958-805-45-11 An NFP acquirer shall report the entire amount of any net cash flow related to an acquisition (cash paid as consideration, if any, less acquired cash of the acquiree) in the statement of cash flows as an **investing activity**. **[FAS 164, paragraph 75, sequence 75.1]** Example 7 (see paragraphs 958-805-55-68 through 55-70) illustrates this requirement. **[FAS 164, paragraph 75, sequence 75.2]**

Disclosure

Merger of Not-for-Profit Entities

958-805-50-1 The new {Glossary link} not-for-profit entity {Glossary link} (NFP) shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the {Glossary link} merger of not-for-profit entities {Glossary link} that resulted in its formation. **[FAS 164, paragraph 17, sequence 17]**

958-805-50-2 To meet the objective in the preceding paragraph, the new NFP shall disclose the following information for the merger that resulted in its formation: **[FAS 164, paragraph 18, sequence 18.1]**

- a. The name and a description of each merging entity **[FAS 164, paragraph 18, sequence 18.1.1]**
- b. The **merger date** **[FAS 164, paragraph 18, sequence 18.1.2]**
- c. The primary reasons for the merger **[FAS 164, paragraph 18, sequence 18.1.3]**
- d. Both of the following for each merging entity: **[FAS 164, paragraph 18, sequence 18.1.4]**
 1. The amounts recognized as of the merger date for each major class of assets and liabilities and each class of net assets **[FAS 164, paragraph 18, sequence 18.1.4.1]**
 2. The nature and amounts, if applicable, of any significant assets (for example, conditional promises receivable or collections) or liabilities

(for example, conditional promises payable) not otherwise required to be recognized under generally accepted accounting principles (GAAP). [FAS 164, paragraph 18, sequence 18.1.4.2]

- e. The nature and amount of any significant adjustments made to conform the individual accounting policies of the merging entities or to eliminate intra-entity balances. [FAS 164, paragraph 18, sequence 18.1.5]

958-805-50-3 If the new NFP is a **public entity** and the merger occurs at other than the beginning of an annual reporting period (that is, if its initial financial statements thus cover less than an annual reporting period), the new NFP shall disclose all of the following supplemental pro forma information: [FAS 164, paragraph 18(f), sequence 18.1.6]

- a. Revenue [FAS 164, paragraph 18(f), sequence 18.1.6.1.1] for the current reporting period as though the merger date had been the beginning of the annual reporting period [FAS 164, paragraph 18(f), sequence 18.1.6.1]
- b. Changes in **unrestricted net assets**, changes in **temporarily restricted net assets**, and changes in **permanently restricted net assets** for the current reporting period as though the merger date had been the beginning of the annual reporting period. [FAS 164, paragraph 18(f), sequence 18.1.6.1.3]

958-805-50-4 If the new NFP is a public entity and it presents comparative financial information in the annual reporting period following the year in which the merger occurs, it shall disclose the supplemental pro forma information in the preceding paragraph for the comparable prior reporting period as though the merger date had been the beginning of that prior annual reporting period. [FAS 164, paragraph 18(f), sequence 18.1.6.2]

958-805-50-5 If disclosure of any of the information required by paragraphs 958-805-50-2 through 50-3 is impracticable, the new NFP shall disclose that fact and explain why the disclosure is impracticable. The term *impracticable* has the same meaning as *impracticability* in paragraph 250-10-45-9. [FAS 164, paragraph 18(f), sequence 18.1.6.3]

958-805-50-6 If the specific disclosures required by this Subsection do not meet the objective in paragraph 958-805-50-1, the new NFP shall disclose whatever additional information is necessary to meet that objective. [FAS 164, paragraph 19, sequence 19]

Acquisition by a Not-for-Profit Entity

958-805-50-7 To meet the objective in the paragraph 805-10-50-1, an NFP acquirer shall disclose the information required by paragraph 805-10-50-2(a) through (g). [FAS 164, paragraph 86, sequence 86.1]

958-805-50-8 Instead of disclosing the information in paragraph 805-10-50-2(h), an NFP acquirer that is a **public entity** shall disclose all of the following

information for each acquisition that occurs during the reporting period: **[FAS 164, paragraph 86(t), sequence 86.1.3.2]**

- a. Revenues **[FAS 164, paragraph 86(t), sequence 86.1.3.2.1.1]** attributable to the acquiree since the **acquisition date** that are included in the statement of activities for the reporting period **[FAS 164, paragraph 86(t), sequence 86.1.3.2.1]**
- b. Changes in **unrestricted net assets**, changes in **temporarily restricted net assets**, and changes in **permanently restricted net assets** attributable to the **acquiree** since the acquisition date that are included in the statement of activities for the reporting period **[FAS 164, paragraph 86(t), sequence 86.1.3.2.1.3]**
- c. The revenues of the combined entity **[FAS 164, paragraph 86(t), sequence 86.1.3.2.2.1]** as though the acquisition date for all acquisitions that occurred during the current year had been at the beginning of the annual reporting period (supplemental pro forma information) **[FAS 164, paragraph 86(t), sequence 86.1.3.2.2.2]**
- d. Changes in unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets as though the acquisition date for all acquisitions that occurred during the current year had been at the beginning of the annual reporting period (supplemental pro forma information). **[FAS 164, paragraph 86(t), sequence 86.1.3.2.2.3]**

958-805-50-9 If it presents comparative financial information, an NFP acquirer that is a public entity shall disclose the supplemental pro forma information required by the preceding paragraph for the comparable prior reporting period as though the acquisition date for all acquisitions that occurred during the current year had been the beginning of the comparable annual reporting period. **[FAS 164, paragraph 86(t), sequence 86.1.3.2.3]**

958-805-50-10 If the disclosure of any of the information required by paragraphs 958-805-50-8 through 50-9 is impracticable, the NFP acquirer shall disclose that fact and explain why the disclosure is impracticable. The term *impracticable* has the same meaning as *impracticability* in paragraph 250-10-45-9. **[FAS 164, paragraph 86(t), sequence 86.1.3.2.4]**

958-805-50-11 Instead of the information required by Section 805-30-50, an NFP acquirer shall disclose the following information for each acquisition that occurs during the reporting period: **[FAS 164, paragraph 86, sequence 86.1]**

- a. A qualitative description of the factors, such as expected synergies from combining operations of the acquiree and the acquirer, **intangible assets** that do not qualify for separate recognition, or other factors, such as the nonrecognition of collections, that make up either of the following: **[FAS 164, paragraph 86(e), sequence 86.1.1.5]**
 1. The **goodwill** recognized **[FAS 164, paragraph 86(e), sequence 86.1.1.5.1]**

2. The separate charge recognized in the statement of activities in accordance with paragraph 958-805-25-29. **[FAS 164, paragraph 86(e), sequence 86.1.1.5.2]**
- b. The acquisition-date fair value of the total consideration transferred (or if no consideration was transferred, that fact) and the acquisition-date fair value of each major class of consideration, such as: **[FAS 164, paragraph 86(f), sequence 86.1.1.6]**
 1. Cash **[FAS 164, paragraph 86(f), sequence 86.1.1.6.1]**
 2. Other tangible or intangible assets, including a business or subsidiary of the acquirer **[FAS 164, paragraph 86(f), sequence 86.1.1.6.2]**
 3. Liabilities incurred, for example, a liability for contingent consideration. **[FAS 164, paragraph 86(f), sequence 86.1.1.6.3]**
- c. For **contingent consideration** arrangements, all of the following: **[FAS 164, paragraph 86(g), sequence 86.1.1.7]**
 1. The amount recognized as of the acquisition date **[FAS 164, paragraph 86(g), sequence 86.1.1.7.1]**
 2. A description of the arrangement and the basis for determining the amount of the payment **[FAS 164, paragraph 86(g), sequence 86.1.1.7.2]**
 3. An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact. **[FAS 164, paragraph 86(g), sequence 86.1.1.7.3]**
- d. The total amount of goodwill that is expected to be deductible for tax purposes. **[FAS 164, paragraph 86(l), sequence 86.1.2.3]**
- e. If the acquisition results in an **inherent contribution** received, a description of the reasons why the transaction resulted in a contribution received (see paragraph 958-805-25-31). **[FAS 164, paragraph 86(q), sequence 86.1.2.8]**

958-805-50-12 Additionally, an NFP acquirer shall disclose the following information for each acquisition that occurs during the reporting period: **[FAS 164, paragraph 86, sequence 86.1]**

- a. The amount of collection items acquired that are recognized in the statement of activities as a decrease in the acquirer's net assets in accordance with paragraph 958-805-25-23. **[FAS 164, paragraph 86(m), sequence 86.1.2.4]**
- b. The undiscounted amount of **conditional promises to give** acquired or assumed and a description and the amount of each group of promises with similar characteristics, such as amounts of promises conditioned on establishing new programs, completing a new building, or raising matching gifts by a specified date. **[FAS 164, paragraph 86(n), sequence 86.1.2.5]**

958-805-50-13 For individually immaterial acquisitions occurring during the reporting period that are material collectively, the NFP acquirer shall disclose the information required by paragraphs 958-805-50-8 through 50-12 and paragraph 805-10-50-2(e) through (g) in the aggregate. **[FAS 164, paragraph 87, sequence 87]**

958-805-50-14 If the date of an acquisition is after the reporting date but before the financial statements are issued or available for issue, the NFP acquirer shall disclose the information required by paragraphs 958-805-50-7 through 50-12 unless the initial accounting for the acquisition is incomplete at the time the financial statements are issued or available for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reason why they could not be made. **[FAS 164, paragraph 88, sequence 88]**

958-805-50-15 An NFP acquirer shall disclose any noncash **contributions** received and any other noncash amounts received or transferred in relation to an acquisition as noncash activities in accordance with paragraph 230-10-50-3. Example 7 (see paragraphs 958-805-55-68 through 55-70) illustrates the disclosure of noncash activities. **[FAS 164, paragraph 75(b), sequence 75.1.2]**

958-805-50-16 To meet the objective in paragraph 805-10-50-5, an NFP acquirer shall disclose the information in this paragraph and paragraph 805-10-50-6 for each material acquisition or in the aggregate for individually immaterial business combinations that are material collectively. **[FAS 164, paragraph 90, sequence 90.1]** For each reporting period after the acquisition date until the NFP acquirer collects, sells, or otherwise loses the right to a contingent consideration asset, or until the NFP acquirer settles a contingent consideration liability or the liability is cancelled or expires, the NFP acquirer shall disclose all of the following: **[FAS 164, paragraph 90(b), sequence 90.1.2]**

- a. Any changes in the recognized amounts, including any differences arising upon settlement **[FAS 164, paragraph 90(b), sequence 90.1.2.1]**
- b. Any changes in the range of outcomes (undiscounted) and the reasons for those changes **[FAS 164, paragraph 90(b), sequence 90.1.2.2]**
- c. The disclosures required by paragraphs 820-10-50-1 through 50-3. **[FAS 164, paragraph 90(b), sequence 90.1.2.3]**

958-805-50-17 An NFP acquirer shall provide a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period as required by paragraph 350-20-50-1 for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively. **[FAS 164, paragraph 90(c), sequence 90.1.3]**

Implementation Guidance and Illustrations

General

> Implementation Guidance

> > Distinguishing between a Merger and an Acquisition

958-805-55-1 This implementation guidance addresses the application of the definitions **merger of not-for-profit entities** and **acquisition by a not-for-profit entity** in making the determination required by paragraph 958-805-25-1 as to whether a transaction is a merger or an acquisition. Ceding control to a new NFP is the sole definitive criterion for identifying a merger, and one entity obtaining control over the other is the sole definitive criterion for an acquisition. **[FAS 164, paragraph A4, sequence 105.1]** If the participating entities in a combination retain shared **control** of the new **not-for-profit entity** (NFP), they have not ceded control. To qualify as a new NFP, the combined entity must have a newly formed governing body; a new NFP often is, but need not be, a new legal entity. The formation of a new NFP is not a pertinent factor in assessing whether one entity has obtained control over another. **[FAS 164, paragraph A2, sequence 103.2]**

958-805-55-2 Other transaction-specific characteristics can help in determining whether a particular combination is a merger, an acquisition, or another form of combination, such as the formation of a joint venture. The other characteristics, discussed in paragraphs 958-805-55-3 through 55-8, are indicators that often may help in identifying a merger. The participating entities should consider all of those characteristics and any other pertinent factors. Based on the preponderance of the evidence, the parties must make a professional judgment about whether each of the governing bodies has ceded control of those entities to create a new NFP, whether one entity has acquired the other, or whether another form of combination, such as the formation of a joint venture, has occurred. **[FAS 164, paragraph A4, sequence 105.2]**

958-805-55-3 Determining whether each of the governing bodies of the entities participating in a combination cede control of those entities to a new NFP requires assessing the characteristics of all of the following: **[FAS 164, paragraph A5, sequence 106.1]**

- a. The process leading to the combination **[FAS 164, paragraph A5, sequence 106.1.1]**
- b. The participants to the combination **[FAS 164, paragraph A5, sequence 106.1.2]**
- c. The combined entity. **[FAS 164, paragraph A5, sequence 106.1.3]**

958-805-55-4 In a merger, generally no one party dominates or is capable of dominating the negotiations and process leading to the formation of the combined entity. In an acquisition, on the other hand, one party—the acquirer—

often dominates that process, and sometimes may in effect dictate the terms of the transaction, including the date the combination occurs. **[FAS 164, paragraph A6, sequence 107]**

958-805-55-5 The characteristics of the entities participating in a combination and of the resulting combined entity that can help to distinguish between a merger and an acquisition fit into the following two groups: **[FAS 164, paragraph A7, sequence 108.1]**

- a. Governance and related control powers **[FAS 164, paragraph A7, sequence 108.1.1]**
- b. Financial capacity. **[FAS 164, paragraph A7, sequence 108.1.2]**

958-805-55-6 For example, one entity appointing significantly more of the governing board of the newly formed entity, retaining significantly more of its key senior officers, or retaining its bylaws, operating policies, and practices substantially unchanged is more likely to be a feature of an acquisition than of a merger. Similarly, the relative financial strength and relative size of the participants in the combination may help to determine whether one participant is able to dominate the process leading to the combination. For example, if one entity is financially strong and the other is experiencing financial difficulty, the stronger entity may be able to dominate the transaction, which would indicate that the transaction is an acquisition rather than a merger. Similarly, a participant that is substantially larger than each of the others in terms of revenues, assets, and net assets may be able to dominate the transaction. However, relative size, like relative financial strength and the other indicators discussed, is only one characteristic that may help to distinguish between a merger and an acquisition in particular situations—none of the indicators, by itself, is determinative. As discussed in paragraph 958-805-55-1, ceding of control is the sole definitive criterion for a merger. **[FAS 164, paragraph A7, sequence 108.2]**

958-805-55-7 Unlike an acquisition by a not-for-profit entity, a merger generally is accomplished by combining all of the assets and liabilities of the merging entities into a newly formed entity that assumes all of the assets and liabilities of the participating entities without a transfer of cash or other assets to those entities or any of their owners, members, sponsors, or other designated beneficiaries. Also, unlike the formation of a joint venture in which the venturers continue to exist and usually hold a financial interest, the creators of the merged entity cease to exist as autonomous entities and no one holds financial interests in the merged entity. Moreover, the merged entity generally has a perpetual life rather than a life that is limited by the period of the venture or that allows for one or more of the participating entities to opt out of the venture or other arrangement. **[FAS 164, paragraph A8, sequence 109]**

958-805-55-8 A particular combination of business entities may seem similar in some aspects to a merger of not-for-profit entities. For example, a new entity may be formed to effect a **business combination**, and no consideration is exchanged in some business combinations. Nevertheless, the guidance in this

Subtopic on mergers does not apply in a business combination, and it shall not be applied by analogy. **[FAS 164, paragraph A9, sequence 110]**

> Illustrations

>> Example 1: Assessing Whether a Combination Is a Merger or Is neither a Merger nor an Acquisition

958-805-55-9 This Example has two Cases, which share the assumptions in paragraphs 958-805-55-10 through 55-14. The Cases illustrate the application of paragraph 958-805-25-1, which requires an NFP to determine whether a transaction or other event is a merger or acquisition, and the related implementation guidance in paragraphs 958-805-55-1 through 55-8. The Cases are:

- a. A combination that is a merger (Case A)
- b. A combination that is neither a merger nor an acquisition (Case B).

958-805-55-10 A community foundation that is a major grantor to social service entities in its metropolitan area begins a program to encourage its grantees to consider opportunities to improve their services through collaborative arrangements, including mergers, acquisitions, and joint ventures. In January 20X9, the community foundation convenes a meeting of the chief officers and chairpersons of several charities that provide complementary and, to some extent, overlapping services within its metropolitan area. Following that meeting, representatives of Charity A and Charity B see fruitful opportunities for collaborative efforts based on their geographic proximity and service areas; similar missions, programs, and operating practices; and complementary financial strengths with one having a much larger base of current contributors and unpaid volunteers and the other having a larger endowment and base of investment income. Charity A is 30 to 40 percent larger than Charity B in terms of most individual financial measures, including revenues and the fair value of assets and net assets. **[FAS 164, paragraph A11, sequence 112]**

958-805-55-11 In February 20X9, the governing boards of Charity A and Charity B authorize the formation of an exploratory committee to recommend whether the two charities should combine and, if so, to develop a plan for implementing a combination. The committee consists of three members from Charity A and the executive director and one additional member from Charity B, with administrative support from the legal counsel of each entity. Each of the five committee members has one vote, and a recommendation of the committee requires at least four votes of the members. Its recommendation is to be accompanied by the reasons underlying both the recommendation of the committee and any dissenting votes. **[FAS 164, paragraph A12, sequence 113]**

958-805-55-12 In July 20X9, after completing its discussions, the committee recommends, with the full support of all five of its members, that Charity A and

Charity B combine under an agreement with the following key provisions: **[FAS 164, paragraph A13, sequence 114.1]**

- a. A new NFP named Charity AB is to be formed. **[FAS 164, paragraph A13(a), sequence 114.1.1]**
- b. The chief executive officer of Charity B will be offered the position of chief executive officer of Charity AB for a term of at least two years. **[FAS 164, paragraph A13(c), sequence 114.1.3]**
- c. The initial Board of Charity AB will consist of 15 members. **[FAS 164, paragraph A13(d), sequence 114.1.4]** Charity A will appoint 9 of the initial members, preferably from the members of its existing 25-member board and its current chief executive officer. **[FAS 164, paragraph A13(d), sequence 114.1.4.1]** Charity B will appoint 6 of the initial members, preferably from its existing 50-member board. **[FAS 164, paragraph A13(d), sequence 114.1.4.2]**
- d. The charter of Charity AB will provide for a maximum of 25 board members. The committee recommended that a search be undertaken to add 6 new members within a year, with each new member requiring approval by a minimum of 10 of the 15 initial members. **[FAS 164, paragraph A13(d), sequence 114.1.4.3]**
- e. The headquarters of Charity A and its underlying lease (which has eight remaining years) will be retained. **[FAS 164, paragraph A13(e), sequence 114.1.5]**
- f. A transition committee consisting of two members each from the current boards of Charity A and Charity B, under the authority of the chief executive officer of Charity AB, will be appointed to perform the following duties: **[FAS 164, paragraph A13(f), sequence 114.1.6]**
 1. Submit a formal plan of merger to each of the governing boards and, if approved, seek approval from the appropriate state authorities. **[FAS 164, paragraph A13(f), sequence 114.1.6.1]**
 2. Seek opportunities to sublease the headquarters space of Charity B for the remaining two-year lease term or to utilize that space for program activities. **[FAS 164, paragraph A13(f), sequence 114.1.6.2]**
 3. Interview existing staff and other candidates for senior management positions. **[FAS 164, paragraph A13(f), sequence 114.1.6.3]**
 4. Make recommendations about each of the following: **[FAS 164, paragraph A13(f), sequence 114.1.6.4]**
 - i. Eliminating program and operating redundancies, including severance packages for any terminated staff. **[FAS 164, paragraph A13(f), sequence 114.1.6.4.1]**
 - ii. Improving the current operating policies and practices of Charity A and Charity B. **[FAS 164, paragraph A13(f), sequence 114.1.6.4.2]**

- iii. Revising employee benefit plans with the objective of adopting unified plans for Charity AB's employees without diminishing the overall benefits being offered to existing employees. **[FAS 164, paragraph A13(f), sequence 114.1.6.4.3]**

958-805-55-13 In discussing revisions of employee benefit plans, the exploratory committee's report notes that the committee interviewed the current chief executive officers of Charity A and Charity B and found both well qualified to serve as the chief executive officer of Charity AB. However, although both chief executive officers are in their early 60s and are eager to assist Charity AB through the initial transition period, the chief executive officer of Charity A had been contemplating retiring within the next year. The committee saw no need to open the chief executive officer search to other candidates. **[FAS 164, paragraph A14, sequence 115]**

958-805-55-14 During August 20X9, each of the governing boards of Charity A and Charity B tentatively approves the committee recommendations **[FAS 164, paragraph A15, sequence 116.1]** and appoints its members to the recommended transition committee. The boards also asked their respective nominating committees to make recommendations to each of their boards about the initial members to be appointed to the board of Charity AB. During October, each board approved the plan for their combination, and it was submitted to the state for approval. During November, the plan received the required state approval, and the combination became effective on January 1, 20X0, as proposed. **[FAS 164, paragraph A15, sequence 116.2]**

> > > Case A: A Combination That Is a Merger

958-805-55-15 In this Case, the executive committee recommends **[FAS 164, paragraph A13(a), sequence 114.1]** (and each of the governing boards of Charity A and B approves) **[FAS 164, paragraph A15, sequence 116.1]** that to minimize costs the corporate charter of Charity A is to be retained as the charter of Charity AB. The assets and liabilities of Charity B are to be transferred to Charity AB and Charity B will cease to exist. **[FAS 164, paragraph A13(a), sequence 114.1.1.1]** On the date the merger becomes effective (as approved by the appropriate state official), the corporate charter will be amended to reflect the new NFP's name and its expanded mission, which is to encompass Charity B's research and advocacy functions as well as the charitable functions of both entities. **[FAS 164, paragraph A13(b), sequence 114.1.2]** Thus, in effect, both Charity A and Charity B will cease to exist in their precombination forms. **[FAS 164, paragraph A13(a), sequence 114.1.1.2]**

958-805-55-16 Paragraph 958-805-55-4 describes the assessments required when determining whether each of the governing bodies of the participating entities in a combination cedes control of those entities to a new NFP. On the basis of the evidence, both Charity A and Charity B participated in the process leading to the combination. Moreover, the evidence indicates that neither charity was experiencing financial difficulties or other circumstances that might allow the

other entity to dominate the negotiations leading to and through the approval of the transaction by both charities. Neither charity appointed significantly more of Charity AB's initial governing board. Although the chief executive officer of Charity B is the only key senior officer for which a retention decision has been made, neither charity dominated the selection process of the governing board and senior management, collectively. Lastly, although the corporate charter and bylaws of Charity A were retained, the stated mission of Charity AB includes the operating objectives of Charity B. In addition, the bylaws and operating policies and practices of Charities A and B were similar. Thus, on the basis of the preponderance of the evidence, it is determined that the combination is a merger—that the governing boards of Charity A and Charity B each ceded control to the new NFP, Charity AB, which has a newly formed governing body. **[FAS 164, paragraph A16, sequence 117]**

> > > Case B: A Combination That Is neither a Merger nor an Acquisition

958-805-55-17 In this Case, Charity AB is established as a new legal entity with its own charter. **[FAS 164, paragraph A17, sequence 118]** Charity A and Charity B will each continue to exist with its current governing body but cease to operate its existing programs. **[FAS 164, paragraph A17(a), sequence 118.1.1]** Each has the power to veto nominations for future members of Charity AB's governing body for two years. **[FAS 164, paragraph A17(b), sequence 118.1.2]** Each will retain \$200,000 in operating cash and all of the investment assets of its donor-restricted endowment funds. **[FAS 164, paragraph A17(c), sequence 118.1.3.1]**

958-805-55-18 Charity A and Charity B each have the right to dissolve Charity AB. If the right is exercised, it will result in a reversion of assets, liabilities, and staff. Upon reversion, all staff will be retained by their respective legacy entity. In addition, the assets and liabilities of Charity AB will be transferred to each legacy entity in a distribution ratio equivalent to the fair value of the net assets contributed by each (which was determined to be about 65:35 at the combination date). **[FAS 164, paragraph A17(d), sequence 118.1.4]** Two years following the combination date, Charity A and Charity B will dissolve and transfer their remaining assets to Charity AB unless either exercises its right of withdrawal. **[FAS 164, paragraph A17(c), sequence 118.1.3.2]**

958-805-55-19 In this Case, it appears that Charity A and Charity B may intend to combine after the passage of a two-year period. But neither of their governing boards has ceded control, as defined, and neither entity has obtained control of the other. Therefore, the combination is neither a merger nor an acquisition; rather, on the basis of the preponderance of the evidence, it appears that Charity AB is a joint venture of Charity A and Charity B. **[FAS 164, paragraph A18, sequence 119]**

> > Example 2: A Combination That Is an Acquisition

958-805-55-20 Charity C provides health and human services to residents of City and two adjoining counties, referred to as Metro Area, a substantial portion of which is provided through its support to grantee agencies in its area. Charity D provides health and human services to residents of County, which adjoins the northern part of Metro Area. The charities share a common mission and operate under the same national brand name; that is, the charities operate as Brand Name of Metro Area and Brand Name of County. Each charity receives contributions from the residents of its service area. **[FAS 164, paragraph A19, sequence 120]**

958-805-55-21 In 20X1, the regions served by both charities were experiencing sharp economic declines, and contributions to both charities were declining as a result. To create efficiencies, the charities entered into two joint operating agreements. Under the first agreement, they conduct joint annual fundraising campaigns. Under the second, Charity C provides all information technology and marketing services to Charity D for a nominal fee. **[FAS 164, paragraph A20, sequence 121]**

958-805-55-22 By January 20X4, Charity D has successfully implemented three innovative program services, but it has not been able to improve its declining contribution revenues. Despite some staff layoffs, it continues to experience significant operating deficits. In March 20X4, the chief executive officers of the two charities encouraged their respective executive committees to explore opportunities to combine and restructure their operations and governance. In July 20X4, the executive committees of both charities formed a joint strategy committee to investigate opportunities to create the best charity for the combined service area and to develop recommendations for accomplishing that objective. **[FAS 164, paragraph A21, sequence 122.1]**

958-805-55-23 The strategy committee members include the chief executive officers and 6 directors from each charity and 10 community leaders from the area. It is chaired by the chief executive officer of a major corporation in the area who also is a director of Charity C. In January 20X5, although the strategy committee's work was ongoing, the executive committees of both charities unanimously approved and advanced to the full governing board of each charity the committee's recommendations for the governance model for a new charity to be formed by consolidating and dissolving both of the existing charities and its recommendations for the new charity's name, mission, vision, and business model. That business model is the same as the model Charity D had adopted in 20X2, under which it successfully implemented three new programs. Charity C wanted to leverage the experiences of Charity D. **[FAS 164, paragraph A21, sequence 122.2]**

958-805-55-24 On November 1, 20X5, the governing boards of both charities approved the strategy committee's plan of consolidation. The chief executive

officers of both charities executed a joint memorandum of understanding, which includes the following statements: **[FAS 164, paragraph A22, sequence 123.1]**

- a. The charities will create a new NFP named Charity E upon completing the due diligence process and obtaining approvals of the state authorities and Internal Revenue Service (IRS) qualification as a tax exempt public charity, which will be concluded no later than December 31, 20X5. Charity E incorporates Charity C's name into its own. **[FAS 164, paragraph A22, sequence 123.1.1]**
- b. The bylaws of Charity E will establish a board of directors of up to 30 members. **[FAS 164, paragraph A22, sequence 123.1.2]**
- c. The board of directors of Charity C will nominate 15 of the initial members of the board of Charity E. (All 15 nominees selected were current members of the board of directors of which 13 were also members of the executive committee.) The board of directors of Charity D will nominate five of the initial members. **[FAS 164, paragraph A22, sequence 123.1.3]**
- d. Charity E will have four local community committees representing four geographic areas, one of which is County. Each committee will provide advice to the board of directors for local decision-making consistent with Charity E's mission and vision. At each election after the installation of the initial board, each local community committee may nominate up to four candidates for a one-year renewable term on the board of Charity E. The board will select a minimum of two members from each local community committee, for a total of eight additional members. **[FAS 164, paragraph A22, sequence 123.1.4]**
- e. Amendments to the articles of incorporation or bylaws, significant transactions (a merger, reorganization, termination, or sale of substantially all assets), and reductions in the authority and responsibilities of local community committees will require an affirmative vote of at least 60 percent of the board of directors. **[FAS 164, paragraph A22, sequence 123.1.5]**
- f. Each charity's board of directors will appoint five members to a joint transition committee, with the charge of and authority to implement the plan of consolidation. **[FAS 164, paragraph A22, sequence 123.1.6]**
- g. Until the consolidation is complete, each charity's board of directors agrees to do the following: **[FAS 164, paragraph A22, sequence 123.1.7]**
 1. Use reasonable efforts to conduct their activities consistent with their current mission allowing for changes consistent with moving to the business model, mission, and vision of Charity E. **[FAS 164, paragraph A22, sequence 123.1.7.1]**
 2. Preserve their tax-exempt status and relationships with contributors and grantee agencies. **[FAS 164, paragraph A22, sequence 123.1.7.2]**

3. Not materially amend or modify their articles of incorporation or bylaws. **[FAS 164, paragraph A22, sequence 123.1.7.3]**
- h. During the first three years after the combination, Charity E will do the following: **[FAS 164, paragraph A22, sequence 123.1.8]**
1. Use the business model (direct-services based) to increase its capacity for making sustained change to address key social needs. **[FAS 164, paragraph A22, sequence 123.1.8.1]**
 2. Fund and maintain no less than four geographic sites, with one in County, to allow for community involvement in campaign, community impact programs, marketing, and public policy. **[FAS 164, paragraph A22, sequence 123.1.8.2]**
 3. Fund and maintain the financial and program commitments of both of the consolidating charities to their respective grantee agencies, subject to available funding. **[FAS 164, paragraph A22, sequence 123.1.8.3]**
 4. Strive to expand Brand Name program of Charity D and its strategies throughout Charity E's service area. Given the success of that program, its current staff will be given full opportunity and consideration to lead the Brand Name program for Charity E. **[FAS 164, paragraph A22, sequence 123.1.8.4]**
 5. Not reduce significantly the current staff of the charities. It is understood that reassignments or realignments are probable. Any reductions of the staff of Charity D will be made in consultation with its former chief executive officer, who will become the vice president for program services and strategic development of Charity E. **[FAS 164, paragraph A22, sequence 123.1.8.5]**
- i. The obligations of Charity D, which are outlined in the memorandum of understanding, are subject to approval by its board of directors. The obligations of Charity C, which also are outlined in the memorandum of understanding, are subject to approval by its executive committee. **[FAS 164, paragraph A22, sequence 123.1.9]**

958-805-55-25 The following table summarizes certain facts for each of the combining charities and the initial staffing of the combined Charity E. **[FAS 164, paragraph A23, sequence 124.1]**

| | <u>Charity C</u> | | <u>Charity D</u> | |
|--|------------------|--------------------------------------|------------------|--------------------------------|
| | \$ millions | | \$ millions | |
| Financial—years ended 20X5 and 20X4: | | | | |
| Revenues | \$ 45 | \$ 46 | \$ 30 | \$ 37 |
| Expenses | <u>42</u> | <u>42</u> | <u>37</u> | <u>38</u> |
| Net excess (deficit) | <u>3</u> | <u>4</u> | <u>(7)</u> | <u>(1)</u> |
| Net assets—carrying amount | 70 | 67 | 13 | 20 |
| Employee head count | 119 | 120 | 90 | 90 |
| Joint operating agreements: | | | | |
| Fund raising—net revenue sharing ratio | | 65% | | 35% |
| Information technology and marketing provided by Charity C | | receives nominal fee, pays all costs | | pays nominal fee |
| Governance: | | | | |
| Members of board of directors | | 80 | | 50 |
| Members of executive committee | | 20 | | 16 |
| Staffing of Entity E: | | | | |
| Senior officers of Entity E: | | | | |
| President | | former chief executive officer | | |
| Vice president strategic relations | | | | former chief executive officer |
| Chief financial officer | | former chief financial officer | | |
| VP public policy (vacant, being recruited) | | | | |

[FAS 164, paragraph A23, sequence 124.2]

958-805-55-26 Some factors in this Example might suggest that the combination is a merger. For example, the evidence indicates that each charity participated in the process leading to the combination. That is, their governing boards both approved the formation of the strategy committee, both were represented on that committee, and both had the opportunity to accept or reject the recommendations of the committee. In addition, the legal dissolution of both charities to form Charity E resulted in a new NFP with a newly formed governing body, to which the governing boards of both charities ceded control of their operations and net assets, at least in legal form. **[FAS 164, paragraph A24, sequence 125]**

958-805-55-27 However, other factors indicate that one charity acquired the other, that is, that the governing board of the financially stronger and larger Charity C dominated the terms of the combination and did not, in substance, cede control of its operations and net assets to the governing board of Charity E. Those factors include the following: **[FAS 164, paragraph A25, sequence 126.1]**

- a. Charity C's dominance in the selection of 15 of the 20 members of the initial board of directors of Charity E. It also seems that the governing power center of Charity C—its executive committee—continues to control because 13 of its members continued as members of the initial 20-member board of Charity E and, together with the other 2 board members from that charity, would have a strong (if not dominating)

voice in selecting at least 6 of the minimum of 8 members yet to be selected from the nominees of the 4 local community committees. **[FAS 164, paragraph A25, sequence 126.1.1]**

- b. Charity C's dominance in the selection of the key senior officers. The table in paragraph 958-805-55-25 indicates that early on it was decided that the chief executive officer of Charity C would be retained as chief executive officer and president of Charity E, that the chief executive officer of Charity D of County would become one of Charity E's vice presidents, and that there was no need to open the chief executive officer search process to external parties. **[FAS 164, paragraph A25, sequence 126.1.2]**
- c. Charity C's dominance in terms of financial capability and viability. Charity D has been experiencing financial difficulties and since 20X1 has been somewhat dependent on Charity C to provide back-office and information technology support for a below-cost fee. **[FAS 164, paragraph A25, sequence 126.1.3]**

958-805-55-28 In addition, it appears that Charity C wanted to preserve and obtain certain aspects of Charity D's operations and resources, including the following: **[FAS 164, paragraph A26, sequence 127.1]**

- a. Charity D's expertise in implementing new programs developed and promoted by the national entity **[FAS 164, paragraph A26, sequence 127.1.1]**
- b. Charity D's existing donor relationships **[FAS 164, paragraph A26, sequence 127.1.2]**
- c. Charity D's residual net assets. **[FAS 164, paragraph A26, sequence 127.1.3]**

958-805-55-29 Charity C also apparently wanted to restructure its governance to have a much smaller governing board of 20 to 30 high-impact community leaders (like the members of its existing executive committee). Charity C's wishes concerning aspects of Charity D's operations and resources and restructuring its governance do not relate directly to the indicators that help to distinguish a merger from an acquisition. But those additional factors are part of what is considered in making a judgment on the basis of the preponderance of the evidence, as this Subtopic requires. **[FAS 164, paragraph A26, sequence 127.2]**

958-805-55-30 On the basis of the preponderance of the evidence, it is determined that Charity C acquired Charity D. The acquisition was achieved by, in effect, a gift of Charity D to Charity C. Although each charity legally dissolved, the substance of the combination is much the same as if Charity C first restructured its board of directors along the lines desired and then absorbed Charity D and added five of its nominees to the restructured board. **[FAS 164, paragraph A27, sequence 128]**

958-805-55-31 Despite the process and legal form used, the economic substance of the transaction is judged to be one in which the central governing power residing in the executive committee of Charity C was not surrendered; that is, the governing body of Charity C did not cede control of the entity to the governing body of Charity E. The transaction is an acquisition in which the economic substance and existence of Charity C (the acquirer) continues, although with a different name and expanded operations. **[FAS 164, paragraph A28, sequence 129]**

Merger of Not-for-Profit Entities

> Illustrations

> > Example 1: Disclosures for a Merger

958-805-55-32 This Example illustrates some of the disclosures required for a **merger of not-for-profit entities** in paragraphs 958-805-50-1 through 50-6. The Example assumes that three **not-for-profit entities** (NFPs) merge to create a new NFP. NFP F, NFP G, and NFP H merge to create NFP I, which is a **public entity**. **[FAS 164, paragraph A29, sequence 130.1.1]**

958-805-55-33 Although this Example presents the illustrative notes separately, NFP I might present the disclosures illustrated in a single note. The required supplemental information is presented in a separate schedule outside the notes. **[FAS 164, paragraph A29, sequence 130.1.2]** This Example illustrates the following disclosures:

- a. Description of the merger
- b. Significant asset not required to be recognized
- c. Conforming accounting policies
- d. Major classes of assets, liabilities, and net assets
- e. Required supplemental information.

> > > Description of the Merger

958-805-55-34 The following note illustrates the disclosures required by paragraph 958-805-50-2(a) through (c).

NFP I was formed on June 15, 20X1, as the result of a merger of three local not-for-profit entities—NFP F, NFP G, and NFP H. All three entities shared the common mission of supporting youth education. Through their merger, the entities seek to further their common mission by substantially improving their after-school youth programs in the region and their capability to assist youth in need. They also seek to achieve economies of scale and other synergies through integrating their services. **[FAS 164, paragraph A29, sequence 130.2.1]**

> > > Significant Asset Not Required to Be Recognized

958-805-55-35 The following note illustrates the disclosures required by paragraph 958-805-50-2(d)(2).

At June 15, 20X1, NFP F had a conditional promise receivable of \$1.4 million from a donor to be used to construct a new after-school youth facility. The promise is conditioned upon NFP F raising an equivalent amount from others by the end of 20X4 to be used for construction of the facility. At the merger date, NFP F had raised \$420,000. NFP I expects to successfully raise the remaining amount by the end of 20X4. **[FAS 164, paragraph A29, sequence 130.2.2]**

> > > Conforming Accounting Policies

958-805-55-36 The following note illustrates the disclosure required by paragraph 958-805-50-2(e).

Of NFP F's temporarily restricted net assets at the merger date, \$789,000 related to its accounting policy of implying a time restriction on gifts of long-lived assets over the useful life of the donated assets. NFP G and NFP H had elected not to imply a time restriction on those types of gifts, and NFP I has conformed its policy to that of NFP G and NFP H. Thus, the time restriction on NFP F's donated long-lived assets was removed, which increased the opening balance of NFP I's unrestricted net assets by \$789,000. **[FAS 164, paragraph A29, sequence 130.2.3]**

> > > Major Classes of Assets, Liabilities, and Net Assets

958-805-55-37 The following note illustrates the disclosures required by paragraph 958-805-50-2(d), and also shows the reclassification discussed in the note illustrated in the preceding paragraph.

Major Classes of Assets
June 15, 20X1
(amounts in thousands)

| | | | | <u>Adjustments</u> | | Total (NFP I) |
|---------------------------------------|------------------|-------------------|------------------|--------------------|---------------|--------------------------|
| | <u>NFP F</u> | <u>NFP G</u> | <u>NFP H</u> | <u>Debit</u> | <u>Credit</u> | |
| Assets | | | | | | |
| Cash and short-term investments | \$ 4,127 | \$ 7,213 | \$ 3,179 | - | - | \$ 14,519 |
| Contributions receivable | 3,053 | 5,102 | 2,736 | - | - | 10,851 |
| Allowance for uncollectibles | 295 | 524 | 157 | - | - | 976 |
| Contributions receivable, net | 2,758 | 4,578 | 2,539 | - | - | <u>9,875</u> |
| Land, buildings, and equipment | 43,337 | 59,021 | 15,875 | - | - | 118,233 |
| Accumulated depreciation | <u>(8,458)</u> | <u>(9,935)</u> | <u>(1,990)</u> | - | - | <u>(20,383)</u> |
| Land, buildings, and equipment, net | <u>34,879</u> | <u>49,086</u> | <u>13,885</u> | - | - | <u>97,850</u> |
| Long-term investments | 54,987 | 108,234 | 42,004 | - | - | 205,225 |
| Liabilities | | | | | | |
| Accounts payable and accrued expenses | 3,128 | 6,412 | 3,333 | - | - | 12,873 |
| Grants payable | 2,893 | 3,765 | 2,232 | - | - | 8,890 |
| Long-term debt | 32,980 | 45,190 | 18,556 | - | - | 96,726 |
| Net assets | | | | | | |
| Permanently restricted | 37,987 | 58,209 | 12,929 | - | - | 109,125 |
| Temporarily restricted | 10,847 | 28,200 | 15,966 | 789 | - | 54,224 |
| Unrestricted | <u>8,916</u> | <u>27,335</u> | <u>8,591</u> | - | 789 | <u>45,631</u> |
| Total net assets | <u>\$ 57,750</u> | <u>\$ 113,744</u> | <u>\$ 37,486</u> | <u>-</u> | <u>-</u> | <u>\$ 208,980</u> |

[FAS 164, paragraph A29, sequence 130.3]

> > > Case E: Required Supplemental Information

958-805-55-38 The following supplemental information is required by paragraph 958-805-50-3. If NFP I presents comparative financial information in the annual reporting period following the year in which the merger occurs, the supplemental pro forma information would be presented in the financial report of that year as well. **[FAS 164, paragraph A29, sequence 130.4.3]**

Required Supplementary Information (Unaudited)

The following information is not audited.

NFP I's revenue and changes in unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets for the year ending December 31, 20X1, as if the merger had occurred at January 1, 20X1, are:

| | <u>Revenue</u> | <u>Change in Unrestricted Net Assets</u> | <u>Change in Temporarily Restricted Net Assets</u> | <u>Change in Permanently Restricted Net Assets</u> |
|--|----------------|--|--|--|
| Supplemental pro forma information for 1/1/20X1–12/31/20X1 | \$ 17,139 | \$ 5,715 | \$ (2,922) | \$ 347 |

Acquisition by a Not-for-Profit Entity

> Implementation Guidance

958-805-55-39 This Subsection provides implementation guidance, which is incremental to the guidance in Sections 805-10-55 and 805-20-55, on all of the following:

- Definition of a **business** and a **nonprofit activity**
- Identifying the **acquirer**
- Intangible assets** that are **identifiable**
- Transactions between entities under common control.

>> Definition of a Business and a Nonprofit Activity

958-805-55-40 Paragraph 805-10-15-4 uses the term *business* to differentiate an acquisition of an integrated set of activities and assets that is within the scope of Topic 805 from an acquisition of a group of assets that is outside its scope. **[FAS 164, paragraph A30, sequence 131.1]** This Subtopic uses that same definition. **[FAS 164, paragraph A30, sequence 131.3]** In addition to the term *business*, this Subtopic also uses the term *nonprofit activity* to differentiate an acquisition of an integrated set of activities and assets that is within its scope from an acquisition of a group of assets that is outside its scope. It builds on the definition of a *business* in defining a *nonprofit activity*; each is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits. **[FAS 164, paragraph A31, sequence 132.1]** The nature of the benefits provided distinguishes a business from a nonprofit activity. **[FAS 164, paragraph A31, sequence 132.2]** Thus, in applying the guidance in paragraphs 805-10-55-4 through 55-9, references to a *business* or *businesses* also refer to a *not-for-profit activity* or *not-for-profit activities*, and references to the three elements of *input*, *process*, and *output* also include outputs that provide or have the ability to provide goods or services to beneficiaries, customers, or

members that fulfill the purpose or mission for which a **not-for-profit entity** (NFP) exists. **[FAS 164, paragraph A32(c), sequence 133.1.3.2]**

958-805-55-41 Furthermore, because an integrated set of activities that is in the development stage might not have outputs, **[FAS 164, paragraph A35, sequence 136.1]** an acquirer should consider, in addition to the factors in paragraph 805-10-55-7, whether the set will be able to obtain access to beneficiaries or members that will purchase or otherwise receive the outputs that fulfill the purpose or mission for which an NFP exists. **[FAS 164, paragraph A35(d), sequence 136.1.3.4]**

> > Identifying the Acquirer

958-805-55-42 Paragraph 958-805-25-15 provides guidance used by the combining entities to determine the acquirer. If applying the guidance in that paragraph does not clearly indicate which of the combining entities is the acquirer, paragraph 958-805-25-16 requires that the combining entities consider the factors in paragraphs 805-10-55-10 through 55-15 and in paragraphs 958-805-55-43 through 55-46.

958-805-55-43 If one of the combining entities can select or dominate the process of selecting the management team of the resulting organization, that entity is likely to be the acquirer. **[FAS 164, paragraph A41, sequence 142]**

958-805-55-44 The acquirer usually is the entity whose governing body has the ability to select or dominate the process of selecting the governing body of the combined entity, which may be a newly created entity, although whether a new entity is created is not a pertinent factor in identifying an acquisition (see paragraph 958-805-55-1). That ability may be demonstrated by an entity's powers to elect or appoint members to the combined entity's governing body or an entity's powers to dominate the process of selecting a voting majority. In determining whether one of the entities has the power to dominate the selection process, consideration shall be given to the existence of rights to elect or appoint members to the governing body that are provided by the entity's articles of incorporation, by its bylaws, or by provisions in the acquisition agreement. Consideration also shall be given to the ability of one entity to dominate the selection process through other means. **[FAS 164, paragraph A44, sequence 145.1]**

958-805-55-45 The combined entity often retains the mission and the legal name of the acquirer. **[FAS 164, paragraph A42, sequence 143]**

958-805-55-46 The following factors should be considered in assessing which entity is able to select or to dominate the process of selecting the governing body: **[FAS 164, paragraph A44, sequence 145.2]**

- a. If the combined entity's articles of incorporation or bylaws state that the members of the governing body are appointed, whether one of the

- entities has the right to appoint a voting majority of the governing body. **[FAS 164, paragraph A44, sequence 145.2.1]**
- b. Both of the following factors, if the combined entity's governing body is self-perpetuating: **[FAS 164, paragraph A44, sequence 145.2.2]**
 - 1. Whether one of the entities has the right to select a voting majority of the initial governing body of the entity as part of the acquisition agreement **[FAS 164, paragraph A44, sequence 145.2.3]**
 - 2. Whether one of the entities has the ability to dominate the selection of a voting majority of the initial governing body of the entity through means other than negotiated selection rights, such as through disproportionate representation on the committee that selects nominees for that body. **[FAS 164, paragraph A44, sequence 145.2.4]**
 - c. If the initial governing body of the combined entity is selected by the governing members of the combining entities, whether one entity's members have the majority of the voting rights. **[FAS 164, paragraph A44, sequence 145.3]**
 - d. Any other rights to appoint or designate members of the combined entity's governing body either as of the acquisition date or in the near future (such as upon the expiration of the terms of some or all of the initial members). **[FAS 164, paragraph A44, sequence 145.4]**
 - e. If positions on the combined entity's governing body are designated positions, the effect of those designated positions on the ability of an entity to appoint a voting majority of the resulting entity's governing body. **[FAS 164, paragraph A44, sequence 145.5]**
 - f. The powers of any sponsoring entities or members of an NFP and the composition of those sponsors and members. If sponsors and corporate members have limited powers, the effect of those limited powers on the ability of one of the entities to control the combined entity. **[FAS 164, paragraph A44, sequence 145.6]**
 - g. If the combined entity's governing body delegates powers to committees, the nature of those delegated powers and the composition of the committees. **[FAS 164, paragraph A44, sequence 145.7]**
 - h. The effect of voting requirements (such as supermajority voting requirements) on the ability of one entity to appoint or dominate the selection of a supermajority of the governing body of the combined entity. **[FAS 164, paragraph A44, sequence 145.8]**

> > Intangible Assets That Are Identifiable

958-805-55-47 In addition to the examples of intangible assets provided in paragraphs 805-20-55-11 through 55-45, a donor list is an example of an identifiable asset.

958-805-55-48 A donor list is different from a customer list (see paragraph 805-20-55-21), although a donor list consists of similar information about donors, such as their names and contact information. A donor list also may be in the form

of a database that includes other information about the donors, such as their donation histories and demographic information. A donor list may but does not always arise from contractual or other legal rights. However, donor lists are frequently leased or exchanged. Therefore, a donor list acquired in an acquisition by a not-for-profit entity normally meets the separability criterion (see paragraph 805-20-55-4). However, a donor list would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing, or otherwise exchanging information about its donors. **[FAS 164, paragraph A67, sequence 168]**

> Illustrations

>> Example 1: Collection Items Received in an Acquisition by Gift

958-805-55-49 This Example illustrates application of the guidance in paragraphs 958-805-25-23 through 25-24. Museum B, which has a policy of not capitalizing its **collection**, acquires Museum A without transferring consideration. As part of the transaction, Museum B acquires 500 paintings owned by Museum A. Museum B adds 450 of Museum A’s paintings to its collection. The remaining 50 paintings acquired from Museum A are not suitable for Museum B’s collection. They are not subject to donor restrictions, and Museum B expects to sell them. The fair values of Museum A’s assets and liabilities other than collection items (the 450 paintings) at the acquisition date follows. **[FAS 164, paragraph A87, sequence 188.1]**

| | |
|--|------------------------|
| Cash | \$ 200 |
| Accounts receivable | 400 |
| Contributions receivable | 200 |
| Property, plant, and equipment | 800 |
| Paintings (50 paintings) | 100 |
| Liabilities | (200) |
| Identifiable net assets other than collections | <u><u>\$ 1,500</u></u> |

[FAS 164, paragraph A87, sequence 188.2]

958-805-55-50 An NFP acquirer needs to determine whether acquired collection items were purchased or contributed and, if purchased, the cost to attribute to them. **[FAS 164, paragraph A86, sequence 187.3]** Because Museum B transferred no consideration, it would recognize a separate credit to its statement of activities (contribution received) of \$1,500 in accordance with paragraph 958-805-25-31. No measurement of the collection items (the 450 paintings) would be required because it is evident that those items were contributed as part of the acquisition. It is evident that the items were contributed because the fair value of the identifiable assets (excluding the collection items) exceeds the fair value of the liabilities assumed and no consideration was transferred for the acquiree. Any value that might be ascribed to the newly acquired collection items would

increase the amount of the contribution received by Museum B in the acquisition. **[FAS 164, paragraph A88, sequence 189.1]** Consistent with paragraph 958-605-25-19, contributed collection items shall not be recognized as a contribution received if collections are not capitalized. **[FAS 116, paragraph 13, sequence 31.1]**

> > Example 2: Collection Items Received in an Acquisition—Contribution or Purchase

958-805-55-51 This Example illustrates application of the guidance in paragraphs 958-805-25-23 through 25-24. Museum D, which has a policy of not capitalizing its collection, acquires Museum C. To effect the acquisition, Museum D agrees to transfer cash consideration of \$1,600 to a foundation designated by Museum C. As part of the acquisition, Museum D acquires 800 paintings owned by Museum C. Museum D adds all of Museum C’s paintings to its collection. The fair values of Museum C’s assets and liabilities other than collection items at the acquisition date follow. **[FAS 164, paragraph A89, sequence 190.1]**

| | |
|--|---------------|
| Cash | \$ 100 |
| Accounts receivable | 50 |
| Contributions receivable | 75 |
| Property, plant, and equipment | 675 |
| Liabilities assumed | (200) |
| Identifiable net assets other than collections | <u>\$ 700</u> |

[FAS 164, paragraph A89, sequence 190.2]

958-805-55-52 It is unclear whether the collection items were contributed or purchased because the fair value of the consideration transferred is \$1,600, which exceeds the aggregate of the identifiable net assets acquired (excluding the collection items) of \$700. The excess \$900 paid could be attributable entirely to either the collection items or goodwill, or part could be attributed to the cost of the collection items and part to goodwill. **[FAS 164, paragraph A90, sequence 191]**

958-805-55-53 In this circumstance, if Museum D determines that the acquisition-date fair values of the collection items are far greater than \$900, it would presume that \$900 of the excess relates to the cost of the purchased collection items and that the remainder of the excess relates to contributed collection items. Consistent with how purchased collections are reported in paragraph 958-360-45-5, that \$900 cost would be reported as a decrease in the appropriate class of net assets in the statement of activities in the period of the acquisition. No goodwill or contribution revenue would be recognized. **[FAS 164, paragraph A91, sequence 192]**

958-805-55-54 If Museum D instead determines that the acquisition-date fair values of the collection items are less than \$900, for example, \$300, it could not presume that the entire \$900 excess relates to the collection. Rather, Museum D would attribute that lesser amount to the cost of the purchased collection items and attribute the remaining portion of the excess (\$600) to goodwill in accordance with paragraph 958-805-25-28. (The acquiree, Museum C, as part of the combined entity, is expected to obtain so much of its support from sources other than contributions and returns on investments that it does not qualify to immediately charge to the statement of activities the amount that otherwise is recognized as goodwill.) **[FAS 164, paragraph A92, sequence 193]**

>> Example 3: Transfer of Consideration in Which the Acquirer Retains Control

958-805-55-55 This Example illustrates application of the guidance in paragraphs 958-805-25-32 through 25-35. Hospital, an independent, not-for-profit community hospital, agreed to be acquired by System, a nearby not-for-profit health care system. Hospital was in the midst of a major capital project at the acquisition date. To ensure completion of that capital project, Hospital's board of directors required that System transfer \$20 million to Foundation, a newly formed, unrelated foundation that is governed by a self-perpetuating board of directors. Foundation's initial board of directors is composed of the former board of directors of Hospital. The acquisition agreement requires that the \$20 million be used to complete the project, if necessary, and that any assets remaining in Foundation on completion of the capital project be used solely for future capital projects at Hospital. **[FAS 164, paragraph A100, sequence 201]**

958-805-55-56 In this Example, the acquirer has transferred assets to an unrelated third party as a required condition of the acquisition. However, because those assets may be used only for future capital additions at Hospital, System has retained control over the future economic benefits of those assets. A transferor that retains control over the economic benefits in the transferred assets has not transferred assets in exchange for the acquiree. Rather, that transferor has exchanged one asset for another. An asset transfer of that type shall be accounted for as an asset-for-asset exchange rather than as consideration transferred. **[FAS 164, paragraph A101, sequence 202]**

>> Example 4: Asset Acquired from a Third-Party Donor That Is Included in the Acquisition Accounting

958-805-55-57 This Example illustrates application of the guidance in paragraph 958-805-25-35. To induce the acquisition of NFP E, a financially weak not-for-profit entity (NFP), by NFP F, a financially strong NFP, as a condition of NFP F's acquisition of NFP E, a third-party donor agrees to provide a cash contribution to support NFP E's mission. That assistance is transferred to NFP F (the consolidated entity) upon the closing of the acquisition agreement. The donor, as part of its mission and purpose, has an interest in supporting certain NFPs. From the perspective of the donor, the assistance provided to induce NFP F to acquire

NFP E is in the furtherance of its mission. [FAS 164, paragraph A107, sequence 208]

958-805-55-58 In this Example, the transaction was arranged primarily to achieve economic benefits favorable to the acquiree. Thus, that assistance would be an asset acquired at the acquisition date that is recognized as part of accounting for the acquisition. The cash assistance also is included in the acquisition accounting even though it is transferred to the resulting combined entity. The situation is accounted for the same as if the third-party donor had contributed the cash to NFP E before NFP F's acquisition of NFP E. [FAS 164, paragraph A108, sequence 209]

>> Example 5: Acquiree Expected in the Combined Entity to Be Predominantly Supported by Contributions and Returns on Investment

958-805-55-59 This Example illustrates one way in which a not-for-profit entity (NFP) might implement the requirements of paragraphs 958-805-25-29 and 958-805-45-4. [FAS 164, paragraph A122, sequence 223.2] On February 10, 20X0, NFP G, a religious not-for-profit entity, purchases 100 percent of the ownership interests in Restaurant H for consideration of \$525,000. On the acquisition date, the amount of the net identifiable assets of Restaurant H recognized and measured in accordance with this Subtopic was \$410,000. NFP G acquired Restaurant H for the purpose of converting it to a soup kitchen. [FAS 164, paragraph A124, sequence 225]

958-805-55-60 Management of NFP G expects the soup kitchen resulting from the conversion of Restaurant H to be predominantly supported by contributions and returns on investments. Specifically, the operating costs of the soup kitchen are expected to be funded by NFP G's existing contribution base. The following table illustrates how NFP G might satisfy the requirements of paragraph 958-805-45-4 for presenting the separate charge to the statement of activities at the acquisition date. [FAS 164, paragraph A125, sequence 226.1]

NFP G
Statement of Activities
For the Year Ended December 31, 20X0
(presented in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------|------------------------|------------------------|-----------------|
| Revenue, gains, and other support | \$ 8,640 | \$ 6,510 | \$ 280 | \$ 15,430 |
| Net assets released from restrictions | 5,820 | (5,820) | - | - |
| Total revenues, gains, and other support | 14,460 | 690 | 280 | 15,430 |
| Expenses | (13,115) | - | - | (13,115) |
| Change in net assets before changes related to acquisition of Restaurant H | 1,345 | 690 | 280 | 2,315 |
| Excess of consideration transferred over net assets acquired in acquisition of Restaurant H (Note X) | (115) | - | - | (115) |
| Change in net assets | <u>\$ 1,230</u> | <u>\$ 690</u> | <u>\$ 280</u> | <u>\$ 2,200</u> |

[FAS 164, paragraph A125, sequence 226.2]

958-805-55-61 NFP G might satisfy the requirements of paragraph 805-10-50-2(a) through (d) and paragraph 958-805-50-11(a) as shown in the illustrative note below. **[FAS 164, paragraph A126, sequence 227.1.1]**

Note X: Acquisition of Restaurant H

On February 10, 20X0, NFP G acquired Restaurant H, a local restaurant, which it converted into a soup kitchen. NFP G acquired Restaurant H as part of furthering its mission to care for the needy. The acquisition was effected by purchasing 100 percent of the ownership interests in Restaurant H. **[FAS 164, paragraph A126, sequence 227.2]**

Because the operations of the soup kitchen are expected to be predominantly supported by contributions and returns on investments, NFP G has recognized the excess of the consideration transferred over the net assets acquired as a separate charge in its statement of activities rather than as goodwill. NFP G paid consideration of \$525,000 for Restaurant H. On the acquisition date, the net identifiable assets of Restaurant H were \$410,000. The excess of the amount paid over the net identifiable assets acquired represents the value of Restaurant H's assembled workforce, which is not recognized as a separate intangible asset, and the value of Restaurant H's earnings potential as a restaurant to other potential buyers. **[FAS 164, paragraph A126, sequence 227.3]**

> > Example 6: Donor Restriction on a Contribution Received

958-805-55-62 This Example illustrates application of the guidance in paragraphs 958-805-25-31, 958-805-30-8 through 30-9, and 958-805-45-5 through 45-7. **[FAS 164, paragraph A123, sequence 224]** The Example has the following Cases:

- a. The **inherent contribution** is not subject to additional restrictions (Case A)
- b. The inherent contribution is subject to additional restrictions (Case B).

958-805-55-63 Cases A and B share the following assumptions.

958-805-55-64 Charity I acquires Charity J. Charity I transfers no consideration in exchange for Charity J. The acquisition was achieved by, in effect, a gift of Charity J to Charity I. The fair values of Charity J's assets and liabilities, including donor-imposed restrictions, at the acquisition date follow. **[FAS 164, paragraph A127, sequence 228.1]**

| | | | |
|--------------------------------|------------------------|-----------------------------------|------------------------|
| Cash | \$ 75 | Unrestricted net assets | \$ 550 |
| Contributions receivable | 225 | Temporarily restricted net assets | 250 |
| Long-term investments | 500 | Permanently restricted net assets | <u>200</u> |
| Plant, property, and equipment | 430 | Total net assets | <u><u>\$ 1,000</u></u> |
| Total assets | <u>1,230</u> | | |
| Accounts payable | (65) | | |
| Mortgage | (165) | | |
| Total liabilities | <u>(230)</u> | | |
| Total net assets | <u><u>\$ 1,000</u></u> | | |

[FAS 164, paragraph A127, sequence 228.2]

958-805-55-65 Charity I recognizes a \$1,000 contribution received in the acquisition (the excess of the acquisition date values of the identifiable assets acquired over the acquisition date values of the liabilities assumed). Charity I classifies the inherent contribution received according to the type of donor-imposed restrictions, including any imposed by the donor of the business or nonprofit activity acquired. **[FAS 164, paragraph A128, sequence 229.1]**

>>> Case A: The Inherent Contribution Is Not Subject to Additional Restrictions

958-805-55-66 Based on donor restrictions on Charity J's net assets at the acquisition date, net assets with a fair value of \$250 and \$200 were classified as temporarily restricted and permanently restricted net assets, respectively. In this Example, Charity J is, in effect, the donor of the acquired nonprofit activity, and it imposes no additional donor restrictions. To recognize the fiduciary responsibilities to the donors of Charity J that are assumed when Charity J's assets and liabilities are acquired, Charity I would classify changes to its net assets as follows. **[FAS 164, paragraph A128, sequence 229.2]**

| | | |
|---|--|--------|
| Increase in unrestricted net assets: | | |
| Contribution received in the acquisition of Charity J | | \$ 550 |
| Increase in temporarily restricted net assets: | | |
| Contribution received in the acquisition of Charity J | | \$ 250 |
| Increase in permanently restricted net assets: | | |
| Contribution received in the acquisition of Charity J | | \$ 200 |

[FAS 164, paragraph A128, sequence 229.3]

>>> Case B: The Inherent Contribution Is Subject to Additional Restrictions

958-805-55-67 Charity J is a subsidiary of Parent before the acquisition by Charity I. **[FAS 164, paragraph A129, sequence 230]** As a condition of the acquisition, Parent's governing board requires that Charity I use \$175 of unrestricted net assets for future capital improvements to the facility acquired.

The requirement is irrevocable and is not self-imposed. To recognize the fiduciary responsibilities to the donors of Charity J that are assumed when Charity J's assets and liabilities are acquired, Charity I would classify changes to its net assets as follows. **[FAS 164, paragraph A130, sequence 231.1]**

| | |
|---|--------|
| Increase in unrestricted net assets: | |
| Contribution received in the acquisition of Charity J | \$ 375 |
| Increase in temporarily restricted net assets: | |
| Contribution received in the acquisition of Charity J | \$ 425 |
| Increase in permanently restricted net assets: | |
| Contribution received in the acquisition of Charity J | \$ 200 |

[FAS 164, paragraph A130, sequence 231.2]

> > Example 7: Illustration of an Acquisition in a Statement of Cash Flows

958-805-55-68 This Example illustrates application of the guidance in paragraphs 958-805-45-11 and 958-805-50-15. Entity X, an NFP, acquires Entity S from Entity S's parent. As part of the acquisition, Entity S's parent requires that Entity X transfer consideration of \$300 to a third-party community foundation. The fair values of Entity S's assets and liabilities at the acquisition date are as follows. **[FAS 164, paragraph A131, sequence 232.1]**

| | |
|--------------------------------|----------------------|
| Cash | \$ 25 |
| Contributions receivable | 155 |
| Property, plant, and equipment | 900 |
| Long-term note payable | <u>(375)</u> |
| Net assets acquired | <u><u>\$ 705</u></u> |

[FAS164, paragraph A131, sequence 232.2]

958-805-55-69 Entity X reports the acquisition as a single line in the investing activities section of the statement of cash flows, as follows: **[FAS164, paragraph A132, sequence 233.1]**

| | |
|---|----------|
| Payment for acquisition of Entity S, net of cash acquired | \$ (275) |
|---|----------|

[FAS164, paragraph A132, sequence 233.2]

958-805-55-70 Entity X discloses the following additional information in a supplemental schedule of investing and financing activities: **[FAS164, paragraph A133, sequence 234.1]**

The Entity acquired Entity S by transferring cash of \$300. In conjunction with the acquisition, liabilities were assumed and a contribution was received from Entity S's parent as follows:

| | |
|--|---------------|
| Fair value of assets acquired | \$ 1,080 |
| Cash transferred to community foundation | (300) |
| Liabilities assumed | (375) |
| Contribution received in acquisition of Entity S | <u>\$ 405</u> |

[FAS164, paragraph A133, sequence 234.2]

Transition and Open Effective Date Information

General

> Transition Related to FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*

958-805-65-1 The following represents the transition and effective date information related to FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*:

- a. The pending content that links to this paragraph shall be applied by **not-for-profit entities** (NFPs) prospectively to the following transactions or other events. **[FAS 164, paragraph 92, sequence 92.1]**
 1. **Mergers of not-for-profit entities** for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009 **[FAS 164, paragraph 92, sequence 92.1.1]**
 2. **Acquisitions by not-for-profit entities** for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. **[FAS 164, paragraph 92, sequence 92.1.2]**
- b. Earlier application is prohibited. **[FAS 164, paragraph 92, sequence 92.2]**
- c. The pending content shall be applied in both annual and interim periods after the effective date. **[FAS 164, paragraph 92, sequence 92.2.2]**
- d. Paragraph 350-10-65-1 provides effective date and transition guidance related to subsequent accounting for **goodwill** and other **intangible assets** acquired in an acquisition by a not-for-profit entity.
- e. Except as indicated in paragraph 350-10-65-1, assets and liabilities that arose from mergers or acquisitions whose dates preceded the effective

dates in paragraph 958-805-65-1(a) shall not be adjusted upon application of the pending content. **[FAS 164, paragraph 94, sequence 94]**

- f. For an acquisition of a **business or nonprofit activity** in which an NFP **acquirer** is subject to taxes on portions of its income and the acquisition date was before the effective date, the acquirer shall apply the requirements of Topic 740 prospectively. That is, the acquirer shall not adjust the accounting for prior acquisitions for previously recognized changes in acquired tax uncertainties or previously recognized changes in the valuation allowance for acquired deferred tax assets. However, after the effective date, the acquirer shall recognize both of the following: **[FAS 164, paragraph 101, sequence 101.1]**
 1. Changes in the valuation allowance for acquired deferred tax assets as an adjustment to income tax expense (or a direct adjustment to contributed capital in accordance with paragraph 740-20-45-11) **[FAS 164, paragraph 101, sequence 101.1.1]**
 2. Changes in the acquired income tax positions in accordance with paragraph 805-740-45-4. **[FAS 164, paragraph 101, sequence 101.1.2]**
- g. NFP acquirers shall apply the guidance in Subtopics 805-10, 805-20, and 805-40 to acquisitions by NFPs for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Subtopic 958-805 provides guidance on items unique or especially significant to an NFP, including identifying guidance within the Subtopics of Topic 805 that is not applicable to NFPs. Subtopic 954-805 provides incremental guidance for not-for-profit business-oriented health care entities.
- h. NFPs shall apply the guidance in Subtopic 805-50 for periods beginning after December 15, 2009. **[FAS 164, paragraph 93, sequence 93.1]**

Amendments to Subtopic 958-810

Not-for-Profit Entities—Consolidations

8. Amend paragraph 958-810-05-1, with a link to a transition paragraph 810-10-65-1, as follows.

958-810-05-1 This Subtopic provides guidance on the following for reporting relationships between a not-for-profit entity (NFP) and another NFP that potentially result in consolidation. It also provides implementation guidance for reporting relationships between an NFP and a for-profit entity.

- a. Reporting relationships between a not-for-profit entity (NFP) and another NFP that potentially result in consolidation
- b. Reporting relationships with special-purpose entity lessors (either for-profit entities or NFPs)
- c. Reporting a noncontrolling interest in an acquiree

d. Reporting relationships between an NFP and a for-profit entity (incremental guidance only)

9. Amend paragraphs 958-810-15-3 through 15-4, with a link to transition paragraph 810-10-65-1, as follows:

958-810-15-3 This Subtopic does not provide guidance on the following subjects:

- a. How to prepare consolidated financial statements, other than to provide guidance on the presentation of noncontrolling interests
- b. Commonly controlled **not-for-profit entities** (NFPs) or **combined financial statements** of commonly controlled NFPs, which may be presented, in certain circumstances, in conformity with the guidance in paragraph 810-10-55-1B
- c. Parent-entity-only or subsidiary-entity-only financial statements (see paragraph 810-10-45-11 if parent-entity financial statements are needed)
- d. All the conceptual issues underlying the reporting of relationships not evidenced by ownership.

~~958-810-15-4 This Subtopic provides guidance for reporting relationships between NFPs. Guidance~~Additional guidance for reporting relationships between NFPs and for-profit entities is located in the following locations in the Codification:

- a. An NFP with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity shall apply the guidance in the General Subsections of Subtopic 810-10. However, pursuant to in accordance with paragraph 810-10-15-17, NFPs are not subject to the Variable Interest Entities Subsections of that Subtopic.
- b. An NFP that is a general partner of a for-profit limited partnership or a similar entity (such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership) shall apply the guidance in Subtopic 810-20 unless that partnership interest is reported at **fair value** in conformity with the guidance described in (e).
- c. An NFP that owns 50 percent or less of the voting stock in a for-profit business entity shall apply the guidance in Subtopic 323-10 unless that investment is reported at fair value in conformity with the guidance described in (e).
- d. An NFP with a more than a minor interest in a for-profit real estate partnership, limited liability company, or similar entity shall, subject to the fair value exceptions in item (e), report for its noncontrolling interests in such entities using the equity method in accordance with the guidance in Subtopic 970-323 unless that interest is reported at fair value in conformity with the guidance described in (e). An NFP shall apply the guidance in paragraph 970-323-25-2 to determine whether its

interests in a for-profit partnership, limited liability company, or similar entity are controlling interests or noncontrolling interests. An NFP shall apply the guidance in paragraph 323-30-35-3 to determine whether a limited liability company should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether noncontrolling interests in a limited liability company or a similar entity should be accounted for in accordance with Subtopic 970-323 or Subtopic 323-10.

- e. An NFP may be required to report an investment described in (c) at fair value in conformity with paragraph 958-320-35-1, or may be permitted to make an election pursuant to in accordance with paragraph 825-10-25-1. In addition, NFPs other than those within the scope of Topic 954 may be permitted to report an investment described in (b), (c), or (d) at fair value in conformity with Section 958-325-35.

10. Add Section 958-810-45, with a link to transition paragraph 810-10-65-1, as follows:

Other Presentation Matters

General

> Presentation of Noncontrolling Interests

958-810-45-1 Noncontrolling interests in the equity (net assets) of consolidated subsidiaries shall be reported as a separate component of the appropriate class of net assets in the consolidated statement of financial position of a not-for-profit entity (NFP). That amount shall be clearly identified and described (for example, as *noncontrolling ownership interest in subsidiaries*) to distinguish it from the components of net assets of the parent, which includes the parent's controlling financial interest in its subsidiaries. The effects of **donor-imposed restrictions**, if any, on a partially owned subsidiary's net assets shall be reported in accordance with Subtopics 958-205 and 958-320. Example 1 (see paragraphs 958-810-55-17 through 55-25) illustrates the reporting requirements. [FAS 164, paragraph B2, sequence 251]

11. Add paragraphs 958-810-50-4 through 50-6 and their related heading, with a link to transition paragraph 810-10-65-1, as follows:

> Disclosures for Noncontrolling Interests

958-810-50-4 An NFP (parent) that has one or more consolidated subsidiaries with a **noncontrolling interest** shall provide a schedule of changes in consolidated net assets attributable to the parent and the noncontrolling interest either in notes to the consolidated financial statements or on the face of financial statements, if practicable. That schedule shall reconcile beginning and ending balances of the parent's controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the reporting period. [FAS 164, paragraph B3, sequence 252]

958-810-50-5 The schedule required by the preceding paragraph shall, at a minimum, include: [FAS 164, paragraph B4, sequence 253.1]

- a. A performance indicator, if the entity is a not-for-profit, business-oriented health care entity (see Section 954-10-15) [FAS 164, paragraph B4, sequence 253.1.1]
- b. Amounts of discontinued operations [FAS 164, paragraph B4, sequence 253.1.2]
- c. Amounts of extraordinary items [FAS 164, paragraph B4, sequence 253.1.3]
- d. Changes in ownership interests in a subsidiary, including investments by and distributions to noncontrolling interests acting in their capacity as owners, which shall be reported separate from any revenues, expenses, gains, or losses and outside any measure of operations, if reported [FAS 164, paragraph B4, sequence 253.1.4]
- e. An aggregate amount of all other changes in unrestricted net assets (or other net asset classes, if restricted) for the period. [FAS 164, paragraph B4, sequence 253.1.5]

958-810-50-6 Paragraph 958-810-55-25 illustrates the required disclosures using a reconciling schedule in notes to the consolidated financial statements. [FAS 164, paragraph B4, sequence 253.1.6]

12. Add paragraphs 958-810-55-17 through 55-25, with a link to transition paragraph 810-10-65-1, as follows:

> Illustrations

> > Example 1: Subsidiary with a Noncontrolling Interest

958-810-55-17 This Example illustrates one way in which the consolidated financial statements of an NFP might satisfy the presentation and disclosure requirements for noncontrolling interests in a consolidated subsidiary and subsequent changes in ownership interests of that subsidiary. This Example uses simplified assumptions and highly aggregated amounts to illustrate how to apply the provisions of Topic 810 and Subtopic 958-810. [FAS 164, paragraph B5, sequence 254.1]

958-810-55-18 For example, the consolidated statement of financial position in paragraph 958-810-55-23 shows relatively few highly aggregated amounts of assets and liabilities, and the consolidated statement of operations and other changes in unrestricted net assets in paragraph 958-810-55-24 shows relatively few highly aggregated amounts of revenues and expenses rather than details such as expenses by function or nature. The consolidated statement of financial position also does not classify assets and liabilities, which is required for a not-for-profit, business-oriented health care entity by paragraph 954-210-45-1. This Example also omits a statement of cash flows, which does not bear on the

presentation and disclosure requirements for noncontrolling interests. [FAS 164, paragraph B5, sequence 254.2]

958-810-55-19 Formats or levels of detail other than those presented in this Example may be appropriate for other situations. For example, the related net assets and noncontrolling interest would be presented in temporarily or permanently restricted net assets if **donor-imposed restrictions** on the use of the subsidiary's net assets existed in this Example (see paragraph 958-810-45-1). **[FAS 164, paragraph B6, sequence 255]**

> > Assumptions

958-810-55-20 The following assumptions are applicable to all years: **[FAS 164, paragraph B7, sequence 256.1.1]**

- a. Hospital A, a tax-exempt NFP has one subsidiary, Subsidiary A. That ownership interest in Subsidiary A was purchased; there are no donor-imposed restrictions on the use of Subsidiary A's net assets. [FAS 164, paragraph B7, sequence 256.1.2]
- b. Subsidiary A is an investor-owned entity that is subject to income taxes. The tax rate for all years is 40 percent. [FAS 164, paragraph B7, sequence 256.1.3]
- c. Subsidiary A has 10,000 shares of common stock outstanding and does not pay dividends. [FAS 164, paragraph B7, sequence 256.1.4]

958-810-55-21 The following assumptions are applicable to 20X2: **[FAS 164, paragraph B7, sequence 256.2.1]**

- a. On January 1, 20X2, Hospital A sells 2,000 of its 10,000 shares in Subsidiary A to an unrelated entity for \$50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. Immediately before the sale, Subsidiary A's equity was as follows. [FAS 164, paragraph B7, sequence 256.2.2]

| | <u>Subsidiary A</u> |
|--|---------------------|
| Common stock | \$ 25,000 |
| Paid-in capital | 50,000 |
| Retained earnings | 125,000 |
| Accumulated other comprehensive income | 5,000 |
| Total equity | <u>\$ 205,000</u> |

[FAS 164, paragraph B7, sequence 256.2.3]

- b. The accumulated other comprehensive income balance of \$5,000 represents an unrealized gain on a portfolio of securities purchased by Subsidiary A for \$100,000, which it classifies as available-for-sale

securities at the carrying amount of \$105,000 and are the only investment securities of the consolidated group. [FAS 164, paragraph B7, sequence 256.2.4]

- c. The sale of Subsidiary A's shares is accounted for as an equity transaction (within unrestricted net assets) in the consolidated financial statements of Hospital A, as follows: [FAS 164, paragraph B7, sequence 256.2.5]
1. A noncontrolling interest is recognized in unrestricted net assets in the amount of \$41,000 ($\$205,000 \times 20$ percent). [FAS 164, paragraph B7, sequence 256.2.5.1]
 2. Unrestricted net assets attributable to Hospital A are increased by \$9,000, calculated as the difference between the cash received (\$50,000) and the carrying amount of the noncontrolling interest (\$41,000). [FAS 164, paragraph B7, sequence 256.2.5.2]
 3. The top-level (consolidated) journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholder is as follows: [FAS 164, paragraph B7, sequence 256.2.3]

| | | |
|---|-----------|-----------|
| Cash | \$ 50,000 | |
| Unrestricted net assets (noncontrolling interest) | | \$ 41,000 |
| Unrestricted net assets (Hospital A) | | 9,000 |

[FAS 164, paragraph B7, sequence 256.2.5.3.1]

- d. For the year ended December 31, 20X2, the amount of Subsidiary A's net income included in the consolidated financial statements is \$20,000, which included a net loss for discontinued operations of \$7,000. [FAS 164, paragraph B7, sequence 256.2.5.4]

958-810-55-22 The following assumptions are applicable to 20X3: **[FAS 164, paragraph B7, sequence 256.3.1]**

- a. On January 1, 20X3, Hospital A purchases 1,000 shares in Subsidiary A from the noncontrolling shareholders (50 percent of the noncontrolling interest) for \$30,000 cash, increasing its ownership interest from 80 percent to 90 percent. Immediately before that purchase, the carrying amount of the noncontrolling interest in Subsidiary A was \$48,000. The purchase of shares from the noncontrolling shareholders is accounted for as an equity transaction in the consolidated financial statements, as follows: [FAS 164, paragraph B7, sequence 256.3.2]

1. The noncontrolling interest balance within unrestricted net assets is reduced by \$24,000 (\$48,000 × 50 percent interest acquired by Hospital A). [FAS 164, paragraph B7, sequence 256.3.2.1]
2. Unrestricted net assets attributable to Hospital A are decreased by \$6,000, calculated as the difference between the cash paid (\$30,000) and the adjustment to the carrying amount of the noncontrolling interest (\$24,000). [FAS 164, paragraph B7, sequence 256.3.2.2]
3. The top-level (consolidated) journal entry to record that purchase of Subsidiary A's shares from the noncontrolling shareholders is as follows: [FAS 164, paragraph B7, sequence 256.3.2.3]

| | | |
|---|-----------|-----------|
| Unrestricted net assets (noncontrolling interest) | \$ 24,000 | |
| Unrestricted net assets (Hospital A) | 6,000 | |
| Cash | | \$ 30,000 |

[FAS 164, paragraph B7, sequence 256.3.2.3.1]

- b. For the year ended December 31, 20X3, the amount of Subsidiary A's net income included in the consolidated financial statements is \$15,000. [FAS 164, paragraph B7, sequence 256.3.2.4]

> > Consolidated Statement of Financial Position

958-810-55-23 The following consolidated statement of financial position illustrates the requirement in paragraph 958-810-45-1 that Hospital A present the noncontrolling interest in the consolidated statement of financial position within net assets, but separately from the parent's net assets. [FAS 164, paragraph B8, sequence 257.1]

Hospital A
Consolidated Statement of Financial Position
As of December 31

| | 20X3 | 20X2 |
|--|--------------|-------------|
| Assets: | | |
| Cash | \$ 570,000 | \$ 475,000 |
| Accounts receivable | 125,000 | 110,000 |
| Investment securities | 125,000 | 120,000 |
| Plant and equipment | 220,000 | 235,000 |
| Total assets | \$ 1,040,000 | \$ 940,000 |
| Liabilities: | | |
| Total liabilities | \$ 555,000 | \$ 459,000 |
| Unrestricted net assets: | | |
| Hospital A | 459,000 | 433,000 |
| Noncontrolling interests in Subsidiary A | 26,000 | 48,000 |
| Total unrestricted net assets | 485,000 | 481,000 |
| Total liabilities and net assets | \$ 1,040,000 | \$ 940,000 |

[FAS 164, paragraph B8, sequence 257.2]

> > > Consolidated Statement of Operations and Other Changes in Unrestricted Net Assets

958-810-55-24 The following consolidated statement of operations and other changes in unrestricted net assets illustrates how the requirements in paragraph 958-810-50-5(a) for disclosure of the amounts of a performance indicator of a health care entity for an excess of revenues over expenses from continuing operations and in paragraph 958-810-50-5(b) for discontinued operations might be presented on the face of a consolidated statement of operations and other changes in net assets. **[FAS 164, paragraph B9, 258.1]**

Hospital A
Consolidated Statement of Operations and Other
Changes in Unrestricted Net Assets
Year Ended December 31

| | <u>20X3</u> | <u>20X2</u> |
|--|-----------------|------------------|
| Unrestricted revenues, gains, and other support: | | |
| Net patient service revenue | \$ 390,000 | \$ 355,000 |
| Contributions | 5,000 | 5,000 |
| Net assets released from donors' restrictions used for operations | - | - |
| Total revenues, gains, and other support | <u>395,000</u> | <u>360,000</u> |
| Patient care and other operating expenses | <u>366,000</u> | <u>337,000</u> |
| Excess of revenues over expenses (from continuing operations) | 29,000 | 23,000 |
| Discontinued operations of Subsidiary A, net | - | (7,000) |
| Change in net unrealized gains and losses on other than trading securities | 5,000 | 15,000 |
| Sale of Subsidiary A shares to noncontrolling shareholders | - | 50,000 |
| Purchase of Subsidiary A shares from noncontrolling shareholders | (30,000) | - |
| Increase in unrestricted net assets | <u>\$ 4,000</u> | <u>\$ 81,000</u> |

[FAS 164, paragraph B9, 258.2]

> > > Notes to Consolidated Financial Statements: Changes in Consolidated Unrestricted Net Assets Attributable to the Parent's Controlling Financial Interest and to Noncontrolling Interests in Subsidiaries

958-810-55-25 The following note depicts the changes in consolidated net assets attributable to the controlling financial interest of Hospital A (parent) and the noncontrolling interests. It illustrates the requirements in paragraph 958-810-50-4 that an NFP present a schedule that reconciles the beginning and the end of the period carrying amounts of the parent's controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists. This note also illustrates the disclosure requirements in paragraphs 958-810-50-5(a), 958-810-50-5(b), and 958-810-50-5(d) for the amounts of a performance indicator of a health care entity (which is equivalent to income from continuing operations), discontinued operations, and other changes in ownership interests in a subsidiary. **[FAS 164, paragraph B10, sequence 259.1]**

Hospital A
Notes to Consolidated Financial Statements
Changes in Consolidated Unrestricted Net Assets Attributable to Hospital A and
Transfers (to) from the Noncontrolling Interest
Year Ended December 31

| | <u>Total</u> | <u>Controlling Interest</u> | <u>Noncontrolling Interest</u> |
|--|-------------------|-----------------------------|--------------------------------|
| Balance January 1, 20X2 | \$ 400,000 | \$ 400,000 | \$ - |
| Excess of revenues over expenses (from continuing operations) | 23,000 | 17,600 | 5,400 |
| Discontinued operations, net of tax | (7,000) | (5,600) | (1,400) |
| Change in net unrealized gains and losses on other than trading securities | 15,000 | 12,000 | 3,000 |
| Sale of Subsidiary A shares to noncontrolling shareholders | 50,000 | 9,000 | 41,000 |
| Change in net assets | <u>81,000</u> | <u>33,000</u> | <u>48,000</u> |
| Balance December 31, 20X2 | <u>\$ 481,000</u> | <u>\$ 433,000</u> | <u>\$ 48,000</u> |
| Excess of revenues over expenses from continuing operations | 29,000 | 27,500 | 1,500 |
| Change in net unrealized gains and losses on other than trading securities | 5,000 | 4,500 | 500 |
| Purchase of Subsidiary A shares from noncontrolling shareholders | (30,000) | (6,000) | (24,000) |
| Change in net assets | <u>4,000</u> | <u>26,000</u> | <u>(22,000)</u> |
| Balance December 31, 20X3 | <u>\$ 485,000</u> | <u>\$ 459,000</u> | <u>\$ 26,000</u> |

[FAS 164, paragraph B10, sequence 259.2]

Amendments to Topic 954

Amendments to Subtopic 954-10

13. Amend paragraphs 954-10-05-1 and 954-10-05-3, with a link to transition paragraph 958-805-65-1, as follows:

Health Care Entities—Overall

954-10-05-1 The Health Care Entities Topic includes the following Subtopics relating specifically to entities in the health care industry:

- a. Overall
- b. Presentation of Financial Statements
- c. Balance Sheet
- d. Income Statement
- e. Segment Reporting
- f. Cash and Cash Equivalents
- g. Receivables
- h. Investments—Debt and Equity Securities
- i. Investments—Other
- j. Other Assets and Deferred Costs
- k. Property, Plant, and Equipment
- l. Liabilities
- m. Deferred Revenue

- n. Commitments
- o. Contingencies
- p. Guarantees
- q. Debt
- r. Revenue Recognition
- s. Other Expenses
- t. Income Taxes
- tt. Business Combinations (Mergers and Acquisitions)
- u. Consolidation
- v. Derivatives and Hedging
- w. Financial Instruments.

954-10-05-3 This Topic provides specific incremental reporting guidance for not-for-profit, business-oriented health care entities. The guidance in Topic 958 applies to all **not-for-profit entities** (NFPs), regardless of whether the entity is essentially self-sustaining from fees charged for goods and services. The following Subtopics, among others in that Topic, provide guidance that is applicable to not-for-profit, business-oriented health care entities:

- a. Contributions (see the Contributions Received Subsections of Subtopic 958-605), which include all of the following:
 1. Permanent endowments
 2. Gifts in kind
 3. Contributed utilities, facilities, or use of long-lived assets.
- b. Transfers to an NFP or charitable trust that raises or holds contributions for others (see the Transfers of Assets Subsections of Subtopic 958-605)
- c. Contributions received by agents, trustees, and intermediaries (see the Transfers of Assets Subsections of Subtopic 958-605)
- d. Split-interest agreements (see Subtopic 958-30)
- e. Financial statements of NFPs (see Topic 958), which include all of the following:
 1. Presentation in financial statements (see Subtopic 958-205)
 2. Statement of financial position (see Subtopic 958-210)
 3. Statement(s) of operations and changes in net assets (see Subtopic 958-225)
 4. Statement of cash flows (see Subtopic 958-230).
- f. Promises to give (see Subtopic 958-310)
- ff. Business combinations (see Subtopic 958-805), which include all of the following:
 1. Mergers of not-for-profit entities
 2. Acquisitions by not-for-profit entities
- g. Consolidations (see Subtopic 958-810).

Amendments to Subtopic 954-225

14. Amend paragraph 954-225-45-7, with a link to transition paragraph 958-805-65-1, as follows:

Health Care Entities—Income Statement

954-225-45-7 Health care entities shall report the following items separately from the performance indicator:

- a. Transactions with owners acting in that capacity.
- b. Equity transfers involving other entities that control the reporting entity, are controlled by the reporting entity, or are under common control with the reporting entity.
- c. Receipt of restricted **contributions**, including temporary restrictions (such as time or purpose) or permanent restrictions.
- d. Contributions of (and assets released from donor restrictions related to) long-lived assets.
- e. Items that are required to be reported in or reclassified from other comprehensive income, such as gains or losses, prior service costs or credits, and transition assets or obligations recognized in accordance with Topic 715, foreign currency translation adjustments, and the effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.
- f. Items that are required to be reported separately under specialized not-for-profit standards. These include extraordinary items and the effect of discontinued operations, as discussed in paragraph 958-225-55-6.
- g. Unrealized gains and losses on investments on other than trading securities, in accordance with paragraph 954-320-45-1(b).
- h. Investment returns restricted by donors or by law.
- i. Investment losses that decrease unrestricted net assets if those losses reduce the assets of a donor-restricted endowment fund below the required level, as described in paragraph 958-205-45-22.
- j. Investment gains that increase unrestricted net assets if those gains restore the fair value of the assets of a donor-restricted endowment fund to the required level, as described in paragraph 958-205-45-22.
- k. An **inherent contribution** (see paragraph 958-805-25-31) that increases temporarily restricted or permanently restricted net assets, as described in paragraph 954-805-45-2. [AAG HCO(2008), paragraph 10.21(f), sequence 980.2]

Addition of Subtopic 954-805

15. Add Subtopic 954-805 as follows. All paragraphs in this new Subtopic are linked to transition paragraph 958-805-65-1.

Health Care Entities—Business Combinations

Overview and Background

General

954-805-05-1 This Subtopic provides guidance on a transaction or other event in which a not-for-profit, business-oriented health care entity (see Section 954-10-05) that is the reporting entity combines with one or more other **not-for-profit entities** (NFPs), **businesses**, or **nonprofit activities** in a transaction that meets the definition of a **merger of not-for-profit entities** or an **acquisition by a not-for-profit entity**.

Objectives

General

954-805-10-1 The objective of this Subtopic, in combination with the guidance in Subtopic 958-805, is to improve the relevance, representational faithfulness, and comparability of the information that a not-for-profit, business-oriented health care entity provides in its financial reports about a combination with one or more other **not-for-profit entities** (NFPs), **businesses**, or **nonprofit activities**. [FAS 164, paragraph 1, sequence 1.1]

Scope and Scope Exceptions

General

> Overall Guidance

954-805-15-1 This Subtopic follows the same scope and scope exceptions as the Overall Subtopic, see Section 954-10-15, with the following exceptions noted below.

> Entities

954-805-15-2 The guidance in this Subtopic applies only to not-for-profit, business-oriented health care entities (see Section 954-10-05).

> Transactions

954-805-15-3 The guidance in this Subtopic applies to a transaction or other event that meets the definition of either of the following: [FAS 164, paragraph 2, sequence 2.1]

- a. A **merger of not-for-profit entities** [FAS 164, paragraph 2, sequence 2.1.1]
- b. An **acquisition by a not-for-profit entity**. [FAS 164, paragraph 2, sequence 2.1.2]

954-805-15-4 This Subtopic does not apply to any of the following: [FAS 164, paragraph 2, sequence 2.1.3]

- a. The formation of a joint venture [FAS 164, paragraph 2, sequence 2.1.3.1]
- b. The acquisition of an asset or a group of assets that does not constitute either a **business** or a **nonprofit activity**. (Subtopic 805-50 addresses the typical accounting for an asset acquisition.) [FAS 164, paragraph 2, sequence 2.1.3.2]
- c. A combination between **not-for-profit entities** (NFPs), businesses, or nonprofit activities under common control. (Subtopic 805-50 addresses the typical accounting for a transfer of assets or an exchange of shares between entities under common control.) [FAS 164, paragraph 2, sequence 2.1.3.3]
- d. A transaction or other event in which an NFP obtains **control of a not-for-profit entity** but does not consolidate that entity, as permitted or required by Section 958-810-25. Similarly, this Subtopic does not apply if an NFP that obtained control in a transaction or other event in which consolidation was permitted but not required decides in a subsequent annual reporting period to begin consolidating a controlled entity that it initially chose not to consolidate. [FAS 164, paragraph 2, sequence 2.1.3.4]

Recognition

General

954-805-25-1 When applying the guidance in paragraph 805-20-25-6, an **acquirer** that is a not-for-profit, business-oriented health care entity shall classify particular investments in securities as {Glossary link} **trading securities** {Glossary link to the definition used in Topic 320} or other than trading securities. [FAS 164, paragraph 33(a), sequence 33.1.1]

Subsequent Measurement

General

954-805-35-1 An **acquirer** that is a not-for-profit, business-oriented health care entity shall report the changes in the fair value of contingent consideration recognized in accordance with paragraph 958-805-35-3 within the **performance indicator** unless the arrangement is a hedging instrument for which Subtopic 954-815 requires the entity to recognize the changes outside the performance indicator. [FAS 164, paragraph 80, sequence 80.3]

Other Presentation Matters

General

954-805-45-1 If an **acquirer** is a not-for-profit, business-oriented health care entity and a separate charge is recognized in accordance with paragraph 958-805-25-29, it shall be presented within the **performance indicator**. [FAS 164, paragraph 71, sequence 71.2]

954-805-45-2 If an acquirer is a not-for-profit, business-oriented health care entity, whether the **inherent contribution** received recognized in accordance with paragraph 958-805-25-31 is presented within or outside of the performance indicator depends on whether the contribution is unrestricted or restricted. An unrestricted contribution shall be presented within the performance indicator. A contribution that is either temporarily restricted or permanently restricted shall be presented outside the performance indicator. [FAS 164, paragraph 72, sequence 72.2]

954-805-45-3 In an acquisition achieved in stages (see paragraphs 805-10-25-9 through 25-10), an acquirer that is a not-for-profit, business-oriented health care entity shall include in its performance indicator the gain or loss resulting from remeasuring its previously held equity interest in the acquiree. In prior reporting periods, that acquirer may have recognized changes in the value of its equity interest in the acquiree outside the performance indicator (for example, because the investment was classified as other than trading). If so, the amount that was recognized outside the performance indicator shall be reclassified and included in the calculation of gain or loss on the previously held equity interest as of the acquisition date. [FAS 164, paragraph 60, sequence 60]

Disclosure

General

954-805-50-1 For a **merger of not-for-profit entities**, a new entity that is both a not-for-profit, business-oriented health care entity and a **public entity** shall disclose the **performance indicator** for the current reporting period as though the **merger date** had been the beginning of the annual reporting period (supplemental pro forma information). [FAS 164, paragraph 18(f), sequence 18.1.6.1.2]

954-805-50-2 For an **acquisition by a not-for-profit entity**, a not-for-profit, business-oriented health care entity that is a public entity shall disclose all of the following:

- a. The performance indicator attributable to the acquiree since the **acquisition date** that is included in the statement of activities for the reporting period [FAS 164, paragraph 86(t), sequence 86.1.3.2.1.2]

- b. The performance indicator as though the acquisition date for all acquisitions that occurred during the current year had been at the beginning of the annual reporting period (supplemental pro forma information) **[FAS 164, paragraph 86(t), sequence 86.1.3.2.2.2]**
- c. If the acquirer presents comparative financial statements, the performance indicator as though the acquisition date for all acquisitions that occurred during the current year had been at the beginning of the comparable prior annual reporting period (supplemental pro forma information). **[FAS 164, paragraph 86(t), sequence 86.1.3.2.3]**

954-805-50-3 If the disclosure of any of the information required by the preceding paragraph or paragraph 954-805-50-1 is impracticable, a not-for-profit, business-oriented health care entity shall disclose that fact and explain why the disclosure is impracticable. The term *impracticable* has the same meaning as *impracticability* in paragraph 250-10-45-9. **[FAS 164, paragraph 86(t), sequence 86.1.3.2.4]**

Amendments to Subtopic 954-810

16. Add paragraph 954-810-50-2 and its related heading, with a link to transition paragraph 810-10-65-1, as follows:

Health Care Entities—Consolidations

> Noncontrolling Interests

954-810-50-2 A not-for-profit, business-oriented health care entity shall include the performance indicator in the schedule required by paragraphs 958-810-50-4 through 50-5. **[FAS 164, paragraph B4, sequence 253.1.1]** Paragraph 958-810-55-25 illustrates the required disclosure using a reconciling schedule in notes to the consolidated financial statements. **[FAS 164, paragraph B4, sequence 253.1.6]**

Amendments to Topic 805

Amendments to Subtopic 805-10

17. Amend paragraphs 805-10-15-3 through 15-4, with no change to transition, as follows.

Business Combinations—Overall

805-10-15-3 The guidance in the Business Combinations Topic applies to all transactions or other events that meet the definition of a **business combination** or an **acquisition by a not-for-profit entity**.

805-10-15-4 The guidance in the Business Combinations Topic does not apply to any of the following: ~~[FAS 141(R), paragraph 2, sequence 5.2]~~ **FAS 164, paragraph 2(b), sequence 2.1.3]**

- a. The formation of a joint venture ~~[FAS 141(R), paragraph 2, sequence 6]~~ **FAS 164, paragraph 2(b), sequence 2.1.3.1]**
- b. The acquisition of an asset or a group of assets that does not constitute a **business or a nonprofit activity** ~~[FAS 141(R), paragraph 2, sequence 7]~~ **FAS 164, paragraph 2(b), sequence 2.1.2]**
- c. A combination between ~~entities, entities or businesses, or nonprofit activities~~ under common **{Glossary link} control {Glossary link - Use definition of control from Subtopics 954-810 and 958-810}** (see paragraph 805-10-15-6 for examples) ~~[FAS 141(R), paragraph 2, sequence 8]~~ **FAS 164, paragraph 2(c), sequence 2.1.3.3]**
- d. An acquisition by a not-for-profit entity for which the acquisition date is before December 15, 2009 or a merger of not-for-profit entities (NFPs) A combination between not for profit entities (NFPs) or the acquisition of a for profit business by an NFP. ~~[FAS 141(R), paragraph 2, sequence 9]~~ **FAS 164, paragraph 92(b), sequence 92.1.2]**
- e. A transaction or other event in which an NFP obtains control of a not-for-profit entity but does not consolidate that entity, as permitted or required by Section 958-810-25. The Business Combinations Topic also does not apply if an NFP that obtained control in a transaction or other event in which consolidation was permitted but not required decides in a subsequent annual reporting period to begin consolidating a controlled entity that it initially chose not to consolidate. **FAS 164, paragraph 2(d), sequence 2.1.3.4]**

18. Amend paragraph 805-10-65-1, with no link to a transition paragraph, as follows:

805-10-65-1 The Business Combinations Topic in the Accounting Standards Codification is based on FASB ~~Statement~~ Statements No. 141 (Revised 2007), *Business Combinations*, and No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*.

- a. FASB Statement No. 141 (Revised 2007) is to be applied prospectively to **business combinations** for which the **acquisition date** is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of that Statement shall not be adjusted upon application of that Statement.
- b. For business combinations in which the acquisition date was before the effective date of FASB Statement No. 141 (Revised 2007), the **acquirer** shall apply the requirements related to accounting for income taxes that were established with the issuance of that Statement, prospectively.

That is, the acquirer shall not adjust the accounting for prior business combinations for previously recognized changes in acquired tax uncertainties or previously recognized changes in the valuation allowance for acquired deferred tax assets. However, after the effective date of that Statement:

1. The acquirer shall recognize, as an adjustment to income tax expense (or a direct adjustment to contributed capital in accordance with paragraph 740-10-45-20), changes in the valuation allowance for acquired deferred tax assets.
 2. The acquirer shall recognize changes in the acquired income tax positions in accordance with paragraph 805-740-45-4.
- c. An entity, such as a **mutual entity**, that has not yet applied FASB Statement No. 141, *Business Combinations*, and FASB Statement No. 147, *Acquisitions of Certain Financial Institutions*, and that had one or more business combinations that were accounted for using the purchase method shall apply the transition provisions in (c)(1) through (c)(5) of this paragraph. An entity that has not yet applied FASB Statement No. 142, *Goodwill and Other Intangible Assets*, in its entirety shall apply that Statement in its entirety at the same time that it applies FASB Statement No. 141 (Revised 2007).
1. Mutual entities were not required to adopt FASB Statement No. 141 or FASB Statement No. 147 until the Financial Accounting Standards Board (FASB) issued interpretative guidance for applying the purchase method to those transactions. FASB Statement No. 141 (Revised 2007) provides that interpretative guidance. Before the effective date of that Statement, mutual entities accounted for business combinations as follows:
 - i. Combinations between mutual entities were accounted for using APB Opinion No. 16, *Business Combinations*, using either the purchase method or the pooling-of-interests method.
 - ii. Combinations between mutual entities that are financial institutions were accounted for using FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*, using the purchase method. FASB Statement No. 72 used the term {italic}financial institution{italic} to mean all or part of a commercial bank, a savings and loan association, a credit union, or other depository institution having assets and liabilities of the same types as those institutions.
 2. FASB Statements No. 141 and No. 147 provided the transition provisions for an entity that had a business combination accounted for using the purchase method in accordance with APB Opinion No. 16 or FASB Statement No. 72. Accordingly, upon adoption of FASB Statement No. 141 (Revised 2007), a mutual entity that had a business combination accounted for using the purchase method needs to apply transition provisions similar to those that were in

FASB Statement No. 141 or No. 147. (3), (4), and (5) that follow provide those transition provisions.

3. Upon adoption of FASB Statement No. 141 (Revised 2007), a mutual entity that had a purchase business combination accounted for in accordance with APB Opinion No. 16 or FASB Statement No. 72 shall apply the following transition provisions for **goodwill** and **intangible assets** acquired in that business combination:
 - i. The entity shall reclassify to goodwill (reclassified goodwill) amounts that do not meet the **identifiable** criteria for recognition separately from goodwill. Therefore, the entity shall reclassify all of the following to goodwill:
 01. The carrying amount of acquired intangible assets that do not meet the identifiable criteria for recognition separately from goodwill.
 02. The carrying amount of unidentifiable intangible assets that do not meet the identifiable criteria for recognition separately from goodwill. FASB Statement No. 72 described unidentifiable intangible assets as the amount by which the **fair value** of the liabilities assumed exceeds the fair value of tangible and identified intangible assets acquired.
 03. Any deferred tax liabilities related to the intangible assets or unidentifiable intangible assets also shall be reclassified to goodwill if the amortization of the intangible assets or the unidentifiable intangible assets is not deductible for tax purposes.
 - ii. The entity shall reclassify to intangible assets the carrying amount of any intangible asset meeting all of the following conditions:
 01. Meets the definition of {Remove glossary link} identifiable {Remove glossary link}
 02. Has been recognized but reported on the face of the statement of financial position in goodwill (or as goodwill and intangible assets) or as unidentifiable intangible assets
 03. Has been separately accounted for (that is, separate accounting records have been maintained). An entity would be deemed to have maintained separate accounting records if there is a separate general ledger account or other subsidiary ledger, such as a spreadsheet or similar ledger account, to which periodic amortization charges, impairment charges, and other accounting entries were posted. An entity shall not carve out from goodwill any intangible assets that had not been identified and measured at fair value (as defined or described in FASB Statement No. 141 or APB Opinion No. 16) in the initial

recording of the business combination and subsequently accounted for separately from goodwill.

- iii. The entity shall write off and recognize in earnings the amount of any unamortized deferred credit related to an excess over cost arising from either a business combination accounted for before applying FASB Statement No. 141 (Revised 2007) or an investment accounted for by the equity method before applying that Statement.
 4. A mutual entity must apply FASB Statement No. 142 in its entirety for goodwill and intangible assets acquired in a business combination as of the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore, it should follow the transitional goodwill impairment testing guidance in FASB Statement No. 142 for previously recognized goodwill, as adjusted in accordance with (c) (3) of this paragraph. Additionally, the provisions of Subtopic 360-10 apply to long-term customer-relationship intangible assets, except for servicing assets, recognized in the acquisition of a financial institution. Examples of long-term customer-relationship intangible assets include depositor- and borrower-relationship intangible assets, credit cardholder intangible assets, and servicing assets. Servicing assets, however, are accounted for in accordance with Subtopic 860-50.
 5. Other than as set forth in this paragraph, the amount of the purchase price assigned to the assets acquired and liabilities assumed in a business combination for which the acquisition date was before FASB Statement No. 141 (Revised 2007) is applied shall not be changed. However, this paragraph does not affect the requirement to change the amounts assigned to the assets acquired in a business combination for which the acquisition date was before that Statement is applied because of the resolution of a consideration contingency based on earnings (see paragraph 28 of FASB Statement No. 141) or changes to the purchase price allocation before the end of the allocation period (see paragraph 40 of FASB Statement No. 141).
- d. **A not-for-profit entity (NFP) shall account for an acquisition by a not-for-profit entity by applying the acquisition method as described in Topic 805 and the guidance unique to or especially significant to an NFP in Subtopic 958-805, which includes identification of the guidance within the Subtopics of Topic 805 that is not applicable to NFPs. A not-for-profit business-oriented health care entity also shall apply the incremental guidance in Subtopic 954-805. NFPs shall apply the guidance in Subtopics 805-10, 805-20, and 805-40 using the effective date and transition requirements of paragraph 958-805-65-1.**

Amendments to Subtopic 805-30

19. Amend paragraph 805-30-15-1, with a link to transition paragraph 958-805-65-1, as follows:

Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred

805-30-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 805-10-15, with specific exceptions noted below.

20. Add paragraph 805-30-15-2 and its related heading, with a link to transition paragraph 958-805-65-1, as follows:

> Entities

805-30-15-2 The guidance in this Subtopic does not apply to **not-for-profit entities** (NFPs). NFPs apply the guidance in Subtopic 958-805 for measuring goodwill acquired, a contribution received, and consideration transferred.

Amendments to Subtopic 805-50

21. Amend paragraph 805-50-15-6, with a link to transition paragraph 958-805-65-1, as follows:

Business Combinations—Related Issues

805-50-15-6 The guidance in the Transactions ~~Between~~between Entities ~~Under~~under Common Control Subsections applies to combinations between entities or **businesses** under common control. The following are examples of those types of transactions: [~~FAS 141(R), paragraph D8, sequence 585.2~~**FAS 164, paragraph A141, sequence 242.1**]

- a. An entity charters a newly formed entity and then transfers some or all of its net assets to that newly chartered entity. [~~FAS 141(R), paragraph D8, sequence 586~~**FAS 164, paragraph A141, sequence 242.1.1**]
- b. A parent transfers the net assets of a wholly owned subsidiary into the parent and liquidates the subsidiary. That transaction is a change in legal organization but not a change in the reporting entity. [~~FAS 141(R), paragraph D8, sequence 587~~**FAS 164, paragraph A141, sequence 242.1.2**]
- c. A parent transfers its controlling interest in several partially owned subsidiaries to a new wholly owned subsidiary. That also is a change in legal organization but not in the reporting entity. [~~FAS 141(R), paragraph D8, sequence 588~~**FAS 164, paragraph A141, sequence 242.1.3**]
- d. A parent exchanges its ownership interests or the net assets of a wholly owned subsidiary for additional shares issued by the parent's less-than-

wholly-owned subsidiary, thereby increasing the parent's percentage of ownership in the less-than-wholly-owned subsidiary but leaving all of the existing **noncontrolling interest** outstanding. ~~[FAS 141(R), paragraph D8, sequence 589]~~ **FAS 164, paragraph A141, sequence 242.1.4]**

- e. A parent's less-than-wholly-owned subsidiary issues its shares in exchange for shares of another subsidiary previously owned by the same parent, and the noncontrolling shareholders are not party to the exchange. That is not a **business combination** from the perspective of the parent. ~~[FAS 141(R), paragraph D8, sequence 590]~~ **FAS 164, paragraph A141, sequence 242.1.5]**
- f. A limited liability company is formed by combining entities under common control. ~~[FAS 141(R), paragraph D8, sequence 591]~~ **FAS 164, paragraph A141, sequence 242.1.6]**
- g. Two or more **not-for-profit entities** (NFPs) that are effectively controlled by the same board members transfer their net assets to a new entity, dissolve the former entities, and appoint the same board members to the newly combined entity. **[FAS 164, paragraph A141, sequence 242.1.7]**

22. Add paragraph 805-50-15-6B, with a link to transition paragraph 958-805-65-1, as follows:

805-50-15-6B Mergers and acquisitions between or among two or more NFPs, all of which benefit a particular group of citizens, shall not be considered common control transactions solely because those entities benefit a particular group. **[FAS 164, paragraph A142, sequence 243.2]** The mission, operations, and historical sources of support of two or more NFPs may be closely linked to benefiting a particular group of citizens. However, that group neither owns nor controls the NFPs. **[FAS 164, paragraph A142, sequence 243.1]**

Amendments to Subtopic 805-740

23. Amend paragraphs 805-740-05-1 through 05-2, with no change to transition, as follows:

Business Combinations—Income Taxes

805-740-05-1 This Subtopic provides incremental guidance on accounting for **income taxes** related to **business combinations** and to **acquisitions by not-for-profit entities**. This Subtopic requires recognition of **deferred tax liabilities** and **deferred tax assets** (and related **valuation allowances**, if necessary) for the **deferred tax consequences** of differences between the tax bases and the recognized values of assets acquired and liabilities assumed in a business combination or in an acquisition by a not-for-profit entity.

805-740-05-2 The recognition and measurement requirements related to accounting for income taxes in this Subtopic ~~a business combination~~ are exceptions to the recognition and measurement principles that are otherwise

required for business combinations and acquisitions by not-for-profit entities, as established in Sections 805-20-25 and 805-20-30.

Amendments to Topic 350

24. Amend paragraphs 350-10-05-1 and 350-10-05-5, with a link to transition paragraph 350-10-65-1, as follows:

Intangibles—Goodwill and Other

350-10-05-1 The Intangibles—~~{Remove Glossary link}~~ Goodwill ~~{Remove Glossary link}~~ and Other Topic provides guidance on financial accounting and reporting related to **goodwill** and other intangibles, other than the accounting at acquisition for goodwill and other intangibles acquired in a business combination or an acquisition by a not-for-profit entity. [FAS 142, paragraph 1, sequence 70.1] ~~Subtopics 805-20 and 805-30 addresses financial accounting and reporting for goodwill and other intangibles acquired in a business combination at acquisition.~~ That acquisition guidance is provided in the following Subtopics:

- a. Subtopic 805-20 provides acquisition guidance for intangible assets acquired in a business combination or an acquisition by a not-for-profit entity.
- b. Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination.
- c. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an acquisition by a not-for-profit entity.

350-10-05-5 Subtopic 350-30 addresses financial accounting and reporting for **intangible assets** acquired individually or with a group of other assets ~~assets (but not those acquired in a business combination at acquisition. However, it does not discuss the recognition and initial measurement of intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity. [FAS 142, paragraph 1, sequence 70.1] That acquisition guidance is provided in Subtopic 805-20. # Subtopic 350-30 also addresses financial accounting and reporting for intangible assets after acquisition, including those intangible assets acquired in a business combination or an acquisition by a not-for-profit entity.~~ combination, after acquisition.

25. Amend paragraphs 350-20-05-1 through 05-2, with a link to transition paragraph 350-10-65-1, as follows:

350-20-05-1 This Subtopic addresses financial accounting and reporting for **goodwill** subsequent to its acquisition ~~in a business combination~~ and for the cost of internally developing goodwill.

350-20-05-2 Subtopic 805-30 provides guidance on recognition and initial measurement of ~~addresses financial accounting and reporting for goodwill~~

acquired in a business combination combination at acquisition. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an **acquisition by a not-for-profit entity**. [FAS 142, paragraph 1, sequence **69.2.1**]

26. Amend paragraph 350-30-05-1, with a link to transition paragraph 350-10-65-1, as follows:

350-30-05-1 This Subtopic addresses financial accounting and reporting for **intangible assets** (other than **goodwill**) acquired individually or with a group of other ~~assets—assets~~. However, it does not discuss the recognition and initial measurement of intangible assets ~~(but not those acquired in a business combination or in an acquisition by a not-for-profit entity. That acquisition guidance is provided in Subtopics 805-20 and 958-805.)~~ at acquisition. This Subtopic also addresses financial accounting and reporting for intangible assets ~~after their acquisition, including intangible assets acquired in a business combination or an acquisition by a not-for-profit entity after their acquisition.~~ Subtopic 805-20 addresses financial accounting and reporting for intangible assets ~~acquired in a business combination at acquisition.~~

27. Amend paragraph 350-10-15-3, with a link to transition paragraph 350-10-65-1, as follows:

350-10-15-3 The guidance in the Intangibles—Goodwill and Other Topic does not apply to the following transactions and activities:

- a. The accounting at acquisition for ~~intangibles and~~ **goodwill** acquired in a business combination (for guidance see ~~Subtopic 805-30~~ Topic 805)
- b. Subparagraph not used
- c. The accounting at acquisition for ~~intangibles and~~ **goodwill** acquired in an **acquisition by a not-for-profit entity** (for guidance see Subtopic 958-805) ~~a combination between not for profit entities (NFPs) or the acquisition of a for-profit business entity by a NFP. [FAS 142, paragraph 48(c), sequence 202.2.1]~~
- d. The accounting at acquisition for **intangible assets** (other than **goodwill**) acquired in a business combination or in an acquisition by a not-for-profit entity (for guidance see Subtopics 805-20 and 958-805). [FAS 142, paragraph 9, sequence 95.2.2.1]

28. Amend paragraph 350-20-15-2, with a link to transition paragraph 350-10-65-1, as follows:

350-20-15-2 The guidance in this Subtopic applies to the following transactions and activities:

- a. **Goodwill** that an entity recognizes in accordance with Subtopic 805-30 or Subtopic 958-805 after it has been initially recognized and measured
- b. The costs of internally developing goodwill and other unidentifiable intangible assets with indeterminate lives

- c. Subparagraph not used
- d. Amounts recognized as goodwill in applying the equity method of accounting and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852.
- e. Subparagraph not used

29. Supersede paragraph 350-20-15-2A, with a link to transition paragraph 350-10-65-1, as follows:

350-20-15-2A Paragraph superseded by Accounting Standards Update 2010-07. ~~The guidance in this Subtopic does not apply to the following:~~

- a. ~~[Subparagraph not used]~~
- b. ~~Goodwill recognized in a combination between not-for-profit entities (NFPs), or arising from the acquisition of a for-profit business entity by an NFP.~~

30. Amend paragraphs 350-30-15-3 through 15-4, with a link to transition paragraph 350-10-65-1, as follows:

350-30-15-3 The guidance in this Subtopic applies to the following:

- a. Intangible assets acquired individually or with a group of other assets (but not the recognition and initial measurement of those acquired in a business combination or an **acquisition by a not-for-profit entity**) **[FAS 142, paragraph 4, sequence 73.1.1]**
- b. Intangible assets (other than goodwill) that an entity recognizes in accordance with ~~Subtopic 805-10~~ Subtopic 805-20 or 958-805 after they have been initially recognized and measured, except for those identified in the following paragraph
- c. Subparagraph not used
- d. Costs of internally developing identifiable intangible assets that an entity recognizes as assets.

The disclosure requirements of paragraphs 350-30-50-1 through 50-3 also apply to capitalized software costs.

350-30-15-4 The guidance in this Subtopic does not apply to the following:

- a. Subparagraph not used
- b. Subparagraph superseded by Accounting Standards Update 2010-07. ~~Intangible assets recognized in a combination between not-for-profit entities (NFPs), or arising from the acquisition of a for-profit business entity by an NFP~~
- c. Except for certain disclosure requirements as noted in the preceding paragraph, capitalized software costs.
- d. Intangible assets recognized for acquired insurance contracts under the requirements of Subtopic 944-805.

31. Amend paragraph 350-20-25-1, with a link to transition paragraph 350-10-65-1, as follows:

350-20-25-1 See Subtopic 805-30 for guidance on recognition at acquisition of **goodwill** acquired in a business combination. See Subtopic 958-805 for guidance on recognition at acquisition of goodwill acquired in an **acquisition by a not-for-profit entity**.

32. Amend paragraphs 350-30-25-2 through 25-5, with a link to transition paragraph 350-10-65-1, as follows:

350-30-25-2 The cost of a group of assets acquired in a transaction other than a business combination or an **acquisition by a not-for-profit entity** shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to **goodwill**.

350-30-25-3 Costs of internally developing, maintaining, or restoring **intangible assets** that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business or nonprofit activity and related to an entity as a whole, shall be recognized as an expense when incurred.

350-30-25-4 Intangible assets that are acquired individually or with a group of assets in a transaction other than a business combination or an **acquisition by a not-for-profit entity** may meet asset recognition criteria in FASB Concepts Statement No. 5, **{Processor note: add italics}** ~~Recognition and Measurement in Financial Statements of Business Enterprises~~ *Recognition and Measurement in Financial Statements of Business Enterprises*, **{Processor note: add italics}** even though they do not meet either the contractual-legal criterion or the separability criterion (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing ~~plant~~ plant) ~~{glossary definition}~~. Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of those assets. Thus, those assets shall be recognized as intangible assets.

> Defensive Intangible Assets

350-30-25-5 A **defensive intangible asset**, other than an intangible asset that is used in research and development activities, shall be accounted for as a separate unit of accounting. Such a defensive intangible asset shall not be included as part of the cost of an entity's existing intangible asset(s). For implementation guidance on determining whether an intangible asset is a defensive intangible asset, see paragraph 350-30-55-1. For guidance on intangible assets acquired in a business combination or in an **acquisition by a not-for-profit entity** that are used in research and development activities (regardless of whether they have an alternative future use), see paragraph 350-30-35-17A. For guidance on intangibles that are purchased from others for a particular research and development project and that have no alternative future

uses (in other research and development projects or otherwise), see Subtopic 730-10.

33. Amend paragraphs 350-20-35-14, 350-20-35-34, and 350-20-35-57A, with a link to transition paragraph 350-10-65-1, as follows:

350-20-35-14 The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination or an acquisition by a not-for-profit entity was determined. That is, an entity shall assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination or an acquisition by a not-for-profit entity. Throughout this Section, the term *business combination* includes an acquisition by a not-for-profit entity.

350-20-35-34 A component of an **operating segment** is a reporting unit if the component constitutes a business or a nonprofit activity for which discrete financial information is available and segment ~~management~~ management, as that term is defined in paragraph 280-10-50-7, regularly reviews the operating results of that component. Subtopic 805-10 includes guidance on determining whether an asset group constitutes a business. Throughout the remainder of this Section, the term *business* also includes a *nonprofit activity*.

350-20-35-57A If a reporting unit is less than wholly owned, the fair value of the reporting unit and the implied fair value of goodwill shall be determined in the same manner as it would be determined in a business combination accounted for in accordance with Topic 805 or an acquisition accounted for in accordance with Subtopic 958-805. Any impairment loss measured in the second step of the goodwill impairment test shall be attributed to the parent and the **noncontrolling interest** on a rational basis. If the reporting unit includes only goodwill attributable to the parent, the goodwill impairment loss would be attributed entirely to the parent. However, if the reporting unit includes goodwill attributable to both the parent and the noncontrolling interest, the goodwill impairment loss shall be attributed to both the parent and the noncontrolling interest.

34. Amend paragraphs 350-30-35-7 and 350-30-35-17A, with a link to transition paragraph 350-10-5-65-1, as follows:

350-30-35-7 An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period. However, paragraph 730-10-25-2(c) requires amounts assigned to intangible assets acquired in a transaction other than a business combination or an acquisition by a not-for-profit entity that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.

350-30-35-17A Intangible assets acquired in a business combination or an acquisition by a not-for-profit entity that are used in research and development

activities (regardless of whether they have an alternative future use) shall be considered indefinite lived until the completion or abandonment of the associated research and development efforts. During the period those assets are considered indefinite lived they shall not be amortized but shall be tested for impairment in accordance with the following paragraph. Once the research and development efforts are completed or abandoned, the entity shall determine the useful life of the assets based on the guidance in this Section. Consistent with the guidance in paragraph 360-10-35-49, intangible assets acquired in business combination or an acquisition by a not-for-profit entity that have been temporarily idled shall not be accounted for as if abandoned.

35. Supersede paragraph 350-30-35-25, with no link to a transition paragraph, as follows:

~~**350-30-35-25** Paragraph superseded by Accounting Standards Update 2010-07. All of the following shall be included in the determination of the unit of accounting used to test indefinite-lived intangible assets for impairment:~~

36. Amend paragraph 350-30-35-26, with no link to a transition paragraph, as follows:

350-30-35-26 All of the following shall be included in the determination of the unit of accounting used to test indefinite-lived intangible assets for impairment: **[EITF 02-07, paragraph DISCUSSION, sequence 23]**

- a. The unit of accounting shall include only indefinite-lived intangible assets—those assets cannot be tested in combination with **goodwill** or with a finite-lived asset.
- b. The unit of accounting cannot represent a group of indefinite-lived intangible assets that collectively constitute a business or a **nonprofit activity**.
- c. A unit of accounting may include indefinite-lived intangible assets recorded in the separate financial statements of consolidated subsidiaries. As a result, an impairment loss recognized in the consolidated financial statements may differ from the sum of the impairment losses (if any) recognized in the separate financial statements of those subsidiaries.
- d. If the unit of accounting used to test impairment of indefinite-lived intangible assets is contained in a single **reporting unit**, the same unit of accounting and associated fair value shall be used for purposes of measuring a goodwill impairment loss in accordance with paragraphs 350-20-35-9 through 35-18.

37. Amend paragraph 350-20-50-2, with a link to transition paragraph 350-10-65-1, as follows:

350-20-50-2 For each goodwill impairment loss recognized, all of the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:

- a. A description of the facts and circumstances leading to the impairment
- b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses or nonprofit activities, a present value or other valuation technique, or a combination thereof)
- c. If a recognized impairment loss is an estimate that has not yet been finalized (see paragraphs 350-20-35-18 through 35-1949), that fact and the reasons therefore and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss.

38. Amend paragraph 350-30-50-1, with a link to transition paragraph 350-10-65-1, as follows:

350-30-50-1 For **intangible assets** acquired either individually or as part of a group of assets (in either an asset acquisition, a business combination, or an acquisition by a not-for-profit entity, ~~acquisition or business combination~~), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:

- a. For intangible assets subject to amortization, all of the following:
 1. The total amount assigned and the amount assigned to any major **intangible asset class**
 2. The amount of any significant **residual value**, in total and by major intangible asset class
 3. The weighted-average amortization period, in total and by major intangible asset class.
- b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.
- c. The amount of research and development assets acquired in a transaction other than a business combination or an acquisition by a not-for-profit entity and written off in the period and the line item in the income statement in which the amounts written off are aggregated.
- d. For intangible assets with renewal or extension terms, the weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.

This information also shall be disclosed separately for each material business combination or acquisition by a not-for-profit entity or in the aggregate for individually immaterial business combinations or acquisitions by a not-for-profit entity that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant.

39. Amend paragraph 350-20-55-3 and its related heading, with a link to transition paragraph 350-10-65-1, as follows:

> > The Component Constitutes a Business or a Nonprofit Activity

350-20-55-3 The determination of whether a component constitutes a **business or a nonprofit activity** requires judgment based on specific facts and circumstances. The guidance in Section 805-10-55 should be considered in determining whether a group of assets constitutes a **business or a nonprofit activity**.

40. Amend paragraph 350-20-55-7, with a link to transition paragraph 350-10-65-1, as follows:

350-20-55-7 In determining whether the components of an operating segment have similar economic characteristics, all of the factors in paragraph 280-10-50-11 should be considered. However, every factor need not be met in order for two components to be considered economically similar. In addition, the determination of whether two components are economically similar need not be limited to consideration of the factors described in that paragraph. In determining whether components should be combined into one reporting unit based on their economic similarities, factors that should be considered in addition to those in that paragraph include but are not limited to, the following:

- a. The manner in which an entity operates its business or nonprofit activity and the nature of those operations
- b. Whether goodwill is recoverable from the separate operations of each component business (or nonprofit activity) or from two or more component businesses (or nonprofit activities) working in concert (which might be the case if the components are economically interdependent)
- c. The extent to which the component businesses (or nonprofit activities) share assets and other resources, as might be evidenced by extensive transfer pricing mechanisms
- d. Whether the components support and benefit from common research and development projects.

The fact that a component extensively shares assets and other resources with other components of the operating segment may be an indication that the component either is not a business or nonprofit activity or it may be economically similar to those other components.

41. Add paragraph 350-10-65-1 and its related heading, with no link to a transition paragraph, as follows:

> Transition Related to FASB Statement No. 164, Not-for-Profit Entities: Mergers and Acquisitions

350-10-65-1 The following represents the transition and effective date information related to FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*:

- a. The pending content that links to this paragraph shall be applied by **not-for-profit entities** (NFPs) prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009. **[FAS 164, paragraph 93, sequence 93.1]**
- b. The following guidance applies to goodwill that arose from acquisitions whose dates preceded the application of the pending content: **[FAS 164, paragraph 94, sequence 94]**
 1. An NFP that is predominantly supported by contributions and returns on investments shall write off previously recognized goodwill by a separate charge in the statement of activities for the effect of the accounting change. **[FAS 164, paragraph 95, sequence 95]**
 2. An NFP that is not predominantly supported by contributions and returns on investments shall establish its reporting units **[FAS 164, paragraph 96, sequence 96.1]** and subject previously recognized goodwill in each reporting unit to the transitional impairment evaluation required by performing the following steps: **[FAS 164, paragraph 97, sequence 97.1]**
 - i. At the date the pending content that links to this paragraph is initially applied, an NFP shall establish its reporting units on the basis of its reporting structure at that date and the guidance in paragraphs 350-20-35-33 through 35-38. **[FAS 164, paragraph 96, sequence 96.1.1]** That guidance sometimes may result in a single reporting unit for the entire entity. **[FAS 164, paragraph 96, sequence 96.2]**
 - ii. Recognized net assets, excluding goodwill, shall be assigned to those reporting units using the guidance in paragraphs 350-20-35-39 through 35-40. Recognized assets and liabilities that do not relate to a reporting unit, such as an environmental liability for an operation previously disposed of, need not be assigned to a reporting unit. **[FAS 164, paragraph 96, sequence 96.1.2]**
 - iii. All goodwill recognized in an entity's statement of financial position at the date this guidance is initially applied shall be assigned to one or more reporting units. Goodwill shall be assigned in a reasonable and supportable manner. The sources of previously recognized goodwill shall be considered in making that initial assignment as well as the reporting units to which the related acquired net assets were assigned. The

- guidance in paragraphs 350-20-35-41 through 35-43 may be useful in assigning goodwill to reporting units upon initial application. [FAS 164, paragraph 96, sequence 96.1.3]
- iv. Goodwill in each reporting unit shall be tested for impairment as of the beginning of the fiscal year in which the pending content that links to this paragraph is initially applied (in accordance with paragraphs 350-20-35-4 through 35-17). An entity has six months from the date it initially applies the pending content that links to this paragraph to complete the first step of that transitional goodwill impairment test. However, the amounts used in the transitional goodwill impairment test shall be measured as of the beginning of the year of initial application. [FAS 164, paragraph 97, sequence 97.1.1.1]
 - v. If the carrying amount of the net assets of a reporting unit (including goodwill) exceeds the fair value of that reporting unit, the second step of the transitional goodwill impairment test must be completed as soon as possible, but no later than the end of the year of initial application. [FAS 164, paragraph 97, sequence 97.1.1.2]
 - vi. An impairment loss recognized as a result of a transitional goodwill impairment test shall be recognized as the effect of a change in accounting principle. The effect of the accounting change and related income tax effects shall be presented in the statement of activities between the captions extraordinary items and change in net assets. [FAS 164, paragraph 97, sequence 97.1.2]
3. An NFP shall present [FAS 164, paragraph 98, sequence 98.1] any of the following in a separate line item in the statement of activities: [FAS 164, paragraph 98, sequence 98.5]
 - i. A writeoff of goodwill in accordance with paragraph 350-10-65-1(b)(1) [FAS 164, paragraph 98, sequence 98.2]
 - ii. An impairment loss recognized as a result of a transitional goodwill impairment evaluation in paragraph 350-10-65-1(b)(2), which shall be presented outside a performance indicator or any intermediate measure of operations, if one is presented. [FAS 164, paragraph 98, sequence 98.3]
 - iii. The related income tax effects, if any. [FAS 164, paragraph 98, sequence 98.4]
 4. If events or changes in circumstances indicate that goodwill of a reporting unit might be impaired before completion of the transitional goodwill impairment test, goodwill shall be tested for impairment when the impairment indicator arises (see paragraph 350-20-35-30). A goodwill impairment loss that does not result from a transitional goodwill impairment test shall not be recognized as the effect of a change in accounting principle; rather it shall be

recognized in accordance with paragraphs 350-20-45-2 through 45-3. **[FAS 164, paragraph 97, sequence 97.1.3]**

5. In addition to the transitional goodwill impairment test, an NFP shall perform the required annual goodwill impairment test in the year that the pending content that links to this paragraph is initially applied. That is, the transitional goodwill impairment test may not be considered the initial year's annual test unless an entity designates the beginning of its fiscal year as the date for its annual goodwill impairment test. **[FAS 164, paragraph 97, sequence 97.1.4]**
6. The following guidance applies to an NFP that reports on an interim basis: **[FAS 164, paragraph 99, sequence 99.1]**
 - i. A writeoff of goodwill or a transitional impairment loss for goodwill shall be presented in the first interim period regardless of the period in which an impairment loss is measured. **[FAS 164, paragraph 99, sequence 99.2]**
 - ii. Interim periods of the fiscal year that precede the period in which the writeoff of goodwill or transitional goodwill impairment loss is measured shall be restated to reflect the accounting change in those periods. **[FAS 164, paragraph 99, sequence 99.3]**
 - iii. The aggregate amount of the accounting change shall be included in restated changes in net assets of the first interim period of the year of initial application (and in any year-to-date or last-12-months-to-date financial reports that include the first interim period). **[FAS 164, paragraph 99, sequence 99.4]**
 - iv. Whenever financial information is presented that includes the periods that precede the period in which the transitional goodwill impairment loss is measured, it shall be restated. **[FAS 164, paragraph 99, sequence 99.5]**
- c. The following guidance applies to intangible assets that arose from acquisitions whose dates preceded the application of the pending content that links to this paragraph (that is, transactions accounted for using the purchase method in APB Opinion No. 16, *Business Combinations*): **[FAS 164, paragraph 100, sequence 100.1]**
 1. An NFP shall reassess the useful lives of those intangible assets using the guidance in paragraphs 350-30-35-1 through 35-5B and adjust the remaining amortization periods as necessary. For example, the amortization period for a previously recognized intangible asset might be increased if its original useful life was estimated to be longer than the 40-year maximum amortization period allowed by APB Opinion No. 17, *Intangible Assets*. That reassessment shall be completed before the end of the first interim period of the fiscal year in which the pending content linking to this paragraph is initially applied. **[FAS 164, paragraph 100, sequence 100.2]**

2. An NFP shall test previously recognized intangible assets deemed to have indefinite useful lives for impairment in accordance with paragraphs 350-30-35-18 through 35-20. The test shall be performed as of the beginning of the fiscal year in which the pending content that links to this paragraph is initially applied. This transitional intangible asset impairment test shall be completed in the first interim period in which the pending content that links to this paragraph is initially applied. [FAS 164, paragraph 100, sequence 100.3]
3. Any resulting impairment loss shall be recognized as the effect of a change in accounting principle. [FAS 164, paragraph 100, sequence 100.5] An NFP shall present that transitional impairment loss, net of any related income tax effects, in a separate line item outside a performance indicator or any intermediate measure of operations, if one is presented. [FAS 164, paragraph 100, sequence 100.6]

Amendments to Topic 810

42. Amend paragraph 810-10-45-16, with a link to transition paragraph 810-10-65-1, as follows:

Consolidations

810-10-45-16 The noncontrolling interest shall be reported in the consolidated statement of financial position within equity (net assets), separately from the parent's equity (or net assets). That amount shall be clearly identified and labeled, for example, as noncontrolling interest in subsidiaries (see paragraph 810-10-55-4I). An entity with noncontrolling interests in more than one subsidiary may present those interests in aggregate in the consolidated financial statements. A not-for-profit entity shall report the effects of any donor-imposed restrictions, if any, in accordance with paragraph 958-810-45-1. [ARB 51, paragraph 26, sequence 59.1]

43. Amend paragraphs 810-10-55-4C and 810-10-55-4E, with a link to transition paragraph 810-10-65-1, as follows:

810-10-55-4C Subsidiary A has 10,000 shares of common stock outstanding, all of which are owned by its parent, Entity ABC. The carrying amount of Subsidiary A's equity is \$200,000. Entity ABC sells 2,000 of its shares in Subsidiary A to an unrelated entity for \$50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. That transaction is accounted for by recognizing a noncontrolling interest in the amount of \$40,000 ($\$200,000 \times 20$ percent). The \$10,000 excess of the cash received (\$50,000) over the adjustment to the carrying amount of the noncontrolling interest (\$40,000) is recognized as an increase in additional paid-in capital attributable to Entity ABC. If the parent is a

not-for-profit entity (NFP), the \$10,000 increase in additional paid-in capital in this Example is recognized instead as an increase in net assets, generally of the unrestricted class. Example 1 (see paragraphs 958-810-55-17 through 55-25) provides additional guidance for NFPs. [ARB 51, paragraph 33, sequence 66.1.1]

810-10-55-4E Even though the percentage of Entity ABC's ownership interest in Subsidiary A is reduced when Subsidiary A issues shares to the third party, Entity ABC's investment in Subsidiary A increases to \$315,000, calculated as 75 percent of Subsidiary A's equity of \$420,000 (\$300,000 + \$120,000). Therefore, Entity ABC recognizes a \$45,000 increase in its investment in Subsidiary A (\$315,000 – \$270,000) and a corresponding increase in its additional paid-in capital (that is, the additional paid-in capital attributable to Entity ABC). In addition, the noncontrolling interest is increased to \$105,000, calculated as 25 percent of \$420,000. (If the parent is an NFP, the \$45,000 increase in additional paid-in capital in this example is recognized instead as an increase in net assets, generally of the unrestricted class. Example 1 (see paragraphs 958-810-55-17 through 55-25) provides additional guidance for NFPs. [ARB 51, paragraph 33, sequence 66.3.1]

44. Amend paragraph 810-10-65-1 and its related heading, with no link to a transition paragraph, as follows:

> Transition Related to FASB Statements ~~Statement~~ No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51, and No. 164, Not-for-Profit Entities: Mergers and Acquisitions*

810-10-65-1 The following represents the transition and effective date information related to FASB ~~Statement~~Statements No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51, and No. 164, Not-for-Profit Entities: Mergers and Acquisitions*:

- a. Except as noted in item (d), the pending content that links to this paragraph is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited.
- b. The pending content that links to this paragraph shall be applied prospectively as of the beginning of the fiscal year in that content is initially adopted, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented, as follows:
 1. The noncontrolling interest shall be reclassified to equity in accordance with paragraph 810-10-45-16.
 2. Consolidated net income shall be adjusted to include the net income attributed to the noncontrolling interest.
 3. Consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the noncontrolling interest.

4. The disclosures in paragraphs 810-10-50-1A through 50-1B shall be provided.
- c. Paragraph 810-10-45-21 requires that the noncontrolling interest continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. If, in the year of adoption, an entity's consolidated net income attributable to the parent would have been significantly different had the prior requirement in paragraph 810-10-45-7 been applied, the entity shall disclose pro forma consolidated net income attributable to the parent and pro forma earnings per share as if the previous prior requirement in paragraph 810-10-45-7 had been applied in the year of adoption.
- d. Not-for-profit entities (NFPs) shall ~~not~~ apply the pending text that links to this ~~paragraph~~ paragraph prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009. [FAS 164, paragraph 93, sequence 93.1]
- e. The pending content linked to this paragraph may amend or supersede either nonpending content or other pending content with different or the same effective dates. If a paragraph contains multiple pending content versions of that paragraph, it may be necessary to refer to the transition paragraphs of all such pending content to determine the paragraph that is applicable to a particular fact pattern.

Amendments to Other Topics

45. Amend paragraph 105-10-70-2, with a link to transition paragraph 958-805-65-1, as follows:

105-10-70-2 Certain accounting standards have allowed for the continued application of superseded accounting standards for transactions that have an ongoing effect in an entity's financial statements. That superseded guidance has not been included in the Codification, shall be considered grandfathered, and shall continue to remain authoritative for those transactions after the effective date of FASB Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*. While not comprehensive, the following are examples of such grandfathered items:

- a. Pooling of interests in a business combination (originally addressed by APB Opinion No. 16, *Business Combinations*) described in paragraph B217 of FASB Statement No. 141, *Business Combinations*
- b. Pension transition assets or obligations described in paragraph 77 of FASB Statement No. 87, *Employers' Accounting for Pensions*
- c. Employee stock ownership plan shares (originally addressed by AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*) purchased by, and held as of, December 31, 1992, as described in paragraphs 97 and 102 of AICPA Statement of

Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*

- d. Loans restructured in a troubled debt restructuring before the effective date of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, described in paragraph 24 of FASB Statement No. 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures*
- e. Stock compensation for **nonpublic** and other entities (originally addressed by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, or APB Opinion No. 25, *Accounting for Stock Issued to Employees*) described in paragraph 83 of FASB Statement No. 123 (revised 2004), *Share-Based Payment*
- f. For nonpublic entities electing the deferral of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, FASB Statement No. 109, *Accounting for Income Taxes*, and related standards
- g. For business combinations with an acquisition date before the first annual reporting period beginning on or after December 15, 2008, Statement 141 and any other relevant standards
- h. For a combination of a not-for-profit entity with one or more other not-for-profit entities, businesses, or nonprofit activities, entities, pooling of interests as allowed for under Opinion 16, if the combination occurred before the effective dates of even though it has been superseded by Statement 141 until FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, ~~Acquisitions, is effective~~
- i. Subparagraph superseded by Accounting Standards Update 2010-07. For goodwill and intangible assets arising from a combination between two or more not for profit entities or acquired in the acquisition of a for-profit business entity by a not for profit entity until Statement 164 is effective, Opinion 16 and APB Opinion No. 17, *Intangible Assets*.

46. Amend paragraphs 270-10-50-5 and 270-10-50-7, with a link to transition paragraph 958-805-65-1, as follows:

270-10-50-5 Extraordinary items shall be disclosed separately and included in the determination of net income for the interim period in which they occur. In determining materiality, extraordinary items shall be related to the estimated income for the full fiscal year. In addition, matters such as unusual seasonal ~~results, results~~ and business combinations, and acquisitions by not-for-profit entities shall be disclosed to provide information needed for a proper understanding of interim financial reports.

270-10-50-7 The following may not represent all references to interim disclosure:

- a. For business combinations and combinations accounted for by not-for-profit entities, see Sections 805-10-50, 805-20-50, 805-30-50, ~~and 805-740-50~~805-740-50, and 958-805-50.

- b. For compensation-related costs, see paragraphs 715-60-50-3 and 715-60-50-6.
- c. For disclosures required for entities with oil- and gas-producing activities, see paragraph 932-270-50-1.
- d. For disclosures related to prior interim periods of the current fiscal year, see paragraph 250-10-50-11.
- e. For fair value requirements, see paragraphs 820-10-50-1 through 50-6.
- f. For guarantors, see Section 460-10-50.
- g. For pensions and other postretirement benefits, see paragraphs 715-20-50-6 through 50-7.
- h. For reportable segments, see paragraphs 280-10-50-39 and 280-10-55-16.
- i. For suspended well costs and interim reporting, see Section 932-235-50.
- j. For applicability of disclosure requirements related to risks and uncertainties, see paragraph 275-10-15-3.

47. Amend paragraph 420-10-15-3, with a link to transition paragraph 958-805-65-1, as follows:

420-10-15-3 The guidance in the Exit or Disposal Cost Obligations Topic applies to the following transactions and activities:

- a. Termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract (referred to as **one-time employee termination benefits**)
- b. Costs to terminate a contract that is not a capital lease (see paragraphs 420-10-25-11 through 25-13 for further description of contract termination costs and paragraph 840-30-40-1 for terminations of a capital lease)
- c. Costs to consolidate facilities or relocate employees
- d. Costs associated with a disposal activity covered by Subtopic 205-20
- e. Costs associated with an exit activity, including exit activities associated with an entity newly acquired in a business combination or an acquisition by a not-for-profit entity. [FAS 146, paragraph 2, sequence 24.2.1.1]

48. Amend paragraph 450-10-15-2A, with no change to transition, as follows:

450-10-15-2A The guidance in the Contingencies Topic does not apply to the initial recognition and initial measurement of assets or liabilities arising from contingencies that are ~~recognized~~measured at fair value or assets arising from contingencies ~~recognized~~measured at an amount other than fair value on the ~~acquisition date~~acquisition date in a business combination or an acquisition by a not-for-profit entity under the requirements of Subtopic 805-20 or 958-805. [FAS 005, paragraph 7B, sequence 51.2.2.2.2.1] Those Subtopics provide the

~~That Subtopic provides the initial recognition and initial measurement requirements for assets and liabilities arising from contingencies recognized/ measured at fair value and for assets arising from contingencies recognized/ measured at an amount other than fair value as part of a business combination or an acquisition by a not-for-profit entity.~~

49. Amend paragraph 460-10-25-1, with a link to transition paragraph 958-805-65-1, as follows:

460-10-25-1 The following types of guarantees are not subject to the recognition provisions of this Subsection:

- a. A guarantee that is accounted for as a derivative instrument at fair value under Topic 815.
- b. A product **warranty** or other guarantee for which the **underlying** is related to the performance (regarding function, not price) of nonfinancial assets that are owned by the guaranteed party (see paragraph 460-10-15-9 for related guidance).
- c. A guarantee issued in a business combination or an acquisition by a not-for-profit entity that represents contingent consideration (as addressed in ~~Subtopic~~ Subtopics 805-30 and 958-805).
- d. A guarantee for which the guarantor's obligation would be reported as an equity item rather than a liability under generally accepted accounting principles (GAAP) (see Topics 480 and 505).
- e. A guarantee by an original lessee that has become secondarily liable under a new lease that relieved the original lessee from being the primary obligor (that is, principal debtor) under the original lease, as discussed in paragraph 840-30-40-5. This exception shall not be applied by analogy to secondary obligations that are not accounted for under that paragraph.
- f. A guarantee issued either between parents and their subsidiaries or between corporations under common control.
- g. A parent's guarantee of its subsidiary's debt to a third party (whether the parent is a corporation or an individual).
- h. A subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent.

50. Amend paragraph 730-10-15-4, with no change to transition, as follows:

730-10-15-4 The guidance in this Topic does not apply to the following transactions and activities:

- a. Accounting for the costs of research and development activities conducted for others under a contractual arrangement, which is a part of accounting for contracts in general. Indirect costs, including indirect costs that are specifically reimbursable under the terms of a contract, are also excluded from the scope of this Topic.

- b. Activities that are unique to entities in the extractive industries, such as prospecting, acquisition of mineral rights, exploration, drilling, mining, and related mineral development.
- c. The acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities. A process may be intended to achieve cost reductions as opposed to revenue generation. However, (e) specifically excludes market research or market testing activities from research and development activities. Those activities were excluded because they relate to the selling function of an entity. Thus, while in the broadest sense of the word, a process may be used in all of an entity's activities, the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities shall be excluded from the definition of research and development activities. To the extent, therefore, that the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities includes costs for computer software, those costs are not research and development costs. Examples of the excluded costs of software are those incurred for development by an airline of a computerized reservation system or for development of a general management information system. See Subtopic 350-40 for guidance related to costs of computer software developed or obtained for internal use and Subtopic 985-20 for computer software intended to be sold, leased or marketed.
- d. Routine or periodic alterations to existing products, production lines, manufacturing processes, and other ongoing operations even though those alterations may represent improvements.
- e. Market research or market testing activities.
- f. Research and development assets acquired in a business combination or an acquisition by a not-for-profit entity. ~~Tangible and intangible assets acquired in that manner a business combination that are used in research and development activities, they are recognized and measured at fair value in accordance with Subtopic 805-20, regardless of whether they have an alternative future use. After initial recognition, tangible assets acquired in a business combination or an acquisition by a not-for-profit entity that are used in research and development activities are accounted for in accordance with their nature. After initial recognition, intangible assets acquired in a business combination or an acquisition by a not-for-profit entity that are used in research and development activities are accounted for in accordance with Topic 350. [FAS 002, paragraph 3A, sequence 24.1.1]~~ **FAS 002, paragraph 3B, sequence 24.1.2]**

51. Amend paragraph 730-10-25-1, with no change to transition, as follows:

730-10-25-1 Research and development costs encompassed by this Subtopic shall be charged to expense when incurred. As noted in paragraph 730-10-15-

4(f), this Topic does not apply to tangible and intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity that are used in research and development activities. **[FAS 002, paragraph 12, sequence 58.1.1]**

52. Amend paragraph 730-20-25-9, with no change to transition, as follows:

730-20-25-9 If the entity's obligation is to perform research and development for others and the entity subsequently decides to exercise an option to purchase the other parties' interests in the research and development arrangement or to obtain the exclusive rights to the results of the research and development, the nature of those results and their future use shall determine the accounting for the purchase transaction or business combination (or an acquisition by a not-for-profit entity). **[FAS 68, paragraph 11, sequence 30.1]**

53. Amend paragraph 740-10-25-20, with no change to transition, as follows:

740-10-25-20 An assumption inherent in an entity's statement of financial position prepared in accordance with generally accepted accounting principles (GAAP) is that the reported amounts of assets and liabilities will be recovered and settled, respectively. Based on that assumption, a difference between the tax basis of an asset or a liability and its reported amount in the statement of financial position will result in taxable or deductible amounts in some future year(s) when the reported amounts of assets are recovered and the reported amounts of liabilities are settled. Examples include the following:

- a. Revenues or gains that are taxable after they are recognized in financial income. An asset (for example, a receivable from an installment sale) may be recognized for revenues or gains that will result in future taxable amounts when the asset is recovered.
- b. Expenses or losses that are deductible after they are recognized in financial income. A liability (for example, a product warranty liability) may be recognized for expenses or losses that will result in future tax deductible amounts when the liability is settled.
- c. Revenues or gains that are taxable before they are recognized in financial income. A liability (for example, subscriptions received in advance) may be recognized for an advance payment for goods or services to be provided in future years. For tax purposes, the advance payment is included in taxable income upon the receipt of cash. Future sacrifices to provide goods or services (or future refunds to those who cancel their orders) will result in future tax deductible amounts when the liability is settled.
- d. Expenses or losses that are deductible before they are recognized in financial income. The cost of an asset (for example, depreciable personal property) may have been deducted for tax purposes faster than it was depreciated for financial reporting. Amounts received upon future recovery of the amount of the asset for financial reporting will

- exceed the remaining tax basis of the asset, and the excess will be taxable when the asset is recovered.
- e. A reduction in the tax basis of depreciable assets because of tax credits. Amounts received upon future recovery of the amount of the asset for financial reporting will exceed the remaining tax basis of the asset, and the excess will be taxable when the asset is recovered. For example, a tax law may provide taxpayers with the choice of either taking the full amount of depreciation deductions and a reduced tax credit (that is, investment tax credit and certain other tax credits) or taking the full tax credit and a reduced amount of depreciation deductions.
 - f. Investment tax credits accounted for by the deferral method. Under the deferral method as established in paragraph 740-10-25-46, investment tax credits are viewed and accounted for as a reduction of the cost of the related asset (even though, for financial statement presentation, deferred investment tax credits may be reported as deferred income). Amounts received upon future recovery of the reduced cost of the asset for financial reporting will be less than the tax basis of the asset, and the difference will be tax deductible when the asset is recovered.
 - g. An increase in the tax basis of assets because of indexing whenever the local currency is the functional currency. The tax law for a particular tax jurisdiction might require adjustment of the tax basis of a depreciable (or other) asset for the effects of inflation. The inflation-adjusted tax basis of the asset would be used to compute future tax deductions for depreciation or to compute gain or loss on sale of the asset. Amounts received upon future recovery of the local currency historical cost of the asset will be less than the remaining tax basis of the asset, and the difference will be tax deductible when the asset is recovered.
 - h. Business combinations and combinations accounted for by not-for-profit entities (NFPs). There may be differences between the tax bases and the recognized values of assets acquired and liabilities assumed in a business combination. There also may be differences between the tax bases and the recognized values of assets acquired and liabilities assumed in an acquisition by a not-for-profit entity or between the tax bases and the recognized values of the assets and liabilities carried over to the records of a new entity formed by a merger of not-for-profit entities. [FAS 164, paragraph E9(a), sequence 260] Those differences will result in taxable or deductible amounts when the reported amounts of the assets or liabilities are recovered or settled, respectively.

54. Amend paragraph 740-10-30-4, with no change to transition, as follows:

740-10-30-4 Deferred tax expense (or benefit) is the change during the year in an entity's deferred tax liabilities and assets. For deferred tax liabilities and assets recognized in a business combination or in an acquisition by a not-for-

profit entity during the year, it is the change since the **acquisition date**. Paragraph 830-740-45-1 addresses the manner of reporting the transaction gain or loss that is included in the net change in a deferred foreign tax liability or asset when the reporting currency is the functional currency.

55. Amend paragraph 815-10-15-74, with no change to transition, as follows:

815-10-15-74 Notwithstanding the conditions of paragraphs 815-10-15-13 through 15-139, the reporting entity shall not consider the following contracts to be derivative instruments for purposes of this Subtopic:

- a. Contracts issued or held by that reporting entity that are both:
 1. Indexed to its own stock
 2. Classified in stockholders' equity in its statement of financial position.
- b. Contracts issued by the entity that are subject to Topic 718 or Subtopic 505-50. If any such contract ceases to be subject to Topic 718 or Subtopic 505-50 in accordance with paragraphs 718-10-35-9 through 35-14, the terms of that contract shall then be analyzed to determine whether the contract is subject to this Subtopic. An award that ceases to be subject to Topic 718 or Subtopic 505-50 in accordance with those paragraphs shall be analyzed to determine whether it is subject to this Subtopic.
- c. Contracts between an acquirer and a seller to enter into a business combination or an acquisition by a not-for-profit entity, or contracts between NFPs to enter into a merger of not-for-profit entities at a future date.
- d. Forward contracts that require settlement by the reporting entity's delivery of cash in exchange for the acquisition of a fixed number of its equity shares (forward purchase contracts for the reporting entity's shares that require physical settlement) that are accounted for under paragraphs 480-10-30-3 through 30-5, 480-10-35-3, and 480-10-45-3.

56. Amend paragraph 815-20-25-15, with a link to transition paragraph 958-805-65-1, as follows:

815-20-25-15 A forecasted transaction is eligible for designation as a hedged transaction in a cash flow hedge if all of the following additional criteria are met:

- a. The forecasted transaction is specifically identified as either of the following:
 1. A single transaction
 2. A group of individual transactions that share the same risk exposure for which they are designated as being hedged. A forecasted purchase and a forecasted sale shall not both be included in the same group of individual transactions that constitute the hedged transaction.
- b. The occurrence of the forecasted transaction is probable.

- c. The forecasted transaction meets both of the following conditions:
 - 1. It is a transaction with a party external to the reporting entity (except as permitted by paragraphs 815-20-25-30 and 815-20-25-38 through 25-40).
 - 2. It presents an exposure to variations in cash flows for the hedged risk that could affect reported earnings.
- d. The forecasted transaction is not the acquisition of an asset or incurrence of a liability that will subsequently be remeasured with changes in fair value attributable to the hedged risk reported currently in earnings.
- e. If the forecasted transaction relates to a recognized asset or liability, the asset or liability is not remeasured with changes in fair value attributable to the hedged risk reported currently in earnings.
- f. If the variable cash flows of the forecasted transaction relate to a debt security that is classified as held to maturity under Topic 320, the risk being hedged is the risk of changes in its cash flows attributable to any of the following risks:
 - 1. Credit risk
 - 2. Foreign exchange risk.
- g. The forecasted transaction does not involve a business combination subject to the provisions of Topic 805 or a combination accounted for by an NFP that is subject to the provisions of Subtopic 958-805. **[FAS 133, paragraph 29, sequence 285.1.1.1.1.1]**
- h. The forecasted transaction is not a transaction (such as a forecasted purchase, sale, or dividend) involving either of the following:
 - 1. A parent entity's interests in consolidated subsidiaries
 - 2. An entity's own equity instruments.
- i. If the hedged transaction is the forecasted purchase or sale of a nonfinancial asset, the designated risk being hedged is either of the following:
 - 1. The risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates
 - 2. The risk of changes in the cash flows relating to all changes in the purchase price or sales price of the asset reflecting its actual location if a physical asset (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency), not the risk of changes in the cash flows relating to the purchase or sale of a similar asset in a different location or of a major ingredient. Thus, for example, in hedging the exposure to changes in the cash flows relating to the purchase of its bronze bar inventory, an entity may not designate the risk of changes in the cash flows relating to purchasing the copper component in bronze as the risk being hedged for purposes of assessing offset as required by paragraph 815-20-25-75(b).

- j. If the hedged transaction is the forecasted purchase or sale of a financial asset or liability (or the interest payments on that financial asset or liability) or the variable cash inflow or outflow of an existing financial asset or liability, the designated risk being hedged is any of the following:
 - 1. The risk of overall changes in the hedged cash flows related to the asset or liability, such as those relating to all changes in the purchase price or sales price (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency)
 - 2. The risk of changes in its cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk)
 - 3. The risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates (referred to as foreign exchange risk)
 - 4. The risk of changes in its cash flows attributable to all of the following (referred to as credit risk):
 - i. Default
 - ii. Changes in the obligor's creditworthiness
 - iii. Changes in the spread over the benchmark interest rate with respect to the hedged item's credit sector at inception of the hedge.
- k. The item is not otherwise specifically ineligible for designation (see paragraph 815-20-25-43).

57. Amend paragraph 820-10-15-2, with a link to transition paragraph 958-805-65-1, as follows:

820-10-15-2 The guidance in the Fair Value Measurements and Disclosures Topic does not apply as follows:

- a. Under accounting principles that address share-based payment transactions (see Topic 718 and Subtopic 505-50)
- b. Under Sections, Subtopics, or Topics that require or permit measurements that are similar to fair value but that are not intended to measure fair value, including both of the following:
 - 1. Sections, Subtopics, or Topics that permit measurements that are based on, or otherwise use, vendor-specific objective evidence of fair value, which include the following:
 - i. Subtopic 985-605
 - ii. Subtopic 605-25.
 - 2. Topic 330.
- c. Under accounting principles that address fair value measurements for purposes of lease classification or measurement under Topic 840. This scope exception does not apply to assets acquired and liabilities assumed in a business combination or an acquisition by a not-for-profit entity [FAS 157, paragraph 2, sequence 4.2] that are required

to be measured at fair value under Topic 805, regardless of whether those assets and liabilities are related to leases.

58. Amend paragraph 830-10-15-6 and its related heading, with a link to transition paragraph 958-805-65-1, as follows:

> > Translation ~~After~~after a Business Combination or a Combination Accounted for by a Not-for-Profit Entity

830-10-15-6 The functional currency approach also applies to translation after a business combination ~~combination~~ or a combination accounted for by a **not-for-profit entity. IFAS 052, paragraph 101, sequence 277.1.1**. See paragraph 830-30-45-11 for guidance.

59. Amend paragraph 840-10-25-2, with a link to transition paragraph 958-805-65-1, as follows:

840-10-25-2 The remaining guidance in this Subsection addresses the four lease classification criteria and their application and is organized as follows:

- a. Lease-term criterion—fiscal funding clauses
- b. Minimum-lease-payments criterion
- c. Guarantees and indemnifications
- d. Obligation to retire the leased asset
- e. Classification of a lease involving real estate
- f. Classification of a lease between related parties
- g. Classification of a lease of an **acquiree** ~~entity acquired in a business combination~~.

60. Amend paragraph 840-10-25-27 and its related heading, with no change to transition, as follows:

> Classification of a Lease of an Acquiree ~~Entity Acquired in a Business Combination~~

840-10-25-27 In a business combination ~~or an acquisition by a not-for-profit entity~~, the acquiring entity shall retain the previous classification in accordance with this Subtopic for the leases of an acquired entity unless the provisions of the lease are modified as indicated in paragraph 840-10-35-5. That paragraph addresses the accounting for a lease modification that was planned at the time of a business combination but made after the acquisition date.

61. Amend paragraph 840-10-35-8, with a link to transition paragraph 958-805-65-1, as follows:

840-10-35-8 The guidance in the preceding two paragraphs does not address the amortization of intangible assets that may be recognized in a business combination ~~or an acquisition by a not-for-profit entity~~ for the favorable or unfavorable terms of a lease relative to market prices.

62. Amend paragraphs 840-10-35-5 and 840-10-35-9 and their related heading, with no change to transition, as follows:

> > Lease of an Acquiree Entity Acquired in a Business Combination

840-10-35-5 The classification of a lease in accordance with the criteria in this Subtopic shall not be changed as a result of a business combination or an acquisition by a not-for-profit entity [FIN 21, paragraph 16, sequence 39.1.1.1] unless the provisions of the lease are modified. At the acquisition date, an acquirer may contemplate renegotiating and modifying leases of the business or nonprofit activity acquired. Modifications made after the acquisition date, including those that were planned at the time of the ~~business combination~~, are postcombination events that shall be accounted for separately by the acquirer in accordance with the provisions of this Topic. If in connection with a business combination or an acquisition by a not-for-profit entity [FIN 21, paragraph 16, sequence 39.1.1.1] the provisions of a lease are modified in a way that would require the revised agreement to be considered a new agreement under the preceding paragraph, the new lease shall be classified by the combined entity according to the criteria set forth in this Subtopic, based on conditions as of the date of the modification of the lease. After the recording of the amounts called for by Subtopic 805-20, the leases shall be accounted for in accordance with this Subtopic. Subtopic 840-30—(see ~~paragraph 840-30-25-10~~) explains the application of this paragraph to a **leveraged lease** by an entity that acquires a lessor. This Subtopic does not address the subsequent accounting for amounts recorded for favorable or unfavorable **operating leases**.

840-10-35-9 Paragraph 805-20-35-6 requires that leasehold improvements acquired in a business combination or an acquisition by a not-for-profit entity be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured (as used in the definition of lease term) at the date of acquisition.

63. Amend paragraph 840-30-25-10 and its related heading, with a link to transition paragraph 958-805-65-1, as follows:

> > Leveraged Lease Acquired in a Business Combination or an Acquisition by a Not-for-Profit Entity

840-30-25-10 In a business combination or an acquisition by a not-for-profit entity, the acquiring entity shall retain the classification of the acquired entity's investment as a lessor in a leveraged lease at the date of the combination. The net investment of the acquired leveraged lease shall be broken down into its component parts, namely, net rentals receivable, estimated residual value, and unearned income including discount to adjust other components to present value.

64. Amend paragraph 840-30-30-15 and its related heading, with a link to transition paragraph 958-805-65-1, as follows:

> > Leveraged Lease Acquired in a Business Combination or an Acquisition by a Not-for-Profit Entity

840-30-30-15 In a business combination or an acquisition by a not-for-profit entity, the acquiring entity shall assign an amount to the acquired net investment in the leveraged lease in accordance with the general guidance in Topic 805, based on the remaining future cash flows and giving appropriate recognition to the estimated future tax effects of those cash flows.

65. Amend paragraph 840-30-35-14, with no change to transition, as follows:

840-30-35-14 The termination of a capital lease that results from the purchase of a leased asset by the lessee is not the type of termination of a capital lease contemplated by paragraph 840-30-40-1 but rather is an integral part of the purchase of the leased asset. If the lessee purchases property leased under a capital lease, any difference between the purchase price and the carrying amount of the capital lease obligation shall be recorded by the lessee as an adjustment of the carrying amount of the asset. However, this paragraph does not apply to leased assets acquired in a business combination or an acquisition by a not-for-profit entity. **[FIN 26, paragraph 5, sequence 12.2.2]** which are initially measured at fair value in accordance with paragraph 805-20-30-1.

66. Amend paragraph 840-30-35-32 and its related heading, with a link to transition paragraph 958-805-65-1, as follows:

> > Leveraged Lease Acquired in a Business Combination or an Acquisition by a Not-for-Profit Entity

840-30-35-32 In a business combination or an acquisition by a not-for-profit entity, the acquiring entity shall subsequently account for its acquired investment as a lessor in a **leveraged lease** in accordance with the guidance in this Subtopic as for any other leveraged lease. Example 5 (see paragraph 840-30-55-50) illustrates an acquiring entity's accounting for its acquired investment as a lessor in a leveraged lease.

67. Amend paragraph 840-30-45-7, with a link to transition paragraph 958-805-65-1, as follows:

840-30-45-7 This Subtopic requires that the tax effect of any difference between the assigned value and the tax basis of a leveraged lease at the date of a business combination or an acquisition by a not-for-profit entity **[FAS 109, paragraph 259, sequence 761.1.1]** shall not be accounted for as a deferred tax credit. Any tax effects included in unearned and deferred income as required by this Subtopic shall not be offset by the deferred tax consequences of other temporary differences or by the tax benefit of operating loss or tax credit

carryforwards. However, deferred tax credits that arise after the date of a ~~business~~ combination shall be accounted for in the same manner as for leveraged leases that were not acquired in a ~~purchase-business~~ combination.

68. Amend paragraph 840-30-55-50 and its related heading, with a link to transition paragraph 958-805-65-1, as follows:

> > Example 5: Leveraged Lease Acquired in a Business Combination or an Acquisition by a Not-for-Profit Entity

840-30-55-50 This Example illustrates one way that a lessor's investment in a leveraged lease might be valued by the acquiring entity in a business combination or an **acquisition by a not-for-profit entity [FIN 21, paragraph 16, sequence 39.1.1.1]** and the subsequent accounting for the investment in accordance with the guidance in this Subtopic. The elements of accounting and reporting illustrated for this Example are as follows:

- a. Acquiring entity's cash flow analysis by years (see paragraph 840-30-55-52)
- b. Acquiring entity's valuation of investment in the leveraged lease (see paragraph 840-30-55-53)
- c. Acquiring entity's allocation of annual cash flow to investment and income (see paragraph 840-30-55-54)
- d. Journal entry for recording allocation of purchase price to net investment in the leveraged lease (see paragraph 840-30-55-55)
- e. Journal entries for the year ending December 31, 1984 (Year 10 of the lease) (see paragraph 840-30-55-56).

69. Amend paragraph 845-10-15-4, with a link to transition paragraph 958-805-65-1, as follows:

845-10-15-4 The guidance in the Nonmonetary Transactions Topic does not apply to the following transactions:

- a. A business combination accounted for by an entity according to the provisions of Topic 805 or a combination accounted for by a not-for-profit entity according to the provisions of Subtopic 958-805 [APB 29, paragraph 4(aa), sequence 47.1]
- b. A transfer of nonmonetary assets solely between entities or persons under common control, such as between a parent and its **subsidiaries** or between two subsidiaries of the same parent, or between a corporate **joint venture** and its **owners**
- c. Acquisition of nonmonetary assets or services on issuance of the capital stock of an entity under Subtopics 718-10 and 505-50
- d. Stock issued or received in stock dividends and stock splits that are accounted for in accordance with Subtopic 505-20

- e. A transfer of assets to an entity in exchange for an equity interest in that entity (except for the specific exchange of a nonfinancial asset for a noncontrolling ownership interest, see paragraph 845-10-15-18)
- f. A pooling of assets in a joint undertaking intended to find, develop, or produce oil or gas from a particular property or group of properties, as described in paragraph 932-360-40-7
- g. The exchange of a part of an operating interest owned for a part of an operating interest owned by another party that is subject to paragraph 932-360-55-6
- h. The transfer of a financial asset within the scope of Section 860-10-15
- i. Involuntary conversions specified in paragraph 605-40-15-2.

70. Amend paragraphs 985-20-15-2 through 958-20-15-3, with no change to transition, as follows:

985-20-15-2 The guidance in this Subtopic applies to the costs, including costs incurred after the date of a business ~~combination, combination or a combination~~ accounted for by a **not-for-profit entity, [FAS 086, paragraph 2, sequence 21.2.2]** of computer software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process, whether internally developed and produced or purchased.

985-20-15-3 The guidance in this Subtopic does not apply to the following transactions and activities:

- a. Software developed or obtained for internal use (see Subtopic 350-40) or for others under a contractual arrangement (see Subtopic 605-35).
- b. Research and development assets acquired in a business ~~combination combination or an acquisition by a not-for-profit entity. [FAS 086, paragraph 2, sequence 21.2.2]~~ If tangible and intangible assets acquired in those combinations a business combination that are used in research and development activities, they are recognized and measured at fair value in accordance with Subtopic 805-20.

71. Amend paragraph 105-10-00-1 as follows:

105-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| 105-10-70-2 | Amended | 2010-07 | 01/28/2010 |

72. Amend paragraph 270-10-00-1 as follows:

270-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 270-10-50-5 | Amended | 2010-07 | 01/28/2010 |
| 270-10-50-7 | Amended | 2010-07 | 01/28/2010 |

73. Amend paragraph 280-10-00-1 as follows:

~~280-10-00-1 No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Public Entity | Amended | 2010-07 | 01/28/2010 |

74. Amend paragraph 350-10-00-1 as follows:

~~350-10-00-1 No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |
| 350-10-05-1 | Amended | 2010-07 | 01/28/2010 |
| 350-10-05-5 | Amended | 2010-07 | 01/28/2010 |
| 350-10-15-3 | Amended | 2010-07 | 01/28/2010 |
| 350-10-65-1 | Added | 2010-07 | 01/28/2010 |

75. Amend paragraph 350-20-00-1 as follows:

350-20-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |
| Nonprofit Activity | Added | 2010-07 | 01/28/2010 |
| 350-20-05-1 | Amended | 2010-07 | 01/28/2010 |
| 350-20-05-2 | Amended | 2010-07 | 01/28/2010 |
| 350-20-15-2 | Amended | 2010-07 | 01/28/2010 |
| 350-20-15-2A | Superseded | 2010-07 | 01/28/2010 |
| 350-20-25-1 | Amended | 2010-07 | 01/28/2010 |
| 350-20-35-14 | Amended | 2010-07 | 01/28/2010 |
| 350-20-35-34 | Amended | 2010-07 | 01/28/2010 |
| 350-20-35-57A | Amended | 2010-07 | 01/28/2010 |
| 350-20-50-2 | Amended | 2010-07 | 01/28/2010 |
| 350-20-55-3 | Amended | 2010-07 | 01/28/2010 |
| 350-20-55-7 | Amended | 2010-07 | 01/28/2010 |

76. Amend paragraph 350-30-00-1 as follows:

350-30-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |
| Nonprofit Activity | Added | 2010-07 | 01/28/2010 |
| 350-30-05-1 | Amended | 2010-07 | 01/28/2010 |
| 350-30-15-3 | Amended | 2010-07 | 01/28/2010 |
| 350-30-15-4 | Amended | 2010-07 | 01/28/2010 |
| 350-30-25-2 through 25-5 | Amended | 2010-07 | 01/28/2010 |
| 350-30-35-7 | Amended | 2010-07 | 01/28/2010 |
| 350-30-35-17A | Amended | 2010-07 | 01/28/2010 |

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| 350-30-35-25 | Superseded | 2010-07 | 01/28/2010 |
| 350-30-35-26 | Amended | 2010-07 | 01/28/2010 |
| 350-30-50-1 | Amended | 2010-07 | 01/28/2010 |

77. Amend paragraph 420-10-00-1 as follows:

420-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 420-10-15-3 | Amended | 2010-07 | 01/28/2010 |

78. Amend paragraph 450-10-00-1 as follows:

450-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 450-10-15-2A | Amended | 2010-07 | 01/28/2010 |

79. Amend paragraph 460-10-00-1 by adding the following items to the table, as follows:

460-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 460-10-25-1 | Amended | 2010-07 | 01/28/2010 |

80. Amend paragraph 720-25-00-1 as follows:

720-25-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

81. Amend paragraph 730-10-00-1 as follows:

730-10-00-1 ~~No updates have been made to this Subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 730-10-15-4 | Amended | 2010-07 | 01/28/2010 |
| 730-10-25-1 | Amended | 2010-07 | 01/28/2010 |

82. Amend paragraph 730-20-00-1 as follows:

730-20-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 730-20-25-9 | Amended | 2010-07 | 01/28/2010 |

83. Amend paragraph 740-10-00-1 by adding the following items to the table, as follows:

740-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|---------------------------------|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit | Added | 2010-07 | 01/28/2010 |

| Paragraph Number | Action | Accounting Standards Update | Date |
|-----------------------------------|---------------|------------------------------------|-------------|
| Entity | | | |
| Merger of Not-for-Profit Entities | Added | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 740-10-25-20 | Amended | 2010-07 | 01/28/2010 |
| 740-10-30-4 | Amended | 2010-07 | 01/28/2010 |

84. Amend paragraph 805-10-00-1 by adding the following items to the table, as follows:

805-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquiree | Amended | 2010-07 | 01/28/2010 |
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Business Combination | Amended | 2010-07 | 01/28/2010 |
| Control of a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Equity Interests | Amended | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |
| Merger of Not-for-Profit Entities | Added | 2010-07 | 01/28/2010 |
| Nonprofit Activity | Added | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Owners | Amended | 2010-07 | 01/28/2010 |
| Public Entity | Amended | 2010-07 | 01/28/2010 |
| 805-10-15-3 | Amended | 2010-07 | 01/28/2010 |
| 805-10-15-4 | Amended | 2010-07 | 01/28/2010 |
| 805-10-65-1 | Amended | 2010-07 | 01/28/2010 |

85. Amend paragraph 805-20-00-1 as follows:

805-20-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquiree | Amended | 2010-07 | 01/28/2010 |
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Business Combination | Amended | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |

86. Add paragraph 805-30-00-1 as follows:

805-30-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Acquiree | Amended | 2010-07 | 01/28/2010 |
| Business Combination | Amended | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 805-30-15-1 | Amended | 2010-07 | 01/28/2010 |
| 805-30-15-2 | Added | 2010-07 | 01/28/2010 |

87. Add paragraph 805-40-00-1 as follows:

805-40-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Acquiree | Amended | 2010-07 | 01/28/2010 |
| Business Combination | Amended | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |

88. Amend paragraph 805-50-00-1 as follows:

805-50-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Acquiree | Amended | 2010-07 | 01/28/2010 |
| Business Combination | Amended | 2010-07 | 01/28/2010 |
| Equity Interests | Amended | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 805-50-15-6 | Amended | 2010-07 | 01/28/2010 |
| 805-50-15-6B | Added | 2010-07 | 01/28/2010 |

89. Amend paragraph 805-740-00-1 as follows:

805-740-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquiree | Amended | 2010-07 | 01/28/2010 |
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Business Combination | Amended | 2010-07 | 01/28/2010 |
| Goodwill | Amended | 2010-07 | 01/28/2010 |
| 805-740-05-1 | Amended | 2010-07 | 01/28/2010 |
| 805-740-05-2 | Amended | 2010-07 | 01/28/2010 |

90. Amend paragraph 810-10-00-1 by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Business Combination | Amended | 2010-07 | 01/28/2010 |
| Owners | Amended | 2010-07 | 01/28/2010 |
| 810-10-45-16 | Amended | 2010-07 | 01/28/2010 |
| 810-10-55-4C | Amended | 2010-07 | 01/28/2010 |
| 810-10-55-4E | Amended | 2010-07 | 01/28/2010 |
| 810-10-65-1 | Amended | 2010-07 | 01/28/2010 |

91. Amend paragraph 815-10-00-1 as follows:

~~**815-10-00-1** No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Merger of Not-for-Profit Entities | Added | 2010-07 | 01/28/2010 |
| 815-10-15-74 | Amended | 2010-07 | 01/28/2010 |

92. Amend paragraph 815-20-00-1 as follows:

~~**815-20-00-1** No updates have been made to this Subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| 815-20-25-15 | Amended | 2010-07 | 01/28/2010 |

93. Amend paragraph 820-10-00-1 by adding the following items to the table, as follows:

820-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 820-10-15-2 | Amended | 2010-07 | 01/28/2010 |

94. Amend paragraph 830-10-00-1 as follows:

830-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 830-10-15-6 | Amended | 2010-07 | 01/28/2010 |

95. Amend paragraph 840-10-00-1 as follows:

840-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquiree | Added | 2010-07 | 01/28/2010 |
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Nonprofit Activity | Added | 2010-07 | 01/28/2010 |
| 840-10-25-2 | Amended | 2010-07 | 01/28/2010 |
| 840-10-25-27 | Amended | 2010-07 | 01/28/2010 |
| 840-10-35-5 | Amended | 2010-07 | 01/28/2010 |
| 840-10-35-8 | Amended | 2010-07 | 01/28/2010 |
| 840-10-35-9 | Amended | 2010-07 | 01/28/2010 |

96. Amend paragraph 840-30-00-1 as follows:

840-30-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 840-30-25-10 | Amended | 2010-07 | 01/28/2010 |
| 840-30-30-15 | Amended | 2010-07 | 01/28/2010 |
| 840-30-35-14 | Amended | 2010-07 | 01/28/2010 |
| 840-30-35-32 | Amended | 2010-07 | 01/28/2010 |
| 840-30-45-7 | Amended | 2010-07 | 01/28/2010 |
| 840-30-55-50 | Amended | 2010-07 | 01/28/2010 |

97. Amend paragraph 845-10-00-1 by adding the following items to the table, as follows:

845-10-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Owners | Amended | 2010-07 | 01/28/2010 |
| 845-10-15-4 | Amended | 2010-07 | 01/28/2010 |

98. Amend paragraph 954-10-00-1 as follows:

954-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 954-10-05-1 | Amended | 2010-07 | 01/28/2010 |
| 954-10-05-3 | Amended | 2010-07 | 01/28/2010 |

99. Amend paragraph 954-205-00-1 as follows:

954-205-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

100. Add paragraph 954-225-00-1 as follows:

954-225-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |
| Inherent Contribution | Added | 2010-07 | 01/28/2010 |
| 954-225-45-7 | Amended | 2010-07 | 01/28/2010 |

101. Add paragraph 954-440-00-1 as follows:

954-440-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

102. Add paragraph 954-470-00-1 as follows:

954-470-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

103. Add paragraph 954-605-00-1 as follows:

954-605-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

104. Add paragraph 954-805-00-1 as follows:

954-805-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquirer | Added | 2010-07 | 01/28/2010 |
| Acquisition Date | Added | 2010-07 | 01/28/2010 |
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Business | Added | 2010-07 | 01/28/2010 |
| Control of a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Inherent Contribution | Added | 2010-07 | 01/28/2010 |
| Merger Date | Added | 2010-07 | 01/28/2010 |
| Merger of Not-for-Profit Entities | Added | 2010-07 | 01/28/2010 |
| Nonprofit Activity | Added | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Performance Indicator | Added | 2010-07 | 01/28/2010 |
| Public Entity | Added | 2010-07 | 01/28/2010 |
| Trading Securities | Added | 2010-07 | 01/28/2010 |
| 954-805-05-1 | Added | 2010-07 | 01/28/2010 |
| 954-805-10-1 | Added | 2010-07 | 01/28/2010 |
| 954-805-15-1 through 15-4 | Added | 2010-07 | 01/28/2010 |
| 954-805-25-1 | Added | 2010-07 | 01/28/2010 |
| 954-805-35-1 | Added | 2010-07 | 01/28/2010 |
| 954-805-45-1 through 45-3 | Added | 2010-07 | 01/28/2010 |
| 954-805-50-1 through 50-3 | Added | 2010-07 | 01/28/2010 |

105. Add paragraph 954-810-00-1 as follows:

954-810-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| 954-810-50-2 | Added | 2010-07 | 01/28/2010 |

106. Amend paragraph 958-10-00-1 as follows:

958-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| 958-10-05-2 | Amended | 2010-07 | 01/28/2010 |

107. Add paragraph 958-20-00-1 as follows:

958-20-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

108. Amend paragraph 958-30-00-1 as follows:

958-30-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

109. Add paragraph 958-205-00-1 as follows:

958-205-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

110. Add paragraph 958-225-00-1 as follows:

958-225-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

111. Add paragraph 958-230-00-1 as follows:

958-230-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

112. Add paragraph 958-310-00-1 as follows:

958-310-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

113. Amend paragraph 958-320-00-1 as follows:

958-320-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

114. Add paragraph 958-325-00-1 as follows:

958-325-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

115. Add paragraph 958-360-00-1 as follows:

958-360-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

116. Add paragraph 958-450-00-1 as follows:

958-450-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

117. Add paragraph 958-605-00-1 as follows:

958-605-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

118. Add paragraph 958-715-00-1 as follows:

958-715-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

119. Add paragraph 958-720-00-1 as follows:

958-720-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |

120. Add paragraph 958-805-00-1 as follows:

958-805-00-1 The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--|---------------|------------------------------------|-------------|
| Acquiree | Added | 2010-07 | 01/28/2010 |
| Acquirer | Added | 2010-07 | 01/28/2010 |
| Acquisition Date | Added | 2010-07 | 01/28/2010 |
| Acquisition by a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Business | Added | 2010-07 | 01/28/2010 |
| Business Combination | Added | 2010-07 | 01/28/2010 |
| Collections | Added | 2010-07 | 01/28/2010 |
| Conditional Promises to Give | Added | 2010-07 | 01/28/2010 |
| Contingent Consideration | Added | 2010-07 | 01/28/2010 |
| Contribution | Added | 2010-07 | 01/28/2010 |
| Control | Added | 2010-07 | 01/28/2010 |
| Control of a Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Donor-Imposed Restrictions | Added | 2010-07 | 01/28/2010 |
| Equity Interests | Added | 2010-07 | 01/28/2010 |
| Goodwill | Added | 2010-07 | 01/28/2010 |
| Identifiable | Added | 2010-07 | 01/28/2010 |
| Inherent Contribution | Added | 2010-07 | 01/28/2010 |
| Intangible Assets | Added | 2010-07 | 01/28/2010 |
| Investing Activities | Added | 2010-07 | 01/28/2010 |
| Merger Date | Added | 2010-07 | 01/28/2010 |
| Merger of Not-for-Profit Entities | Added | 2010-07 | 01/28/2010 |
| Noncontrolling Interest | Added | 2010-07 | 01/28/2010 |
| Nonprofit Activity | Added | 2010-07 | 01/28/2010 |
| Permanently Restricted Net Assets | Added | 2010-07 | 01/28/2010 |

| Paragraph Number | Action | Accounting Standards Update | Date |
|-----------------------------------|---------------|------------------------------------|-------------|
| Public Entity | Added | 2010-07 | 01/28/2010 |
| Reclassification | Added | 2010-07 | 01/28/2010 |
| Temporarily Restricted Net Assets | Added | 2010-07 | 01/28/2010 |
| Unrestricted Net Assets | Added | 2010-07 | 01/28/2010 |
| 958-805-05-1 through 05-5 | Added | 2010-07 | 01/28/2010 |
| 958-805-10-1 | Added | 2010-07 | 01/28/2010 |
| 958-805-15-1 through 15-8 | Added | 2010-07 | 01/28/2010 |
| 958-805-25-1 through 25-37 | Added | 2010-07 | 01/28/2010 |
| 958-805-30-1 through 30-13 | Added | 2010-07 | 01/28/2010 |
| 958-805-35-1 through 35-5 | Added | 2010-07 | 01/28/2010 |
| 958-805-45-1 through 45-11 | Added | 2010-07 | 01/28/2010 |
| 958-805-50-1 through 50-17 | Added | 2010-07 | 01/28/2010 |
| 958-805-55-1 through 55-70 | Added | 2010-07 | 01/28/2010 |
| 958-805-65-1 | Added | 2010-07 | 01/28/2010 |

121. Amend paragraph 958-810-00-1 as follows:

958-810-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|-----------------------------|---------------|------------------------------------|-------------|
| Contribution | Amended | 2010-07 | 01/28/2010 |
| 958-810-05-1 | Amended | 2010-07 | 01/28/2010 |
| 958-810-15-3 | Amended | 2010-07 | 01/28/2010 |
| 958-810-15-4 | Amended | 2010-07 | 01/28/2010 |
| 958-810-45-1 | Added | 2010-07 | 01/28/2010 |
| 958-810-50-4 through 50-6 | Added | 2010-07 | 01/28/2010 |
| 958-810-55-17 through 55-25 | Added | 2010-07 | 01/28/2010 |

122. Amend paragraph 985-20-00-1 as follows:

985-20-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action | Accounting Standards Update | Date |
|--------------------------------------|---------------|------------------------------------|-------------|
| Acquisition by Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| Not-for-Profit Entity | Added | 2010-07 | 01/28/2010 |
| 985-20-15-2 | Amended | 2010-07 | 01/28/2010 |
| 985-20-15-3 | Amended | 2010-07 | 01/28/2010 |

Amendments to the XBRL Taxonomy

There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this Update.