Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 164

Not-for-Profit Entities: Mergers and Acquisitions

Including an amendment of FASB Statement No. 142

Statement of Financial Accounting Standards No. 164
Not-for-Profit Entities: Mergers and Acquisitions

Including an amendment of FASB Statement No. 142

STATUS

Issued: April 2009

Effective Date: Prospectively for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009, and prospectively for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009

Affects: Amends ARB 51, paragraphs 26, 29, 33, 34, 36, and A1 and footnote a
Adds ARB 51, paragraphs 39A, 39B, and A8 through A13
Amends APB 28, paragraph 21 and footnote 3a
Amends APB 29, paragraph 4
Adds FAS 2, paragraph 3B
Amends FAS 2, paragraph 12
Adds FAS 5, paragraph 7B
Amends FAS 52, paragraph 101
Amends FAS 68, paragraph 11
Amends FAS 86, paragraph 2
Amends FAS 109, paragraphs 11(h), 16, 259, 261, 264, and 266 and footnote 18a
Amends FAS 133, paragraphs 11(c) and 29(f)
Deletes FAS 141(R), paragraphs E1 and F2
Amends FAS 142, paragraphs 1, 2, 4, 6, 9, 10, 16, 21, 30, 32, 34, 35, 39, 39A, 42 through 44, 47(b), 54, and 61 and footnotes 3, 5, 7, 11, 14, 18, and 21
Replaces FAS 142, paragraph 48(c)
Deletes FAS 142, paragraph 52 and footnote 24
Adds FAS 142, paragraphs 53A, 53B, and 58A through 58D
Amends FAS 146, paragraph 2
Amends FAS 157, paragraph 2
Amends FAS 160, paragraph 2
Deletes FAS 160, paragraphs C1 and D2
Amends FIN 21, paragraphs 15 and 16 and footnote 2
Amends FIN 26, paragraph 5
Amends FIN 45, paragraph 7(c)
Amends FIN 48, paragraph 12A
Amends FTB 84-1, paragraph 6
Amends FSP FAS 157-2, paragraph 1

Affected by: Paragraphs A138, A139, E12(c), and E12(e) amended by Accounting Standards Update 2010-08, paragraph A12

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: Modifies EITF Issues No. 02-7 and 02-13 and Topic D-101

Interpreted by: No EITF Issues

Related Issues: No EITF Issues

SUMMARY

Why Is the FASB Issuing This Statement and When Is It Effective?

The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. To accomplish that, this Statement establishes principles and requirements for how a not-for-profit entity:

a. Determines whether a combination is a merger or an acquisition
b. Applies the carryover method in accounting for a merger
c. Applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer
d. Determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition.

This Statement also improves the relevance, representational faithfulness, and comparability of the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition by amending FASB Statement No. 142, *Goodwill and Other Intangible Assets,* to make it fully applicable to not-for-profit entities.

This Statement is effective for:

a. Mergers for which the merger date is on or after the beginning of an *initial* reporting period beginning on or after December 15, 2009
b. Acquisitions for which the acquisition date is on or after the beginning of the first *annual* reporting period beginning on or after December 15, 2009.

It may not be applied to mergers or acquisitions before those dates.

Because the following items were not effective for not-for-profit entities upon their initial effective dates, this Statement also provides an effective date for them:

a. Statement 142's requirements on subsequent accounting for goodwill and other intangible assets acquired in an acquisition by a not-for-profit entity (Statement 142 refers to assets acquired in a *business combination.*)
b. The amendments that FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* made to ARB No. 51, *Consolidated Financial Statements,* and to other existing pronouncements
c. The amendments that FASB Statement No. 141 (revised 2007), *Business Combinations,* made to existing pronouncements.

A not-for-profit entity shall apply those items prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009. Application before that date is prohibited.

What Is the Scope of This Statement?

This Statement provides guidance on accounting for a *combination of not-for-profit entities,* which is a transaction or other event that results in a not-for-profit entity initially recognizing another not-for-profit entity,

a business, or a nonprofit activity in its financial statements. This Statement applies to a combination that meets the definition of either a *merger of not-for-profit entities* or an *acquisition by a not-for-profit entity*. This Statement does not apply to:

a. The formation of a joint venture
b. The acquisition of an asset or a group of assets that does not constitute either a business or a nonprofit activity
c. A combination between not-for-profit entities, businesses, or nonprofit activities under common control
d. A transaction or other event in which a not-for-profit entity obtains control of another entity but does not consolidate that entity, as permitted or required by AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations,* or AICPA Audit and Accounting Guide, *Health Care Organizations.*

How Will This Statement Improve Current Accounting Practice?

Until now, not-for-profit entities have accounted for mergers and acquisitions by analogizing to guidance developed for business entities, specifically, APB Opinion No. 16, *Business Combinations.* FASB Statement No. 141, *Business Combinations,* replaced Opinion 16 for business entities, and Statement 141 was itself replaced by Statement 141(R). However, the Board excluded not-for-profit entities from the scope of both Statement 141 and Statement 141(R), pending the issuance of guidance developed specifically for them. This Statement provides that guidance, which takes into account the unique features of not-for-profit entities and the combinations in which they engage.

Unique Features of Not-for-Profit Entities and Their Combinations

Combinations by not-for-profit entities and combinations by business entities are similar in many ways. In particular, acquisitions by the two types of entities are sufficiently similar that the same basic accounting method—the acquisition method—is appropriate for both. But not-for-profit entities differ from business entities in some important ways. Thus, this project began by identifying and analyzing differences between not-for-profit entities and business entities and the combinations in which they engage. The Board then considered how the similarities and differences between business entities and not-for-profit entities should affect the financial accounting and reporting requirements for combinations of not-for-profit entities.

One fundamental difference between combinations of not-for-profit entities and combinations involving only businesses has significant financial reporting implications. Because a not-for-profit entity lacks the type of ownership interests that business entities have, negotiations in not-for-profit mergers and acquisitions generally focus on the furtherance for the benefit of the public of the mission, governance, and programs of the entity, rather than on maximizing returns for equity holders. Many mergers and acquisitions by not-for-profit entities do not involve a transfer of consideration. In other words, many mergers and acquisitions by not-for-profit entities are not fair value exchanges but rather are nonreciprocal transfers. That fundamental difference contributed significantly to this Statement's requirement that different accounting methods apply to a merger of not-for-profit entities and an acquisition by a not-for-profit entity. For an acquisition, those combinations result in a contribution of the acquiree's net assets to the acquirer, which this Statement refers to as an *inherent contribution received* to distinguish it from other contributions received by a not-for-profit entity.

Determining Whether a Combination Is a Merger or an Acquisition

This Statement requires use of the carryover method to account for a *merger of not-for-profit entities,* which is a combination 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. In contrast, the acquisition method must be used to account for an *acquisition by a not-for-profit entity,* which is a combination in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses. This Statement also provides implementation guidance on distinguishing between a merger and an acquisition, including illustrations of how that guidance might be applied to hypothetical combinations.

Applying the Carryover Method

Under the carryover method, the combined entity's initial set of financial statements carry forward the assets and liabilities of the combining entities, measured at their carrying amounts in the books of the combining entities at the merger date. An entity applying the carryover method recognizes neither additional assets or liabilities nor changes in the fair value of recognized assets and liabilities not already recognized in the combining entities' financial statements before the merger under generally accepted accounting principles (GAAP). (Exceptions are made to reflect a consistent method of accounting for the new entity if the merging entities used different methods and to eliminate the effects of intraentity transactions.) This Statement's guidance on applying the carryover method improves on Opinion 16's guidance on applying the pooling method in several ways.

First, in Opinion 16, the measurement date—the date as of which information about the merging entities' assets and liabilities was included in the combined entity's financial statements—was the beginning of the period in which the merger occurred, regardless of the actual date of the merger. The measurement date for a merger in this Statement is the merger date—the date the combination becomes effective. The not-for-profit entity that results from a merger is a new entity and therefore a new reporting entity. An entity's history begins at its inception; a new entity has no previous operations. The guidance on measurement date and related presentation issues in this Statement is consistent with the merged entity's status as a new entity.

This Statement also provides additional guidance for the carryover method. For example, this Statement provides guidance on how to make the classifications and designations that are required to apply other GAAP, such as applying hedge accounting requirements. The new entity is to carry forward into the opening balances in its financial statements the merging entities' classifications and designations unless either:

a. The merger results in a modification of a contract in a manner that would change those previous classifications or designations; or
b. Reclassifications are necessary to conform accounting policies.

This Statement also specifies minimum disclosures to be made as of the merger date to enable users of the new entity's financial statements to evaluate the nature and financial effect of the merger that resulted in its formation.

Applying the Acquisition Method

The acquisition method in this Statement is the same as the acquisition method described in Statement 141(R), with the addition of guidance on items unique or especially significant to a not-for-profit entity and the elimination of guidance that does not apply to a not-for-profit acquirer. For example, this Statement's guidance on identifying both the acquirer and the acquisition date is in substance the same as the guidance that Statement 141(R) provides on those issues, but this Statement uses different terminology and adds a few details unique to not-for-profit entities.

Recognizing Goodwill or a Contribution Received

The area in which this Statement provides guidance that differs most in substance from that in Statement 141(R) is recognition of goodwill. Unlike business entities, some not-for-profit entities are solely or predominantly supported by contributions and returns on investments. Others are more "businesslike," receiving most, or even all, of their support from fees for services. An example of the former is a soup kitchen; an example of the latter is a not-for-profit hospital that charges fees to cover its costs. In general, the more businesslike a not-for-profit entity, the more relevant is information about goodwill acquired to users of the entity's financial statements. This Statement recognizes that information about goodwill may be of limited use to donors in their assessments of whether to provide resources to a not-for-profit entity. Accordingly, this Statement requires an acquirer that expects the operations of the acquiree as part of the combined entity to be predominantly supported by contributions and returns on investments to recognize as a separate charge in its statement of activities the amount that otherwise would be recognized as a goodwill asset as of the acquisition date. *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.

As already noted, many acquisitions by not-for-profit entities constitute an inherent contribution received because the acquirer receives net assets without transferring consideration. This Statement requires the acquirer to recognize such a contribution received as a separate credit in its statement of activities on the acquisition date.

Recognizing and Measuring Noncontrolling Interests

This Statement requires that a recognized noncontrolling interest in another entity, whether a business or another not-for-profit entity, be measured at its fair value at the acquisition date. In addition, as noted in discussing effective date, this Statement makes Statement 160's amendments to ARB 51 effective for not-for-profit entities. Many of those amendments deal with accounting for a noncontrolling interest after its acquisition. This Statement also provides guidance on and illustrates presentation of a noncontrolling interest in a not-for-profit entity's financial statements.

Other Provisions of the Acquisition Method That Are Specific to Not-for-Profit Entities

This Statement also provides other guidance on applying the acquisition method in areas that are unique or especially significant for not-for-profit entities. For example, this Statement establishes exceptions to its recognition principle for donor relationships, collections, and conditional promises to give.

This Statement also provides guidance on how to present in the statement of activities and the statement of cash flows various items that are unique to not-for-profit entities, including the immediate charge or credit to the statement of activities for the amount that otherwise would be recognized as goodwill or an inherent contribution received, respectively. For an entity subject to the health care Guide, that guidance indicates whether specific items are to be within the performance indicator.

Like Statement 141(R), this Statement establishes disclosure objectives for an acquisition and requires minimum disclosures needed to meet those objectives. The disclosure objectives are the same as for a business combination, as are many of the minimum disclosures required. But the minimum disclosures are tailored for acquisitions by not-for-profit entities in some areas. For example, this Statement requires disclosure of the amount of collection items acquired that are recognized in the statement of activities as a decrease in the acquirer's net assets rather than as assets in accordance with FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made.*

How Does This Statement Affect Convergence with International Reporting Standards?

International convergence is not a consideration for financial reporting standards applicable only to not-for-profit entities, like this one. The IASB's standards do not deal explicitly with not-for-profit entities.

Statement of Financial Accounting Standards No. 164

Not-for-Profit Entities: Mergers and Acquisitions

Including an amendment of FASB Statement No. 142

CONTENTS

OBJECTIVE

1. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a not-for-profit reporting entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. To accomplish that, this Statement establishes principles and requirements for how a not-for-profit entity:

a. Determines whether a combination is a merger or an acquisition
b. Applies the carryover method in accounting for a merger
c. Applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer
d. Determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition.

This Statement also improves the relevance, representational faithfulness, and comparability of the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition and changes in the noncontrolling interest in subsidiaries after a merger or an acquisition. To accomplish that, it amends both FASB Statement No. 142, *Goodwill and Other Intangible Assets,* and ARB No. 51, *Consolidated Financial Statements,* as amended by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* to make their provisions fully applicable to not-for-profit entities.

All paragraphs in this Statement have equal authority.
Paragraphs in **bold** set out the main principles.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

SCOPE

2. This Statement applies to a transaction or other event that meets either the definition of a *merger of not-for-profit entities* in paragraph 3(q) or the definition of an *acquisition by a not-for-profit entity* in paragraph 3(c). This Statement does not apply to:

a. The formation of a joint venture
b. The acquisition of an asset or a group of assets that does not constitute either a business or a nonprofit activity (Paragraphs A135–A140 describe the typical accounting for an asset acquisition.)
c. A combination between not-for-profit entities, businesses, or nonprofit activities under common control (Paragraphs A141–A148 describe the typical accounting for a transfer of assets or an exchange of shares between entities under common control.)
d. A transaction or other event in which a not-for-profit entity obtains control of another not-for-profit entity but does not consolidate that entity, as permitted or required by AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* (SOP 94-3),[1] or AICPA Audit and Accounting Guide, *Health Care Organizations* (health care Guide). For example, SOP 94-3 and the health care Guide permit, but do not require, an entity to consolidate another not-for-profit entity in which it has a controlling economic interest other than a majority ownership or voting interest, such as control through a contract or an affiliation agreement. Thus, if one not-for-profit entity obtains control of another by means of a contract, for example, but chooses not to consolidate that entity, this Statement does not apply to the transaction in which control was obtained. Similarly, this Statement does not apply if a not-for-profit entity 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.

KEY TERMS

3. This Statement uses the following terms with the specified definitions:

a. An *acquiree* is a business that the acquirer obtains control of in a business combination or a nonprofit activity or business that a not-for-profit acquirer obtains control of in an acquisition.
b. The *acquirer* is the entity that obtains control of the acquiree.
c. An *acquisition by a not-for-profit entity* is 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.
d. The *acquisition date* is the date on which the acquirer obtains control of the acquiree (paragraph 3(c) of FASB Statement No. 141 (revised 2007), *Business Combinations*).
e. A *business* is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants (paragraph 3(d) of Statement 141(R)).
f. *Collections* are works of art, historical treasures, or similar assets that are all of the following:
   (1) Held for public exhibition, education, or research to further public service rather than financial gain

[1]See paragraphs 8–14 of SOP 94-3 for related guidance.

(2) Protected, kept unencumbered, cared for, and preserved
(3) Subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections (paragraph 209 of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*).

g. A *conditional promise to give* is a promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor (paragraph 209 of Statement 116).

h. A *contribution* is 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 (paragraph 5 of Statement 116). An inherent contribution is made if an entity voluntarily transfers assets (or net assets) or performs services for another entity in exchange either for no assets or for assets of substantially lower value and unstated rights or privileges of a commensurate value are not involved.

i. *Contingent consideration* usually is an obligation of the acquirer to transfer additional assets or equity interests to the former owners or members of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met (paragraph 3(f) of Statement 141(R)).

j. *Control of a for-profit business* has the meaning of controlling financial interest in paragraph 2 of ARB 51 (paragraph 3(g) of Statement 141(R)).

k. *Control of a not-for-profit entity* is "the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise" (paragraph 20 of SOP 94-3, and paragraph 11.08 of the health care Guide).

l. The term *equity interests* is used broadly to mean ownership interests of investor-owned entities; owner, member, or participant interests of mutual entities; and owner or member interests in the net assets of not-for-profit entities.

m. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (paragraph 5 of FASB Statement No. 157, *Fair Value Measurements*).

n. *Goodwill* is 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 (paragraph 3(j) of Statement 141(R)).

o. An asset is *identifiable* if it either:
(1) Is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so; or
(2) Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations (paragraph 3(k) of Statement 141(R)).

p. An *intangible asset* is an asset (not including a financial asset) that lacks physical substance. As used in this Statement, the term *intangible asset* excludes goodwill (paragraph 3(l) of Statement 141(R)).

q. A *merger of not-for-profit entities* is 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. To *cede control* requires that the merging entities not retain shared control of the new entity. To qualify as a *new entity,* the combined entity must have a newly formed governing body; a new entity often is, but need not be, a new legal entity.

r. The *merger date* is the date on which the merger becomes effective.

s. *Noncontrolling interest* is the equity in (net assets of) a subsidiary not attributable, directly or indirectly, to a parent (ARB 51, as amended).

t. A *nonprofit activity* is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity.

u. A *not-for-profit entity* is an entity that possesses the following characteristics that distinguish it from a for-profit business entity:
(1) Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

(2) Operating purposes other than to provide goods or services at a profit
(3) Absence of ownership interests with characteristics that are similar to those of a for-profit business entity.

Not-for-profit entities have those characteristics in varying degrees. Entities that fall outside this definition include all investor-owned entities and entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance companies, credit unions, farm and rural electric cooperatives, and employee benefit plans (paragraph 209 of Statement 116).

v. The term *owners* is used broadly to include holders of equity interests of investor-owned entities; owners, members of, or participants in mutual entities; and owner or member interests in the net assets of not-for-profit entities.

w. A *public entity* is an entity that 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), that is required to file financial statements with the Securities and Exchange Commission, or that provides financial statements for the purpose of issuing any class of securities in a public market. (That is the same as the definition of *public business enterprise* in paragraph 9 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* as amended by FASB Staff Position FAS 126-1, *Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities*). The phrase *conduit debt securities* used in that definition of a *public entity* refers to certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements. (Paragraph 4 of FSP FAS 126-1 defines a public entity to include a conduit bond obligor and paragraph 5 of that FSP defines conduit bond obligor.)

DISTINGUISHING BETWEEN A MERGER AND AN ACQUISITION

4. **A not-for-profit entity shall determine whether a transaction or other event is a *merger* or an *acquisition* by applying the definitions in this Statement (paragraphs 3(q) and 3(c), respectively).**

5. Paragraphs A2–A28 in Appendix A provide guidance on distinguishing between a merger and an acquisition.

FINANCIAL REPORTING FOR A MERGER

6. **The not-for-profit entity resulting from a merger (the new entity) shall account for the merger by applying the carryover method described in this Statement.**

7. 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),[2] adjusted as necessary in accordance with paragraphs 9, 13, and 14.

Recognition Principle

8. **The new entity 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).**

9. The carryover method is applied by combining the assets and liabilities recognized in the financial

[2]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, a not-for-profit entity 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.

statements of the merging entities as of the merger date; the new entity 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.

Classifying or Designating Assets and Liabilities in a Merger

10. **The new entity shall carry forward at the merger date the merging entities' classifications and designations of their assets and liabilities unless one of the exceptions in paragraph 11 applies.**

11. In some situations, GAAP provides for different accounting depending on how an entity classifies or designates a particular asset or liability. Paragraphs 33 and 34 provide examples of such classifications and designations. The new entity shall carry forward into the opening balances in its financial statements (paragraph 16(a)) the merging entities' classifications and designations unless either:

a. The merger results in a modification of a contract in a manner that would change those previous classifications or designations; or
b. Reclassifications are necessary to conform accounting policies in accordance with paragraph 13.

In the first situation ((a) above), the new entity 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 the second situation ((b) above), the new entity shall classify or designate the asset or liability on the basis of the conformed accounting policies at the merger date.

Measurement Principle

12. **The new entity shall measure the assets and liabilities in its financial statements as of the merger date 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 13 and 14.**

13. The merging entities may have measured assets and liabilities using different methods of accounting in their separate financial statements. The new entity shall adjust the amounts of those assets and liabilities as necessary to reflect a consistent method of accounting. 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 of the fair value option in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* for a particular financial asset or liability permits neither the new entity'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.

14. The new entity shall eliminate the effects of any intraentity transactions on its assets, liabilities, and net assets as of the merger date.

Presentation

15. **The entity resulting from a merger is a new reporting entity, with no activities before the date of the merger. Thus, the new entity's initial reporting period begins with the merger date, and the merger itself shall not be reported as activity of the new entity's initial reporting period. Rather, the combined assets, liabilities, and net assets of the merging entities are included in the statement of financial position as of the beginning of that initial reporting period, if presented.**

16. The new entity's statement of activities and statement of cash flows for its initial reporting period shall:

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. Accounting changes necessary to adjust a merging entity's financial statements to GAAP in accordance with paragraph 9, to conform the individual accounting policies of the merging entities in accordance with paragraph 13, or to eliminate intraentity balances in accordance with paragraph 14 shall be reflected in the opening amounts.
b. Report activity from the merger date through the end of the reporting period.

Disclosures for a Merger

17. **The new entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the merger that resulted in its formation.**

18. To meet the objective in paragraph 17, the new entity shall disclose the following information for the merger that resulted in its formation:

a. The name and a description of each merging entity
b. The merger date
c. The primary reasons for the merger
d. For each merging entity:
   (1) The amounts recognized as of the merger date for each major class of assets and liabilities and each class of net assets
   (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) that GAAP does not require to be recognized.
e. The nature and amount of any significant adjustments made to conform the individual accounting policies of the merging entities or to eliminate intraentity balances
f. If the new entity is a public entity, as defined in paragraph 3(w) of this Statement, the following *supplemental pro forma information:*
   (1) If the merger occurs at other than the beginning of an annual reporting period and the entity's initial financial statements thus cover less than an annual reporting period, the following information for the current reporting period as though the merger date had been the beginning of the annual reporting period:
      (a) Revenue
      (b) For an entity subject to the health care Guide, the performance indicator
      (c) Changes in unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets.
   (2) If the new entity presents comparative financial information in the annual reporting period following the year in which the merger occurs, the entity shall disclose the *supplemental pro forma information* in paragraph 18(f)(1)(a)–(c) for the comparable prior reporting period as though the merger date had been the beginning of that prior annual reporting period.

   If disclosure of any of the information required by this subparagraph is impracticable, the entity shall disclose that fact and explain why the disclosure is impracticable. This Statement uses the term *impracticable* with the same meaning as *impracticability* in paragraph 11 of FASB Statement No. 154, *Accounting Changes and Error Corrections.*

19. If the specific disclosures required by this Statement and other GAAP do not meet the objective in paragraph 17, the entity shall disclose whatever additional information is necessary to meet that objective.

FINANCIAL REPORTING FOR AN ACQUISITION

20. **A not-for-profit entity shall account for each acquisition of a business or nonprofit activity by applying the acquisition method as described in this Statement.**

21. **A not-for-profit entity that acquires assets that are neither a *business* nor a *nonprofit activity* under the definitions in paragraph 3(e) or 3(t) shall account for the transaction or other event as an asset acquisition.**

22. The *acquisition method* in this Statement is the same as the acquisition method described in Statement 141(R). However, guidance on items unique or especially significant to a not-for-profit entity (including the provisions of paragraph 51 on the nonrecognition of goodwill for particular acquirees) has been added, and guidance that does not apply to a not-for-profit acquirer has been eliminated. Applying the acquisition method requires:

a. Identifying the acquirer
b. Determining the acquisition date
c. Recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree

d. Recognizing and measuring goodwill (or the immediate charge to the statement of activities required by paragraph 51[3]) or the contribution received.

Identifying the Acquirer

23. **For each acquisition, one of the combining entities shall be identified as the acquirer.**

24. The existing guidance on control and consolidation of not-for-profit entities shall be used to identify the acquirer—the entity that obtains control of the acquiree—as follows:

a. For a not-for-profit acquirer other than a health care entity, the guidance on related entities in SOP 94-3
b. For a not-for-profit health care acquirer, Chapter 11 of the health care Guide.

If an acquisition has occurred but applying the guidance in SOP 94-3, the health care Guide, or ARB 51 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs A39–A44 shall be considered in making that determination.

Determining the Acquisition Date

25. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.**

26. The date on which the acquirer obtains control of the acquiree generally is the date on which the acquirer legally transfers the consideration (if any), acquires the assets, and assumes the liabilities of the acquiree—the closing date. For an acquisition by a not-for-profit entity, the date on which the acquirer obtains control of another not-for-profit entity with sole corporate membership generally also is the date on which the acquirer becomes the sole corporate member of that entity. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

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

Recognition Principle

27. **As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 28 and 29.**

Recognition conditions

28. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements,* at the acquisition date. For example, costs the acquirer expects but is not obligated to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the acquirer recognizes those costs in its postcombination financial statements in accordance with other applicable GAAP.

29. In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former owners) exchanged (or what was contributed) in the acquisition transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 67–69 to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree (or the inherent contribution of the acquiree) and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable GAAP.

30. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquiree had not

[3]For ease of reference and also because the immediate charge in accordance with paragraph 51 is the same amount that otherwise would be recognized as goodwill, subsequent guidance generally refers to recognizing identifiable assets or liabilities *separately from goodwill* without referring explicitly to the immediate charge. Those references should be understood to include the immediate charge in accordance with paragraph 51.

previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a brand name, a patent, or a customer relationship, that the acquiree did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.

31. Paragraphs A45–A85 provide guidance on recognizing operating leases and intangible assets. Paragraphs 38–47 specify the types of identifiable assets and liabilities that include items for which this Statement provides limited exceptions to the recognition principle and conditions in paragraphs 27–29.

Classifying or designating identifiable assets acquired and liabilities assumed in an acquisition

32. **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other GAAP. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies, and other pertinent conditions as they exist at the acquisition date.**

33. In some situations, GAAP provides for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

a. Classification of particular investments in securities as trading or other than trading in accordance with the health care Guide
b. Designation of a derivative instrument as a hedging instrument in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*
c. Assessment of whether an embedded derivative should be separated from the host contract in accordance with Statement 133 (which is a matter of *classification* as paragraph 32 of this Statement uses that term).

34. This Statement provides two exceptions to the principle in paragraph 32:

a. Classification of a lease contract as either an operating lease or a capital lease in accordance with FASB Statement No. 13, *Accounting for Leases,* as interpreted by FASB Interpretation No. 21, *Accounting for Leases in a Business Combination*
b. Classification of a contract written by an entity that is in the scope of FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises,* as amended, as an insurance or reinsurance contract or a deposit contract.

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement Principle

35. **The acquirer shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values.**

36. Paragraphs A93–A101 provide guidance on measuring the fair value of particular identifiable assets acquired, liabilities assumed, and a noncontrolling interest in an acquiree.

Exceptions to the Recognition or Measurement Principles

37. This Statement provides limited exceptions to its recognition and measurement principles. Paragraphs 38–49 specify the types of identifiable assets and liabilities that include items for which this Statement provides limited exceptions. The acquirer shall apply the specified GAAP or the specified requirements rather than the recognition and measurement principles in paragraphs 27 and 35 to determine when to recognize or how to measure the assets or liabilities identified in paragraphs 38–49. That will result in some items being either:

a. Recognized either by applying recognition conditions in addition to those in paragraphs 28 and 29 or by applying the requirements of other GAAP, with results that differ from applying the recognition principle and conditions in paragraphs 27–29; or
b. Measured at an amount other than their acquisition-date fair values.

Exceptions to the recognition principle

Donor relationships

38. The acquirer shall not recognize an acquired donor relationship as an identifiable intangible asset separately from goodwill. Paragraph A72 discusses the nature of donor relationships.

Collections

39. An acquirer that has an organizational policy of not capitalizing collections in accordance with Statement 116 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:

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

Paragraphs A86–A92 provide guidance on determining whether an acquired collection item is purchased or contributed and, if purchased, the appropriate amount of cost to attribute to them. An acquired item that is not added to the acquirer's collection shall be recognized as an asset and measured at fair value in accordance with this Statement.

Conditional promises to give

40. An acquirer shall apply the guidance in paragraphs 22 and 23 of Statement 116 to account for conditional promises to give, which requires the acquirer to:

a. Recognize a conditional promise *only* if the conditions on which it depends are substantially met as of the acquisition date
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.

Exceptions to both the recognition and measurement principles

Assets and liabilities arising from contingencies

41. The acquirer shall recognize as of the acquisition date assets acquired and liabilities assumed that would be within the scope of FASB Statement No. 5, *Accounting for Contingencies,* if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in this Statement, as follows:

a. If the acquisition-date fair value of the asset or liability arising from a contingency can be determined during the measurement period, that asset or liability shall be recognized at the acquisition date measured at fair value. For example, the acquisition-date fair value of a warranty obligation often can be determined.
b. If the acquisition-date fair value of the asset or liability arising from a contingency cannot be determined during the measurement period, an asset or liability shall be recognized at the acquisition date if both of the following criteria are met:
    (1) Information available before the end of the measurement period indicates that it is probable that an asset existed or that a liability had been incurred at the acquisition date. It is implicit in this condition that it must be probable at the acquisition date that one or more future events confirming the existence of the asset or liability will occur.
    (2) The amount of the asset or liability can be reasonably estimated.

    Criteria (1) and (2) shall be applied using the guidance in Statement 5 and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss,* for application of similar criteria in paragraph 8 of Statement 5.

If neither criterion (a) nor criterion (b) is met at the acquisition date using information that is available during the measurement period about facts and circumstances that existed as of the acquisition date, the acquirer shall not recognize an asset or liability as of the acquisition date. In periods after the acquisition date, the acquirer shall account for an asset or a liability arising from a contingency that does not meet the recognition criteria at the acquisition date in accordance with other applicable GAAP, including Statement 5, as appropriate.

42. Contingent consideration arrangements of an acquiree assumed by the acquirer in an acquisition shall be recognized initially at fair value in accordance with the guidance for contingent consideration arrangements in paragraph 58.

Income taxes

43. The acquirer shall recognize and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in an acquisition in accordance with FASB Statement No. 109, *Accounting for Income Taxes,* as amended.

44. The acquirer shall account for the potential tax effects of temporary differences, carryforwards, and any income tax uncertainties of an acquiree that exist at the acquisition date or that arise as a result of the acquisition in accordance with Statement 109, as amended, and related interpretative guidance, including FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.*

Employee benefits

45. The acquirer shall recognize and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with other GAAP, as amended. For example, employee benefits in the scope of the following standards would be recognized and measured in accordance with those standards:

a. APB Opinion No. 12, *Omnibus Opinion—1967* (deferred compensation contracts)
b. FASB Statement No. 43, *Accounting for Compensated Absences*
c. FASB Statement No. 87, *Employers' Accounting for Pensions*
d. FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
e. FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*
f. FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*
g. FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (one-time termination benefits)
h. FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

Indemnification assets

46. The seller in an acquisition by a not-for-profit entity may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item, measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognize the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure, and a separate valuation allowance is not necessary (paragraph A93).

47. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingency that is not recognized at the acquisition date because it does not satisfy the criteria for recognition in paragraph 41 at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an uncertain tax position, that is measured on a basis other than acquisition-date fair value (paragraphs 43 and 44). In those circumstances, the indemnification asset shall be recognized and measured using assumptions consistent with those used to measure the indemnified item,

subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 79 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the measurement principle

Reacquired rights

48. The acquirer shall measure the value of a reacquired right recognized as an intangible asset in accordance with paragraph A52 on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value. Paragraphs A52 and A53 provide additional recognition guidance. Paragraph 77 provides guidance on the subsequent measurement of reacquired rights.

Assets held for sale

49. At the acquisition date, the acquirer shall measure an acquired long-lived asset (or disposal group) that is classified as held for sale in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* at fair value less cost to sell in accordance with paragraphs 34 and 35 of that Statement.

Recognizing and Measuring Goodwill Acquired or a Contribution Received

Goodwill acquired

50. **Unless the operations of the acquiree as part of the combined entity are expected to be predominantly supported by contributions and returns on investments (paragraphs 51 and 52), the acquirer shall recognize goodwill as of the acquisition date, measured as the excess of (a) over (b) below:**

a. The aggregate of:
   (1) The consideration transferred measured at its acquisition-date fair value (paragraph 56)
   (2) The fair value of any noncontrolling interest in the acquiree
   (3) In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

b. The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Statement.

51. **If the operations of the acquiree as part of the combined entity are expected to be predominantly supported by contributions and returns on investments, the acquirer shall recognize an excess of the amount in paragraph 50(a) over the amount in paragraph 50(b) as a separate charge in its statement of activities as of the acquisition date rather than as 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.**

52. An 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 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). Paragraph 71 provides guidance on presenting the separate charge in the statement of activities.

53. In some acquisitions by not-for-profit entities, no consideration is transferred (and items 50(a)(2) and 50(a)(3) also are not present). In that situation, the result of the equation in paragraph 50 will be to measure goodwill or the separate charge to the statement of activities as the excess of liabilities assumed over assets acquired.

Contribution received

54. **The acquirer shall recognize an excess of the amount in paragraph 50(b) over the amount in paragraph 50(a) as a separate credit in its statement of activities as of the acquisition date.**[4]

55. In an acquisition effected without the transfer of consideration (and in which items 50(a)(2) and 50(a)(3) also are not present), the excess amount will

[4]For ease of reference in subsequent guidance and discussion, this Statement generally refers to an excess of the amount in paragraph 50(b) over the amount in paragraph 50(a) as a *contribution received,* which in most situations is consistent with its nature. However, as indicated in paragraph 72, an acquirer may choose to refer to that amount in other terms.

be the excess of assets acquired over liabilities assumed (also see paragraph 53). Paragraph 72 provides guidance on reporting the separate credit (an inherent contribution received) in the statement of activities.

Consideration transferred

56. The consideration transferred in an acquisition by a not-for-profit entity 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. The acquirer might transfer consideration to the former owner of the acquiree or to a designee of the former owner. The acquirer also might receive assistance from an unrelated third party, which shall be taken into account in measuring consideration transferred. (Paragraphs A107 and A108 provide an example of assistance received from a third party.) Examples of potential forms of consideration include cash, other assets, a business or a nonprofit activity of the acquirer, and contingent consideration (paragraph 58).

57. An asset transferred by the 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 acquirer retains control over the transferred assets. An acquirer that retains control over the transferred assets shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in the statement of activities on assets or liabilities it controls both before and after the acquisition. Examples of asset transfers in which control over the future economic benefits of the transferred assets is retained by the acquirer include the following:

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.
b. The asset transfer is otherwise revocable, repayable, or refundable.
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. Paragraphs A100 and A101 illustrate an asset transfer in which the acquirer retains control over the future economic benefits after the acquisition.

Contingent consideration

58. The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (paragraph 3(i)). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree. Paragraph 80 provides guidance on the subsequent measurement of contingent consideration.

Additional Guidance for Applying the Acquisition Method

An acquisition achieved in stages

59. An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. For example, on December 31, 20X1, Entity A holds a 35 percent noncontrolling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Statement refers to such a transaction as an *acquisition achieved in stages,* sometimes also referred to as a step acquisition.

60. In an acquisition achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree (in the example in paragraph 59, the 35 percent noncontrolling equity interest in Entity B) at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the statement of activities. An entity subject to the health care Guide shall include the gain or loss in the performance indicator. In prior reporting periods, an acquirer that is subject to the health care Guide 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.

Measurement period

61. **If the initial accounting for an acquisition is incomplete by the end of the reporting period in**

which the acquisition occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer also shall recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

62. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for the acquisition. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Statement:

a. The identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree
b. The consideration transferred for the acquiree
c. In an acquisition achieved in stages, the equity interest in the acquiree previously held by the acquirer
d. The resulting goodwill recognized in accordance with paragraph 50 (or the charge to the statement of activities in accordance with paragraph 51) or the contribution received recognized in accordance with paragraph 54.

63. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date. Pertinent factors include the time at which additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value determined at that date is likely to indicate an error in the provisional amount.

64. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill or by a direct credit (charge) to the statement of activities if goodwill is not recognized as an asset in accordance with paragraph 51. However, new information obtained during the measurement period sometimes may result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

65. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization, or other income effects recognized in completing the initial accounting. Paragraphs A102–A105 provide additional guidance.

66. After the measurement period ends, the acquirer shall revise the accounting for an acquisition only to correct an error in accordance with Statement 154.

Determining what is part of the acquisition transaction

67. **The acquirer and the acquiree may have a preexisting relationship or other arrangement before negotiations for the acquisition began, or they**

may enter into an arrangement during the negotiations that is separate from the acquisition. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the acquisition, that is, amounts that are not part of the exchange for the acquiree. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquiree. Separate transactions shall be accounted for in accordance with the relevant GAAP.

68. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree (or its former owners) before the combination, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

a. A transaction that in effect settles preexisting relationships between the acquirer and acquiree (paragraphs A109–A116)
b. A transaction that compensates employees or former owners of the acquiree for future services (paragraphs A117–A121)
c. A transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs (paragraph 69)
d. 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. Those contributions made should be accounted for in accordance with Statement 116.

Paragraphs A106–A108 provide additional guidance for determining whether a transaction is separate from the acquisition transaction.

Acquisition-related costs

69. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt securities shall be recognized in accordance with other applicable GAAP.

Presentation

70. **The financial statements of the acquirer (the combined entity) shall report an acquisition as activity of the period in which it occurs.**

Statement of activities

71. The acquirer shall report the excess amount in paragraph 51 as a separate line item on the face of its statement of activities, 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"). Paragraph A125 illustrates one way an acquirer might present that amount in its statement of activities. If the acquirer is within the scope of the health care Guide, the separate charge recognized in accordance with paragraph 51 shall be presented within the performance indicator.

72. The acquirer shall report the excess amount in paragraph 54 in a separate line item on the face of the statement of activities, 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." If the acquirer is within the scope of the health care Guide, whether the recognized contribution received is presented within or outside 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.

73. The acquirer shall classify an inherent contribution received presented in accordance with paragraph 72 on the basis of the type of restrictions imposed on the related net assets. In classifying those net assets, an acquirer shall:

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 paragraph 14 of Statement 116
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 14 of Statement 116 to restricted net assets acquired in an acquisition.

Thus, the contribution received may increase permanently restricted net assets, temporarily restricted net assets, unrestricted net assets, or some combination of those items. Paragraphs A127–A130 illustrate the application of this paragraph's guidance on reporting donor restrictions on a contribution received.

74. An acquirer that transfers assets as consideration for an acquired nonprofit activity or business shall assess whether that transaction satisfies a donor-imposed restriction or otherwise results in a change in its net asset classifications. For example:

a. 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.
b. The acquirer shall report other changes to its net asset classifications 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.

Statement of cash flows

75. The acquirer shall present the following cash inflows and outflows and noncash items related to an acquisition in the statement of cash flows:

a. The entire amount of any net cash flow (cash paid as consideration, if any, less acquired cash of the acquiree) shall be reported as an investing activity.
b. Noncash contributions received and any other noncash amounts received or transferred shall be reported in related disclosures as noncash activities in accordance with paragraph 32 of FASB Statement No. 95, *Statement of Cash Flows.*

Paragraphs A131–A133 illustrate those requirements.

Subsequent Measurement

76. **In general, an acquirer shall subsequently measure and account for assets acquired and liabilities assumed or incurred in an acquisition in accordance with other applicable GAAP for those items, depending on their nature (paragraphs 82–84). However, this Statement provides guidance on subsequently measuring and accounting for the following assets acquired and liabilities assumed or incurred in an acquisition:**

a. Reacquired rights
b. Assets and liabilities arising from contingencies recognized as of the acquisition date
c. Indemnification assets
d. Contingent consideration
e. Contingent consideration arrangements assumed by the acquirer.

Reacquired rights

77. A reacquired right recognized as an intangible asset in accordance with paragraph A52 shall be amortized over the remaining contractual period of the contract in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Assets and liabilities arising from contingencies

78. An acquirer shall develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies, depending on their nature.

Indemnification assets

79. At each subsequent reporting date, the acquirer shall measure an indemnification asset that was recognized in accordance with paragraphs 46 and 47 at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset. The acquirer shall derecognize the indemnification asset only when it collects the asset, sells it, or otherwise loses the right to it.

Contingent consideration

80. 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 61–65. However, 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. The 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. An entity subject to the health care Guide shall recognize the changes within the performance indicator unless the arrangement is a hedging instrument for which Statement 133, in effect, requires such entities to recognize the changes outside the performance indicator.

Contingent consideration arrangements assumed by an acquirer

81. Contingent consideration arrangements of an acquiree assumed by the acquirer shall be measured subsequently in accordance with the guidance for contingent consideration arrangements in paragraph 80.

Goodwill and other intangible assets acquired in an acquisition

82. A not-for-profit entity shall apply Statement 142, as amended, in subsequently accounting for goodwill and other intangible assets recognized in an acquisition of a business or a nonprofit activity.[5]

Ownership interests in subsidiaries

83. A not-for-profit entity shall apply ARB 51, as amended by Statement 160 and this Statement, in accounting for changes in a parent's ownership interest in a subsidiary after control is obtained.[6]

Other statements that provide guidance on subsequent measurement

84. Examples of other Statements that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:

a. The following Statements provide guidance on the subsequent accounting for an insurance or reinsurance contract acquired:
   (1) Statement 60
   (2) FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*
   (3) FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*
   (4) FASB Statement No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts.*
b. Statement 109, as amended, prescribes the subsequent accounting for deferred tax assets (including valuation allowances) and liabilities acquired.

Disclosures for an acquisition

85. **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:**

a. During the current reporting period; or

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[5]Statement 141(R) amended Statement 142 to require the acquirer to (among other things):

a. Recognize intangible assets used in research and development activities, regardless of whether those assets have an alternative future use
b. Classify research and development intangible assets as indefinite-lived until the completion or abandonment of the associated research and development efforts.

Appendix E, which amends other existing pronouncements for the provisions of this Statement, amends Statement 142 to make applicable to not-for-profit entities provisions for goodwill and other intangible assets acquired in an acquisition by a not-for-profit entity. In addition, paragraph 93 of this Statement makes Statement 141(R)'s amendments to other pronouncements effective for not-for-profit entities.

[6]Appendix E amends ARB 51 to make Statement 160's amendments to ARB 51 and other pronouncements apply to not-for-profit entities.

b. **After the reporting date but before the financial statements are issued or are available to be issued.**

86. To meet the objective in paragraph 85, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

a. The name and a description of the acquiree.
b. The acquisition date.
c. If applicable, the percentage of ownership interests, such as voting equity instruments, acquired.
d. The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquiree.
e. 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:
   (1) The goodwill recognized; or
   (2) The separate charge recognized in the statement of activities in accordance with paragraph 51.
f. 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:
   (1) Cash
   (2) Other tangible or intangible assets, including a business or subsidiary of the acquirer
   (3) Liabilities incurred, for example, a liability for contingent consideration.
g. For contingent consideration arrangements and indemnification assets:
   (1) The amount recognized as of the acquisition date
   (2) A description of the arrangement and the basis for determining the amount of the payment
   (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.
h. For acquired receivables not subject to the requirements of AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer:*
   (1) The fair value of the receivables
   (2) The gross contractual amounts receivable
   (3) The best estimate at the acquisition date of the contractual cash flows not expected to be collected.

   The disclosures shall be provided by major class of receivable, such as loans, contributions, direct finance leases in accordance with Statement 13, and any other class of receivables.
i. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.
j. For assets and liabilities arising from contingencies recognized at the acquisition date:
   (1) The amounts recognized at the acquisition date and the measurement basis applied (that is, at fair value or at an amount recognized in accordance with Statement 5 and Interpretation 14)
   (2) The nature of the contingencies.

   An acquirer may aggregate disclosures for assets and liabilities arising from contingencies that are similar in nature.
k. For assets and liabilities arising from contingencies that have not been recognized at the acquisition date, the disclosures required by Statement 5 if the criteria for disclosures in that Statement are met. The disclosures, if any, required by this paragraph and by paragraph 86(j) shall be included in the note that describes the acquisition.
l. The total amount of goodwill that is expected to be deductible for tax purposes.
m. 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 39.
n. 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.
o. For transactions that are recognized separately from the acquisition of assets and assumptions of liabilities in the acquisition (paragraph 67):
   (1) A description of each transaction
   (2) How the acquirer accounted for each transaction
   (3) The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized
   (4) If the transaction is the effective settlement of a preexisting relationship, the method used to determine the settlement amount.

p. The disclosure of separately recognized transactions required by paragraph 86(o) shall include the amount of acquisition-related costs, the amount recognized as an expense, and the line item or items in the statement of activities in which that expense is recognized. The amount of any issuance costs not recognized as an expense and how they were recognized also shall be disclosed.

q. If the acquisition results in an inherent contribution received, a description of the reasons that the transaction resulted in a contribution received (paragraphs 54 and 55).

r. For each acquisition in which the acquirer holds less than 100 percent of the equity interests in the acquiree at the acquisition date:
   (1) The fair value of the noncontrolling interest in the acquiree at the acquisition date
   (2) The valuation technique(s) and significant inputs used to measure the fair value of the noncontrolling interest.

s. In an acquisition achieved in stages:
   (1) The acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date
   (2) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the acquisition (paragraph 60) and the line item in the statement of activities in which that gain or loss is recognized.

t. If the acquirer is a *public entity* as defined in paragraph 3(w):
   (1) Each of the following amounts attributable to the acquiree since the acquisition date that are included in the statement of activities for the reporting period:
      (a) Revenues
      (b) For an entity subject to the health care Guide, the performance indicator
      (c) Changes in unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets.
   (2) The following *supplemental pro forma information* for the current reporting period as though the acquisition date for all acquisitions that occurred during the current year had been the beginning of the annual reporting period:
      (a) The revenue of the combined entity
      (b) For an entity subject to the health care Guide, the performance indicator
      (c) Changes in unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets.
   (3) If the acquirer presents comparative financial statements, the *supplemental pro forma information* in paragraph 86(t)(2)(a)–(c) 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 prior annual reporting period.

   If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. (Paragraph 18(f) indicates that this Statement uses the term *impracticable* with the same meaning as *impracticability* in paragraph 11 of Statement 154.)

87. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer shall disclose the information required by paragraph 86(e)–(t) in the aggregate.

88. If the date of an acquisition is after the reporting date but before the financial statements are issued or available for issue, the acquirer shall disclose the information required by paragraph 86 unless the initial accounting for the acquisition is incomplete at the time the financial statements are issued or are available to be issued. In that situation, the acquirer shall describe which disclosures could not be made and the reason that they could not be made.

89. **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to acquisitions that occurred in the current or previous reporting periods.**

90. To meet the objective in paragraph 89, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

a. If the initial accounting for an acquisition is incomplete (paragraph 61) for particular assets, liabilities, noncontrolling interests, or items of consideration and the amounts recognized in the financial statements for the acquisition thus have been determined only provisionally:
   (1) The reasons that the initial accounting is incomplete

   (2) The assets, liabilities, equity interests, or items of consideration for which the initial accounting is incomplete
   (3) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 61.
b. For each reporting period after the acquisition date until the entity collects, sells, or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
   (1) Any changes in the recognized amounts, including any differences arising upon settlement
   (2) Any changes in the range of outcomes (undiscounted) and the reasons for those changes
   (3) The disclosures required by paragraph 32 of Statement 157.
c. A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period as required by Statement 142, as amended.

91. If the specific disclosures required by this Statement and other GAAP do not meet the objectives set out in paragraphs 85 and 89, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

EFFECTIVE DATE AND TRANSITION

92. This Statement shall be applied prospectively to:

a. Mergers for which the merger date is on or after the beginning of an *initial* reporting period beginning on or after December 15, 2009
b. Acquisitions for which the acquisition date is on or after the beginning of the first *annual* reporting period beginning on or after December 15, 2009.

Earlier application is prohibited. This Statement shall be applied in both annual and interim periods after its effective date.

93. A not-for-profit entity shall apply the following standards prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009:

a. Statement 142's requirements on subsequent accounting for goodwill and other intangible assets acquired in an acquisition (Statement 142 refers to assets acquired in a *business combination*)
b. The amendments Statement 160 made to ARB 51 and to other existing pronouncements
c. The amendments Appendix D of this Statement makes to ARB 51 on disclosure and presentation of noncontrolling interests
d. The amendments Statement 141(R) made to existing pronouncements.

94. Except for goodwill as indicated in paragraphs 95 and 97 and other intangible assets as indicated in paragraph 100, assets and liabilities that arose from mergers or acquisitions whose dates preceded the application of this Statement shall not be adjusted upon application of this Statement.

Transition for Previously Recognized Goodwill

95. An entity 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. That charge shall be presented as required by paragraphs 98 and 99.

96. An entity that is not predominantly supported by contributions and returns on investments shall establish its reporting units on the basis of the guidance in paragraph 54 of Statement 142 as follows:

> At the date this Statement is initially applied, an entity shall establish its reporting units based on its reporting structure at that date and the guidance in paragraphs 30 and 31 [of Statement 142]. Recognized net assets, excluding goodwill, shall be assigned to those reporting units using the guidance in paragraphs 32 and 33 [of Statement 142]. 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. *All* goodwill recognized in an entity's statement of financial position at the date this Statement 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 34 and 35 [of Statement 142] may

> be useful in assigning goodwill to reporting units upon initial application of this Statement.

That guidance sometimes may result in a single reporting unit for the entire entity.

97. After establishing its reporting units, an entity that is not predominantly supported by contributions and returns on investments shall subject previously recognized goodwill in each reporting unit to the transitional impairment evaluation required by paragraphs 55–58 of Statement 142, as follows:

> Goodwill in each reporting unit shall be tested for impairment as of the beginning of the fiscal year in which this Statement is initially applied in its entirety (in accordance with paragraphs 19–21 [of Statement 142]). An entity has six months from the date it initially applies this Statement 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. 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.
>
> 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*]. . . .
>
> 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 (refer to paragraph 28 [of Statement 142]). 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 paragraph 43 [of Statement 142].
>
> In addition to the transitional goodwill impairment test, an entity shall perform the required annual goodwill impairment test in the year that this Statement is initially applied in its entirety. 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.

98. An entity shall present a write-off of goodwill in accordance with paragraph 95 or an impairment loss recognized as a result of a transitional goodwill impairment evaluation, and the related income tax effects, if any, in a separate line item in the statement of activities. A not-for-profit entity shall present that transitional impairment loss outside a performance indicator or any intermediate measure of operations, if one is presented.

99. An entity that reports on an interim basis shall recognize a write-off of goodwill or a transitional impairment loss for goodwill in the first interim period regardless of the period in which an impairment loss is measured. Interim periods of the fiscal year that precede the period in which the write-off of goodwill or transitional goodwill impairment loss is measured shall be restated to reflect the accounting change in those periods. 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). 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.

Transition for Previously Recognized Intangible Assets Other Than Goodwill Acquired in a Purchase Accounted for under Opinion 16

100. An entity that previously recognized intangible assets other than goodwill in a transaction accounted for using the purchase method in APB Opinion No. 16, *Business Combinations,* shall reassess the useful lives of those intangible assets using the guidance in paragraph 11 of Statement 142 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 this

Statement is initially applied. The entity shall test previously recognized intangible assets deemed to have indefinite useful lives for impairment as of the beginning of the fiscal year in which this Statement is initially applied in accordance with paragraph 17 of Statement 142. That transitional intangible asset impairment test shall be completed in the first interim period in which this Statement is initially applied, and any resulting impairment loss shall be recognized as the effect of a change in accounting principle. A not-for-profit entity 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.

Income Taxes

101. For acquisitions of businesses or nonprofit activities in which the acquirer is subject to taxes on portions of its income and the acquisition date was before the effective date of this Statement, the acquirer shall apply the requirements of Statement 109, as amended, 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 of this Statement:

a. The acquirer shall recognize, as an adjustment to income tax expense (or a direct adjustment to contributed capital in accordance with paragraph 26 of Statement 109), changes in the valuation allowance for acquired deferred tax assets.
b. The acquirer shall recognize changes in the acquired income tax positions in accordance with Interpretation 48, as amended.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Mr. Siegel abstained.

Robert H. Herz *Chairman*	Thomas J. Linsmeier Leslie F. Seidman	Marc A. Siegel Lawrence W. Smith

Appendix A

IMPLEMENTATION GUIDANCE

CONTENTS

Appendix A

IMPLEMENTATION GUIDANCE

This appendix is an integral part of this Statement.

Introduction

A1. This appendix discusses generalized situations and provides examples that incorporate simplified assumptions to illustrate how to apply some of the provisions of this Statement. Application of this Statement's provisions to actual situations will require the exercise of judgment; this appendix is intended to aid in making those judgments. Some of the examples on application of the acquisition method are taken from FASB Statement No. 141 (revised 2007), *Business Combinations,* and some of the assumptions used in those examples (such as the names of the entities) may not be directly pertinent to not-for-profit entities. The examples are included here because they illustrate principles that are pertinent to not-for-profit entities.

Distinguishing between a Merger and an Acquisition (Application of Paragraph 4)

A2. A *merger of not-for-profit entities* is 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. If the participating entities retain shared control of the new entity, they have not ceded control. To qualify as a new entity, the combined entity must have a newly formed governing body; a new entity often is, but need not be, a new legal entity (paragraph 3(q)). *Control of a not-for-profit entity* is the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise (paragraph 3(k)).

A3. An *acquisition by a not-for-profit entity* is a combination in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses (paragraph 3(c)). (The formation of a new entity is not a significant factor in assessing whether one entity has obtained control over another.)

A4. Ceding control to a new entity 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. But 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 A5–A9, 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 entity, whether one entity has acquired the other, or whether another form of combination, such as the formation of a joint venture, has occurred.

A5. Determining whether each of the governing bodies of the entities participating in a combination cedes control of those entities to a new entity requires assessing the characteristics of the following:

a. The process leading to the combination
b. The participants to the combination
c. The combined entity.

A6. 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.

A7. 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 two groups:

a. Governance and related control powers
b. Financial capacity.

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 A4, ceding of control is the sole definitive criterion for a merger.

A8. 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.

A9. 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 Statement on mergers does not apply in a business combination, and it should not be applied by analogy.

A10. The following examples illustrate how the participants in a combination would apply the control criteria (ceding of control for a merger and obtaining control for an acquisition) and the indicators in identifying the nature of the combination.

Example 1: A Combination That Is a Merger

A11. Community Foundation XYZ, 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, Community Foundation XYZ 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 (a) geographic proximity and service areas, (b) similar missions, programs, and operating practices, and (c) 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.

A12. 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 assenting votes. Its recommendation is to be accompanied by the reasons underlying both the recommendation of the Committee and any dissenting votes.

A13. 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:

a. A new entity named Charity AB is to be formed; to minimize costs, the corporate charter of Charity A is to be retained. The assets and liabilities of Charity B will be transferred to Charity AB, and Charity B will cease to exist. Thus, in effect, both Charity A and Charity B will cease to exist in their precombination forms.
b. On the date the combination becomes effective (as approved by the appropriate State official), the corporate charter will be amended to reflect the new entity'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.
c. The CEO of Charity B will be offered the position of CEO of Charity AB for a term of at least two years.
d. The initial Board of Charity AB will consist of 15 members:
   (1) Charity A will appoint 9 of the initial members, preferably from the members of its existing 50-member board and its current CEO.
   (2) Charity B will appoint 6 of the initial members, preferably from its existing 25-member board.
   (3) 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.
e. The headquarters of Charity A and its underlying lease (which has eight remaining years) will be retained.
f. A transition committee consisting of two members each from the current boards of Charity A and Charity B, under the authority of the CEO of Charity AB, will be appointed to:
   (1) Submit a formal plan of merger to each of the governing boards and, if approved, seek approval from the appropriate State authorities.
   (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.
   (3) Interview existing staff and other candidates for senior management positions.
   (4) Make recommendations about:
      (a) Eliminating program and operating redundancies, including severance packages for any terminated staff
      (b) Improving the current operating policies and practices of Charity A and Charity B
      (c) 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.

A14. In discussing item 4(c) above, the Exploratory Committee report notes that the Committee interviewed the current CEOs of Charity A and Charity B and found both well-qualified to serve as the CEO of Charity AB. However, although both CEOs are in their early 60s and are eager to assist Charity AB through the initial transition period, the CEO of Charity A had been contemplating retiring within the next year. The Committee saw no need to open the CEO search to other candidates.

A15. During August 20X9, each of the governing boards of Charity A and Charity B tentatively approves the Committee recommendations and appoints its members to the recommended Transition Committee. The boards also ask 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 approves the plan for their combination, and it is submitted to the State for approval. In November, the plan receives the required State approval, and the combination becomes effective on January 1, 20X0, as proposed.

A16. Paragraph A5 explains that determining whether each of the governing bodies of the participating entities in a combination cedes control of those entities to a new entity requires assessing the characteristics of the process leading to the combination, the participants in the combination, and the combined entity. 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 CEO 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 Charity A and Charity 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 entity, Charity AB, which has a newly formed governing body.

Example 2: A Combination That Is neither a Merger nor an Acquisition

A17. The facts are the same as in Example 1, except that Charity AB is established as a new legal entity (with its own charter), and Charity A and Charity B each:

a. Will continue to exist with its current governing body but cease to operate its existing programs.
b. Has the power to veto nominations for future members of Charity AB's governing body for two years.
c. Will retain $200,000 in operating cash and all of the investment assets of its donor-restricted endowment funds. Two years following the combination date, each charity will dissolve and transfer its remaining assets to Charity AB unless either exercises its right of withdrawal (item (d)).
d. Has the right to dissolve Charity AB, which if exercised 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).

A18. In this example, 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.

Example 3: A Combination That Is an Acquisition

A19. Charity C provides health and human services to residents of the City of XX and two adjoining counties, referred to as Metro Area XX, 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 Y, which adjoins the northern part of Metro Area XX. 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 XX and [Brand Name] of County Y. Each charity receives contributions from the residents of its service area.

A20. 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, they 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.

A21. 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 CEOs 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. The Strategy Committee members include the CEOs and 6 directors from each charity and 10 community leaders from the area. It is chaired by the CEO 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 (a) the governance model for a new charity to be formed by consolidating and dissolving both of the existing charities and (b) 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.

A22. On November 1, 20X5, the governing boards of both charities approve the Strategy Committee's plan of consolidation. The CEOs of both charities execute a joint Memorandum of Understanding (MoU), which states:

a. The charities will create a new entity named Charity C for Northwestern State (CCNWS) upon completing the due diligence process and obtaining approvals of the State authorities and IRS qualification as a tax-exempt public charity, which will be concluded no later than December 31, 20X5.
b. The bylaws of CCNWS will establish a board of directors of up to 30 members.
c. The board of directors of Charity C will nominate 15 of the initial members of the board of CCNWS. (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.
d. CCNWS will have four Local Community Committees representing four geographic areas, one of which is County Y. Each Committee will provide advice to the board of directors for local decision making consistent with CCNWS's mission and vision. At each election after the installation of the initial board, each Committee may nominate up to four candidates for a one-year renewable term on the board of CCNWS. The board will select a minimum of two members from each Local Community Committee, for a total of eight additional members.
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.
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.
g. Until the consolidation is complete, each charity's board of directors will:
    (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 CCNWS
    (2) Preserve their tax-exempt status and relationships with contributors and grantee agencies
    (3) Not materially amend or modify their articles of incorporation or bylaws.
h. During the first three years after the combination, CCNWS will:
    (1) Use the business model (direct-services based) to increase its capacity for making

sustained change to address key social needs.

(2) Fund and maintain no less than four geographic sites, with one in County Y, to allow for community involvement in campaign, community impact programs, marketing, and public policy.

(3) Fund and maintain the financial and program commitments of both of the consolidating charities to their respective grantee agencies, subject to available funding.

(4) Strive to expand [Brand Name] program of Charity D and its strategies throughout the CCNWS 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 CCNWS.

(5) Not reduce significantly the current staffs 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 CEO, who will become the Vice President for Program Services and Strategic Development of CCNWS.

i. The obligations of Charity D, which are outlined in the MoU, are subject to approval by its board of directors. The obligations of Charity C, which also are outlined in the MoU, are subject to approval by its Executive Committee.

A23. Following are certain facts for each of the combining charities and the initial staffing of the combined CCNWS:

	Charity C		Charity D	
Financial—years ended 20X5 and 20X4:	$ millions		$ millions	
Revenues	$ 45	$ 46	$ 30	$ 37
Expenses	42	42	37	38
Net excess (deficit)	3	4	(7)	(1)
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 CCNWS:				
Senior officers of CCNWS:				
President	former CEO			
VP strategic relations			former CEO	
CFO	former CFO			
VP public policy (vacant, being recruited)				

A24. 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 CCNWS resulted in a new entity 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.

A25. 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 CCNWS. Those factors include Charity C's:

a. Dominance in the selection of 15 of the 20 members of the initial board of directors of CCNWS. 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

CCNWS 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.

b. Dominance in the selection of the key senior officers. The table in paragraph A23 indicates that early on it was decided that the CEO of Charity C would be retained as CEO/President of CCNWS, that the CEO of Charity D of County Y would become one of CCNWS' Vice Presidents, and that there was no need to open the CEO search process to external parties.
c. 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.

A26. In addition, it appears that Charity C wanted to preserve and obtain certain aspects of Charity D's operations and resources, including its:

a. Expertise in implementing new programs developed and promoted by the national entity
b. Existing donor relationships
c. Residual net assets.

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 Statement requires.

A27. 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.

A28. 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 CCNWS. The transaction is an acquisition in which the economic substance and existence of Charity C (the acquirer) continue, although with a different name and expanded operations.

Illustration of Disclosures for a Merger (Application of Paragraphs 17 and 18)

A29. The following example illustrates some of the disclosures this Statement requires for a merger; it is not based on an actual transaction. The example assumes that three not-for-profit entities—NFP A, NFP B, and NFP C—merge to create a new entity, NFP ABC. NFP ABC is a public entity, as defined in paragraph 3(w) of this Statement. The illustration presents the note disclosures in a tabular format that identifies the specific disclosure requirements illustrated. An actual note might present many of the disclosures illustrated in a simple narrative format. The required supplemental information is presented in a separate schedule outside the notes.

Footnote M: Merger

Paragraph Reference	
18(a)–(c)	NFP ABC was formed on June 15, 20X1, as the result of a merger of three local not-for-profit entities—NFP A, NFP B, and NFP C. All three entities shared the common mission of supporting youth education. Through their merger, the entities seek to further their common mission by (a) substantially improving their after-school youth programs in the region and their capability to assist youth in need and (b) achieving economies of scale and other synergies through integrating their services.
18(d)(2)	At June 15, 20X1, NFP A had a conditional promise receivable of $1.4 million from donor XA to be used to construct a new after-school youth facility. The promise is conditioned upon NFP A raising an equivalent amount from others by the end of 20X4 to be used for construction of the facility. At the merger date, NFP A had raised $420,000. NFP ABC expects to successfully raise the remaining amount by the end of 20X4.
18(e)	Of NFP A'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 B and NFP C had elected not to imply a time restriction on those types of gifts, and NFP ABC has conformed its policy to that of NFP B and NFP C. Thus, the time restriction on NFP A's donated long-lived assets was removed, which increased the opening balance of NFP ABC's unrestricted net assets by $789,000.

Paragraph Reference

18(d), 18(e)

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

	NFP A	NFP B	NFP C	Adjustments Debit	Adjustments Credit	Total (NFP ABC)
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	-	-	9,875
Land, buildings, and equipment	43,337	59,021	15,875	-	-	118,233
Accumulated depreciation	(8,458)	(9,935)	(1,990)	-	-	(20,383)
Land, buildings, and equipment, net	34,879	49,086	13,885	-	-	97,850
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	8,916	27,335	8,591	-	789	45,631
Total net assets	$ 57,750	$113,744	$ 37,486	-	-	$ 208,980

Required Supplementary Information (Unaudited)

The following information is not audited.

Paragraph Reference

18(f)(1) NFP ABC'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:

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

18(f)(2) If NFP ABC presents comparative financial information in the annual reporting period following the year in which the merger occurs, the supplemental pro forma information above would be presented in the financial report of that year as well.

Applying the Acquisition Method

Definition of a Business and a Nonprofit Activity (Application of Paragraphs 20 and 21)

A30. Statement 141(R) uses the term *business* to differentiate an acquisition of an integrated set of activities and assets that is within the scope of that Statement from an acquisition of a group of assets that is outside its scope. Paragraph 3(d) of Statement 141(R) defines *business* as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants." This Statement uses the same definition of *business* (paragraph 3(e)).

A31. In addition to the term *business,* this Statement 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. This Statement 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. (Paragraph 3(t) defines a nonprofit activity.) The nature of the benefits provided distinguishes a business from a nonprofit activity. For a business, those benefits are economic benefits that are provided as a return to investors (either reflected in the market price of the equity or through dividends) or other economic benefits, such as lower costs, that are provided directly to owners, members, or participants. For a nonprofit activity, the benefits are provided to fulfill the purpose or mission for which an entity exists (for example, goods or services provided to beneficiaries, customers, or members) rather than goods or services provided at a profit or profit equivalent.

A32. Both a business and a nonprofit activity consist of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses or nonprofit activities usually have outputs, outputs are not required for an integrated set to qualify as a business or nonprofit activity. The three elements of a business or nonprofit activity are defined as follows:

a. *Input*—Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include long-lived assets (including intangible assets or rights to use long-lived assets), intellectual property, ability to obtain access to necessary materials or rights, and employees.
b. *Process*—Any system, standard, protocol, convention, or rule that when applied to an input or inputs creates or has the ability to create outputs. Examples include strategic management processes, operational processes, and resource management processes. Those processes typically are documented, but an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll, and other administrative systems typically are not processes used to create outputs.)

c. *Output*—The result of inputs and processes applied to those inputs that provide or have the ability to provide either:
   (1) A return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants; or
   (2) Goods or services to beneficiaries, customers, or members that fulfill the purpose or mission for which a not-for-profit entity exists.

A33. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs—that together are or will be used to create outputs. However, a business or nonprofit activity need not include all of the inputs or processes that the seller used in operating that business or nonprofit activity if market participants are capable of acquiring the business or nonprofit activity and continuing to produce outputs, for example, by integrating the business or nonprofit activity with their own inputs and processes. FASB Statement No. 157, *Fair Value Measurements,* describes *market participants* as:

> . . . buyers and sellers in the principal (or most advantageous) market for the asset or liability that are:
>
> a. Independent of the reporting entity; that is, they are not related parties
> b. Knowledgeable, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary
> c. Able to transact for the asset or liability
> d. Willing to transact for the asset or liability; that is, they are motivated but not forced or otherwise compelled to do so. [Paragraph 10; footnote reference omitted.]

A34. The nature of the elements of a business or nonprofit activity varies by industry and by the structure of an entity's operations (activities), including the entity's stage of development. Established businesses or nonprofit activities often have many, and different, kinds of inputs, processes, and outputs, whereas new businesses or nonprofit activities often have few inputs and processes, and sometimes only a single output (product). Nearly all businesses or nonprofit activities also have liabilities, but a business or nonprofit activity need not have liabilities.

A35. An integrated set of activities and assets in the development stage might not have outputs. If it does not, the acquirer should consider other factors to determine whether the set is a business or nonprofit activity. Those factors include, but are not limited to, whether the set:

a. Has begun planned principal activities
b. Has employees, intellectual property, and other inputs and processes that could be applied to those inputs
c. Is pursuing a plan to produce outputs
d. Will be able to obtain access to customers, beneficiaries, or members that will purchase or otherwise receive the outputs that fulfill the purpose or mission for which a not-for-profit entity exists.

A36. Determining whether a particular set of assets and activities is a business or nonprofit activity should be based on whether the integrated set is capable of being conducted and managed as a business or nonprofit activity by a market participant. Thus, in evaluating whether a particular set is a business or nonprofit activity, it is not relevant whether a seller operated the set as a business or nonprofit activity or whether the acquirer intends to operate the set as a business or nonprofit activity.

A37. In the absence of evidence to the contrary, a particular set of assets and activities in which goodwill (or an amount that could qualify as a separate charge under paragraph 51) is present shall be presumed to be a business or nonprofit activity. However, a business or nonprofit activity need not have goodwill.

Identifying the Acquirer (Application of Paragraphs 23 and 24)

A38. In accordance with the definition in paragraph 3(b), the acquirer is the entity that obtains control of the acquiree (and recognizes the acquiree in its financial statements). Paragraph 24 specifies the existing guidance to be applied in determining which entity obtains control of the other(s). If an acquisition has occurred but applying that guidance does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs A39–A44 shall be considered in making that determination.

A39. In an acquisition effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer usually is the entity that transfers the cash or other assets or incurs the liabilities.

A40. The acquirer usually is the combining entity whose relative size (measured in, for example, assets, revenues, or change in net assets) is significantly larger than that of the other combining entity or entities.

A41. If one of the combining entities can select or dominate the process of selecting the management team of the resulting entity, that entity is likely to be the acquirer.

A42. The combined entity often retains the mission and the legal name of the acquirer.

A43. In an acquisition involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the transaction, as well as the relative size of the combining entities (paragraph A40).

A44. 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 significant factor in identifying an acquisition (paragraph A3). 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. The following factors should be considered in assessing which entity is able to select or to dominate the process of selecting the governing body:

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.
b. If the combined entity's governing body is self-perpetuating:
   (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
   (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.
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.
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).
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.
f. The powers of any sponsoring entities or members of a not-for-profit corporation 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.
g. If the combined entity's governing body delegates powers to committees, the nature of those delegated powers and the composition of the committees.
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.

Recognizing Particular Assets Acquired and Liabilities Assumed (Application of Paragraphs 27–30)

Operating leases

A45. The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs A46 and A47.

A46. Regardless of whether the acquiree is the lessee or the lessor, the acquirer shall determine whether the terms of each of an acquiree's operating leases are favorable or unfavorable compared with the market terms of leases of the same or similar items at the acquisition date. The acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms.

A47. An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship. In that situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph A48.

Recognition of intangible assets separately from goodwill

A48. The acquirer shall recognize separately from goodwill[7] the identifiable intangible assets acquired. An intangible asset is *identifiable* if it meets either the separability criterion or the contractual-legal criterion described in paragraph 3(o).

A49. An intangible asset that meets the contractual-legal criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

a. An acquiree leases a manufacturing facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the pricing of current market transactions for the same or similar items is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill even though the acquirer cannot sell or otherwise transfer the lease contract. (See also paragraphs A46 and A47.)
b. An acquiree owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.
c. An acquiree owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the contractual-legal criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

A50. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability. An intangible asset that the acquirer would be able to sell, license, or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license, or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, donor, customer, and subscriber lists are frequently licensed and thus meet the separability criterion. Even if an acquiree believes its donor or customer lists have characteristics different from other donor or customer lists, the fact that such lists are frequently licensed generally means that the acquired list meets the separability criterion. However, an acquired donor or customer 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 or customers.

A51. An intangible asset that is not individually separable from the acquiree or combined entity meets the separability criterion if it is separable in combination with a related contract, identifiable asset, or liability. For example, an acquiree owns a registered trademark and documented but unpatented

[7]See footnote 3. For ease of reference, this appendix also generally uses the term *goodwill* to refer to *goodwill or the separate charge in accordance with paragraph 51.*

technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquiree or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired rights

A52. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's trade name under a franchise agreement or a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from goodwill. Paragraph 48 provides guidance on measuring a required right, and paragraph 77 provides guidance on the subsequent accounting for a reacquired right.

A53. If the terms of the contract giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph A110 provides guidance for measuring that settlement gain or loss.

Assembled workforce and other items that are not identifiable

A54. The acquirer subsumes into goodwill (or the separate change recognized in accordance with paragraph 51) the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired business or nonprofit activity from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill, any value attributed to it is subsumed into goodwill.

A55. The acquirer also subsumes into goodwill (or the separate change recognized in accordance with paragraph 51) any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential gifts or contracts the acquiree is negotiating with prospective new donors or customers at the acquisition date. Because those potential gifts or contracts are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill. The acquirer should not subsequently reclassify the value of those contracts from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.

A56. After initial recognition, an acquirer accounts for identifiable intangible assets acquired in accordance with the provisions of FASB Statements No. 142, *Goodwill and Other Intangible Assets,* and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* However, as described in paragraph 8 of Statement 142, the accounting for some acquired intangible assets after initial recognition is prescribed by other Statements.

A57. The identifiability criteria determine whether an intangible asset is recognized separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in estimating the fair value of an intangible asset. For example, the acquirer would take into account assumptions that market participants would consider, such as expectations of future contract renewals, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 48, which establishes an exception to the fair value measurement principle for reacquired rights recognized in an acquisition.) EITF Issue No. 02-7, "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets," provides guidance for determining whether indefinite-lived intangible assets should be combined into a single unit of account to test for impairment if they are operated as a single asset and essentially are inseparable from one another.

Examples of intangible assets that are identifiable

A58. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.

A59. Intangible assets designated with the symbol # are those that arise from contractual or other legal rights. Those designated with the symbol * do not arise from contractual or other legal rights but are separable. Intangible assets designated with the symbol # might also be separable, but separability is not a necessary condition for an asset to meet the contractual-legal criterion.

Marketing-related intangible assets

A60. Marketing-related intangible assets are primarily used in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

a. Trademarks, trade names, service marks, collective marks, certification marks #
b. Trade dress (unique color, shape, package design) #
c. Newspaper mastheads #
d. Internet domain names #
e. Noncompetition agreements. #

Trademarks, trade names, service marks, collective marks, certification marks #

A61. Trademarks are words, names, symbols, or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

A62. Trademarks, trade names, service marks, collective marks, and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce, or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired is an intangible asset that meets the contractual-legal criterion. Otherwise, a trademark or other mark acquired can be recognized separately from goodwill if the separability criterion is met, which normally it would be.

A63. The terms *brand* and *brand name,* often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes, and technological expertise. This Statement does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet domain names #

A64. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired meets the contractual-legal criterion.

Customer- and donor-related intangible assets

A65. Examples of customer- and donor-related intangible assets are:

a. Customer and donor lists *
b. Order or production backlog #
c. Customer contracts and related customer relationships #
d. Noncontractual customer relationships. *

Customer and donor lists *

A66. A customer list consists of information about customers, such as their names and contact information. A customer list also may be in the form of a database that includes other information about the customers, such as their order histories and demographic information. A customer list generally does not arise from contractual or other legal rights. However, customer lists are frequently leased or exchanged. Therefore, a customer list acquired in an acquisition by a not-for-profit entity, like one acquired in a business combination, normally meets the separability criterion. However, a customer 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 customers.

A67. A donor list is different from a customer list, 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. 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.

Order or production backlog #

A68. An order or production backlog arises from contracts such as purchase or sales orders. An acquired order or production backlog meets the contractual-legal criterion even if the purchase or sales orders are cancelable.

Customer contracts and the related customer relationships #

A69. If an entity establishes relationships with its customers through contracts, those customer relationships arise from contractual rights. Therefore, customer contracts and the related customer relationships meet the contractual-legal criterion, even if confidentiality or other contractual terms prohibit the sale or transfer of a contract separately from the acquiree.

A70. A customer contract and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.

A71. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer, and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the contractual-legal criterion if an entity has a practice of establishing contracts with its customers, regardless of whether a contract exists at the acquisition date. Customer relationships also may arise through means other than contracts, such as through regular contact by sales or service representatives. As noted in paragraph A68, an order or a production backlog arises from contracts such as purchase or sales orders and therefore is considered a contractual right. Consequently, if an entity has relationships with its customers through these types of contracts, the customer relationships also arise from contractual rights and therefore meet the contractual-legal criterion.

A72. *Donor relationships:* An acquirer also may attribute value to the acquiree's donor relationships—the information the acquiree has about its donors, the regular contact the acquiree has with its donors, and the donors' ability to make direct contact with the acquiree. However, estimating the fair value of acquired donor relationships would be difficult and so costly that requiring acquirers to do so would not meet a reasonable cost-benefit test. Therefore, unlike acquired customer relationships, acquired donor relationships are not recognized separately; they are instead subsumed into goodwill (also see footnote 7 on terminology).

Noncontractual customer relationships *

A73. An acquired customer relationship that does not arise from a contract may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of noncontractual customer relationship would provide evidence that the noncontractual customer relationship is separable.

Examples illustrating acquired customer contract and customer relationship intangible assets

A74. The following examples illustrate the recognition of customer contract and customer relationship intangible assets acquired in an acquisition by a not-for-profit entity.

a. Acquirer Company (AC) acquires Target Company (TC) on December 31, 20X5. TC has a five-year agreement to supply goods to Customer. Both TC and AC believe that Customer will renew the agreement at the end of the current contract. The agreement is not separable. The agreement, whether cancelable or not, meets the contractual-legal criterion. Additionally, because TC establishes its relationship with Customer through a contract, not only the agreement itself but also TC's customer relationship with Customer meet the contractual-legal criterion.
b. AC acquires TC on December 31, 20X5. TC does business with its customers solely through purchase and sales orders. At December 31, 20X5, TC has a backlog of customer purchase orders from 60 percent of its customers, all of whom are recurring customers. The other 40 percent of TC's customers also are recurring customers. However, as of December 31, 20X5, TC has no open purchase orders or other contracts

with those customers. Regardless of whether they are cancelable or not, the purchase orders from 60 percent of TC's customers meet the contractual-legal criterion. Additionally, because TC has established its relationship with 60 percent of its customers through contracts, not only the purchase orders but also TC's customer relationships meet the contractual-legal criterion. Because TC has a practice of establishing contracts with the remaining 40 percent of its customers, its relationship with those customers also arises through contractual rights and therefore meets the contractual-legal criterion even though TC does not have contracts with those customers at December 31, 20X5.

Artistic-related intangible assets

A75. Examples of artistic-related intangible assets are:

a. Plays, operas, ballets #
b. Books, magazines, newspapers, other literary works #
c. Musical works such as compositions, song lyrics, advertising jingles #
d. Pictures, photographs #
e. Video and audiovisual material, including motion pictures or films, music videos, television programs. #

A76. Artistic-related assets are identifiable if they arise from contractual or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognizing a copyright intangible asset and any related assignments or license agreements as a single asset, provided they have similar useful lives.

Contract-based intangible assets

A77. Contract-based intangible assets represent the value of rights that arise from contractual arrangements. Customer contracts are one type of contract-based intangible asset. If the terms of a contract give rise to a liability (for example, if the terms of an operating lease or customer contract are unfavorable relative to market terms), the acquirer recognizes it as a liability assumed in the acquisition. Examples of contract-based intangible assets are:

a. Licensing, royalty, standstill agreements #
b. Advertising, construction, management, service or supply contracts #
c. Lease agreements (whether the acquiree is the lessee or the lessor) #
d. Construction permits #
e. Franchise agreements #
f. Operating and broadcast rights #
g. Employment contracts #
h. Use rights such as drilling, water, air, timber cutting, and route authorities. #

Employment contracts #

A78. Employment contracts that are beneficial contracts from the perspective of the employer because the pricing of those contracts is favorable relative to market terms are one type of contract-based intangible asset.

Use rights #

A79. Use rights such as drilling, water, air, timber cutting, and route authorities are contract-based intangible assets to be accounted for separately from goodwill. Particular use rights may have characteristics of tangible, rather than intangible, assets. For example, mineral rights, defined as the legal right to explore, extract, and retain at least a portion of the benefits from mineral deposits, are tangible assets. An acquirer should account for use rights based on their nature.

Technology-based intangible assets

A80. Examples of technology-based intangible assets are:

a. Patented technology #
b. Computer software and mask works #
c. Unpatented technology *
d. Databases, including title plants *
e. Trade secrets, such as secret formulas, processes, recipes. #

Computer software and mask works #

A81. Computer software and program formats acquired that are protected legally, such as by patent or copyright, meet the contractual-legal criterion for identification as intangible assets.

A82. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an acquisition by a not-for-profit entity meet the contractual-legal criterion for identification as intangible assets.

Databases, including title plants *

A83. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired that is protected by copyright meets the contractual-legal criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as customer lists, or specialized information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed, or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired meets the separability criterion.

A84. Title plants constitute an historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired meet the separability criterion.

Trade secrets such as secret formulas, processes, recipes #

A85. A trade secret is "information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (1) derives independent economic value, actual or potential, from not being generally known and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."[8] If the future economic benefits from a trade secret acquired are legally protected, that asset meets the contractual-legal criterion. Otherwise, trade secrets acquired are identifiable only if the separability criterion is met, which is likely to be the case.

Acquired collections (application of paragraph 39)

A86. In accordance with paragraph 39, an acquirer that has an organizational policy not to capitalize collections items should apply FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* in accounting for acquired collection items. Statement 116 requires that an entity with such a policy not recognize acquired collection items as an asset. Instead, an entity with such a policy recognizes the cost of *purchased* collection items as a decrease in the appropriate class of net assets in the statement of activities in the period acquired and as a cash outflow for investing activities if purchased by cash. Therefore, the acquirer will need to determine whether acquired collection items were *purchased* or *contributed* and, if purchased, the cost to attribute to them.

Example 4: Collection items received in an acquisition by gift

A87. Museum B, which has a policy of not capitalizing collection items, 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 are as follows:

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	$ 1,500

[8]Melvin Simensky and Lanning Bryer, *The New Role of Intellectual Property in Commercial Transactions* (New York: John Wiley & Sons, 1998), 293.

A88. 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 54. 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. Consistent with Statement 116, contributed collection items that meet the criteria of that Statement are not recognized as an asset and a contribution received.

Example 5: Collection items received in an acquisition

A89. Museum D, which has a policy of not capitalizing collection items, 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 are as follows:

Cash	$ 100
Accounts receivable	50
Contributions receivable	75
Property, plant, and equipment	675
Liabilities assumed	(200)
Identifiable net assets other than collections	$ 700

A90. It is unclear whether the collection items were contributed or purchased because the fair value of the consideration transferred ($1,600) exceeds the aggregate of the identifiable net assets acquired (excluding the collection items) ($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.

A91. 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 recognized in Statement 116, that $900 cost would be recognized 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.

A92. 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 50. (The acquiree, Museum C, as part of the acquired 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.)

Measuring the Fair Values of Particular Identifiable Assets, Assumed Liabilities, and a Noncontrolling Interest in an Acquiree (Application of Paragraph 35)

Assets with uncertain cash flows (valuation allowances)

A93. The acquirer shall not recognize a separate valuation allowance as of the acquisition date for acquired assets that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Statement requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values, the acquirer does not recognize a separate valuation allowance for the contractual cash flows that are deemed to be uncollectible at that date.

Assets subject to operating leases in which the acquiree is the lessor

A94. The acquirer shall measure the acquisition-date fair value of an asset, such as a building or a patent or other intangible asset, that is subject to an operating lease in which the acquiree is the lessor separately from the lease contract. In other words, the fair value of the asset shall be the same regardless of whether it is subject to an operating lease. In accordance with paragraph A46, the acquirer separately recognizes an asset or a liability if the terms of the lease are favorable or unfavorable relative to market terms.

Assets that the acquirer intends not to use or to use in a way other than their highest and best use

A95. For competitive or other reasons, the acquirer may intend not to use an acquired asset, for example, a research and development intangible asset, or it may intend to use the asset in a way that is not its highest and best use. Nevertheless, the acquirer shall measure the asset at fair value determined in accordance with Statement 157, reflecting its highest and best use in accordance with the appropriate valuation premise, both initially and for purposes of subsequent impairment testing.

A96. EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets," provides guidance on the recognition and subsequent measurement of intangible assets that the acquirer intends not to use or to use in a way other than their highest and best use.

Measuring the fair value of a noncontrolling interest in an acquiree

A97. This Statement requires the acquirer to measure a noncontrolling interest in the acquiree at its fair value at the acquisition date. An acquirer sometimes will be able to measure the acquisition-date fair value of a noncontrolling interest on the basis of active market prices for the equity shares not held by the acquirer. In other situations, however, an active market price for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the noncontrolling interest using other valuation techniques.

A98. The fair value of the acquirer's interest in the acquiree might differ from the fair value of the noncontrolling interest on a per-share basis (if the acquiree is a business entity). The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a minority interest discount) in the per-share fair value of the noncontrolling interest.

Transfer of consideration in which the acquirer retains control (application of paragraph 57)

A99. Paragraph 57 requires that an asset transferred by the acquirer to a designee of the former owner be taken into account in measuring consideration transferred unless the acquirer retains control over the transferred assets.

Example 6: Asset transfer in which the acquirer retains control over the future economic benefits after the acquisition

A100. An independent not-for-profit community hospital (Hospital) agreed to be acquired by a nearby not-for-profit health care system (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 a newly formed, unrelated foundation (Foundation) 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.

A101. 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 should be accounted for as an asset-for-asset exchange rather than as consideration transferred.

Measurement period (application of paragraphs 61–65 and 90(a))

A102. If the initial accounting for an acquisition is incomplete at the end of the financial reporting period in which the combination occurs, paragraph 61 requires that the acquirer recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 65 requires the acquirer to recognize such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in changes in net assets.

Example 7: Appraisal that is incomplete at the reporting date

A103. AC acquires TC on September 30, 20X7. AC does not expect TC's operations to be primarily supported by contributions and returns on investments. AC seeks an independent appraisal for an item of property, plant, and equipment acquired in the combination, and the appraisal was not complete by the time AC issued its financial statements for the year ending December 31, 20X7. In its 20X7 annual financial statements, AC recognized a provisional fair value for the asset of $30,000. At the acquisition date, the item of property, plant, and equipment had a remaining useful life of five years. Five months after the acquisition date, AC received the independent appraisal, which estimated the asset's acquisition-date fair value as $40,000.

A104. In its financial statements for the year ending December 31, 20X8, AC retrospectively adjusts the 20X7 prior-year information as follows:

a. The carrying amount of property, plant, and equipment as of December 31, 20X7, is increased by $9,500. That adjustment is measured as the fair value adjustment at the acquisition date of $10,000 less the additional depreciation that would have been recognized had the asset's fair value at the acquisition date been recognized from that date ($500 for 3 months' depreciation).
b. The carrying amount of goodwill as of December 31, 20X7, is decreased by $10,000.
c. Depreciation expense for 20X7 is increased by $500.

A105. In accordance with paragraph 90(a), AC discloses:

a. In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the appraisal of property, plant, and equipment has not yet been received.
b. In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AC discloses that the 20X7 comparative information is retrospectively adjusted to increase the fair value of the item of property, plant, and equipment at the acquisition date by $9,500, offset by a decrease to goodwill of $10,000 and an increase in depreciation expense of $500.

Determining What Is Part of the Acquisition (Application of Paragraphs 67 and 68)

A106. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the consideration transferred for the acquiree or whether the transaction is separate from the acquisition:

a. *The reasons for the transaction*—Understanding the reasons why the parties to the combination (the acquirer, the acquiree, and their owners, directors, managers, and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquiree or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquiree. Accordingly, the acquirer would account for that portion separately from the acquisition.
b. *Who initiated the transaction*—Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquiree or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquiree or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the acquisition transaction.

c. *The timing of the transaction*—The timing of the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction between the acquirer and the acquiree that takes place during the negotiations of the terms of an acquisition may have been entered into in contemplation of the acquisition to provide future economic benefits to the acquirer or the combined entity. If so, the acquiree or its former owners before the acquisition are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

Example 8: Asset acquired from a third-party donor that is included in the acquisition accounting

A107. To induce the acquisition of WO (Weak Organization) by SO (Strong Organization), as a condition of SO's acquisition of WO, a third-party donor agrees to provide a cash contribution to support WO's mission. That assistance is transferred to SO (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 not-for-profit entities. From the perspective of the donor, the assistance provided to induce SO to acquire WO is in the furtherance of its mission.

A108. In this case, 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 is also 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 WO before SO's acquisition of WO.

Effective settlement of a preexisting relationship between the acquirer and the acquiree (application of paragraph 68(a))

A109. The acquirer and acquiree may have a relationship that existed before they contemplated the acquisition, referred to here as a preexisting relationship. A preexisting relationship between the acquirer and the acquiree may be contractual (for example, vendor and customer or licensor and licensee) or noncontractual (for example, plaintiff and defendant).

A110. If the acquisition in effect settles a preexisting relationship, the acquirer recognizes a gain or loss, measured as follows:

a. For a preexisting noncontractual relationship (such as a lawsuit), fair value
b. For a preexisting contractual relationship, the lesser of:
   (1) The amount by which the contract is favorable or unfavorable from the perspective of the acquirer when compared with pricing for current market transactions for the same or similar items. (An *unfavorable contract* is a contract that is unfavorable in terms of current market terms. It is not necessarily a loss contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.)
   (2) The amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavorable.

   If (2) is less than (1), the difference is included as part of the acquisition accounting.

A111. Examples 9 and 10 illustrate the accounting for the effective settlement of a preexisting relationship as a result of an acquisition. As indicated in Example 10, the amount of gain or loss recognized may depend in part on whether the acquirer had previously recognized a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying paragraph A110.

A112. A preexisting relationship may be a contract that the acquirer recognizes as a reacquired right in accordance with paragraph A52. If the contract includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the acquisition, a gain or loss for the effective settlement of the contract, measured in accordance with paragraph A110.

Example 9: Effective settlement of a supply contract as a result of an acquisition

A113. AC purchases electronic components from TC under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than rates at which AC could purchase similar electronic components from another supplier. The supply contract allows AC to terminate the contract before the end of the initial 5-year term only by paying a $6 million penalty. With 3 years remaining under the supply contract, AC pays $50 million to acquire TC, which is the fair value of TC based on what other market participants would be willing to pay.

A114. Included in TC's identifiable net assets is $8 million related to the fair value of the supply contract with AC. The $8 million represents a $3 million component that is "at market" because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships, and so forth) and a $5 million component for pricing that is unfavorable to AC because it exceeds the price of current market transactions for similar items. TC has no other identifiable assets or liabilities related to the supply contract, and AC has not recognized any assets or liabilities related to the supply contract before the acquisition.

A115. In this example, AC recognizes a loss of $5 million (the lesser of the $6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the acquisition. The $3 million at-market component of the contract is part of goodwill.

Example 10: Effective settlement of a contract between the acquirer and the acquiree in which the acquirer had recognized a liability before the acquisition

A116. Whether AC had previously recognized an amount in its financial statements related to a preexisting relationship will affect the amount recognized as a gain or loss for the effective settlement of the relationship. In Example 9, generally accepted accounting principles (GAAP) might have required AC to recognize a $6 million liability for the supply contract at the most recent reporting date. (The $6 million amount required by GAAP might not have been fair value; if it was, the fair value has decreased by the acquisition date.) In that situation, AC recognizes a $1 million settlement gain on the contract in the statement of activities at the acquisition date (the $5 million measured loss on the contract less the $6 million loss previously recognized). In other words, AC has in effect settled a recognized liability of $6 million for $5 million, resulting in a gain of $1 million.

Arrangements for contingent payments to employees or selling shareholders (application of paragraph 68(b))

A117. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement, and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

A118. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

a. *Continuing employment*—The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement, or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is compensation for postcombination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than compensation.
b. *Duration of continuing employment*—If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, compensation.
c. *Level of compensation*—Situations in which employee compensation other than the contingent payments is at a reasonable level in comparison to that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than compensation.
d. *Incremental payments to employees*—If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is compensation.
e. *Number of shares owned*—The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of

the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares in the acquiree continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide compensation for postcombination services. Alternatively, if selling shareholders who continue as key employees owned only a small number of shares of the acquiree and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The preacquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, also should be considered.

f. *Linkage to the valuation*—If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquiree and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide compensation.

g. *Formula for determining consideration*—The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquiree. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to compensate employees for services rendered.

h. *Other agreements and issues*—The terms of other arrangements with selling shareholders (such as noncompete agreements, executory contracts, consulting contracts, and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquiree. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease contract are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its postcombination financial statements. In contrast, if the lease contract specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

Example 11: Arrangement for contingent payment to an employee

A119. TC hired a candidate as its new CEO under a 10-year contract. The contract required TC to pay the candidate $1.5 million if TC is acquired before the contract expires. AC acquires TC eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

A120. In this example, TC entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AC or the combined entity. Therefore, the liability to pay $1.5 million is included in the application of the acquisition method.

A121. In other circumstances, TC might enter into a similar agreement with CEO at the suggestion of AC during the negotiations for the acquisition. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AC or the combined entity rather than TC or its former owners. In that situation, AC accounts for the liability to pay CEO in its postcombination financial statements separately from application of the acquisition method.

Illustrations of Presentation in the Statement of Activities

A122. If the operations of the acquiree are expected to be predominantly supported by contributions and returns on investments, paragraph 51 requires the acquirer to recognize an excess of consideration transferred[9] over the net assets acquired as a separate charge in its statement of activities as of the acquisition date. Paragraph 71 provides guidance on how that separate charge should be presented in the statement of activities. Example 12 illustrates one way in which the requirements of paragraphs 51 and 71 might be implemented.

A123. Paragraph 54 requires the acquirer to recognize an excess of the amount in paragraph 50(b) over the amount in paragraph 50(a) (a contribution received) as a separate credit in its statement of activities as of the acquisition date. Paragraphs 72 and 73 require the acquirer to present a contribution received as a separate line item and to classify the recognized contribution received according to the type of restrictions imposed on the related net assets. Examples 13 and 14 illustrate the application of those requirements.

Example 12: Acquiree expected in the combined entity to be predominantly supported by contributions and returns on investments, and related disclosure requirements (application of paragraphs 51, 71, and 86(a)–(e))

A124. On February 10, 20X0, Organization ABC, a religious not-for-profit entity, purchases 100 percent of the ownership interests in Restaurant XYZ for consideration of $525,000. On the acquisition date, the amount of the net identifiable assets of Restaurant XYZ recognized and measured in accordance with this Statement was $410,000. Organization ABC acquired Restaurant XYZ for the purpose of converting it to a soup kitchen.

A125. Management of Organization ABC expects the soup kitchen resulting from the conversion of Restaurant XYZ to be predominantly supported by contributions and returns on investments. Specifically, the operating costs of the soup kitchen are expected to be funded by Organization ABC's existing contribution base. The following table illustrates how Organization ABC might satisfy the requirements of paragraph 71 for presenting the separate charge to the statement of activities at the acquisition date.

Organization ABC
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 XYZ	1,345	690	280	2,315
Excess of consideration transferred over net assets acquired in acquisition of Restaurant XYZ (Note X)	(115)	-	-	(115)
Change in net assets	$ 1,230	$ 690	$ 280	$ 2,200

A126. Paragraph 86 of this Statement specifies information to be disclosed to satisfy the objective of enabling users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs during the reporting period. In the example, Organization ABC might satisfy the requirements of paragraph 86(a)–(e) as shown in the illustrative note below.

[9]For ease of illustration, the example assumes that there is no noncontrolling interest in the acquiree and that the transaction is not an acquisition achieved in stages.

Note X: Acquisition of Restaurant XYZ

On February 10, 20X0, Organization ABC acquired Restaurant XYZ, a local restaurant, which it converted into a soup kitchen. Organization ABC acquired Restaurant XYZ 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 XYZ.

Because the operations of the soup kitchen are expected to be predominantly supported by contributions and returns on investments, Organization ABC 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. Organization ABC paid consideration of $525,000 for Restaurant XYZ. On the acquisition date, the net identifiable assets of Restaurant XYZ were $410,000. The excess of the amount paid over the net identifiable assets acquired represents (a) the value of Restaurant XYZ's assembled workforce, which is not recognized as a separate intangible asset, and (b) the value of Restaurant XYZ's earnings potential as a restaurant to other potential buyers.

Example 13: Donor restrictions on a contribution received (application of paragraphs 54 and 73)

A127. Charity A acquires Charity B. Charity A transfers no consideration in exchange for Charity B. The acquisition was achieved by, in effect, a gift of Charity B to Charity A. The fair values of Charity B's assets and liabilities, including donor-imposed restrictions, at the acquisition date are:

Cash	$ 75
Contributions receivable	225
Long-term investments	500
Plant, property, and equipment	430
Total assets	1,230
Accounts payable	(65)
Mortgage	(165)
Total liabilities	(230)
Total net assets	$ 1,000

Unrestricted net assets	$ 550
Temporarily restricted net assets	250
Permanently restricted net assets	200
Total net assets	$ 1,000

A128. Charity A 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 A 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. Based on donor restrictions on Charity B'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 B 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 B that are assumed when Charity B's assets and liabilities are acquired, Charity A would classify changes to its net assets as follows:

Increase in unrestricted net assets:	
Contribution received in the acquisition of Charity B	$ 550
Increase in temporarily restricted net assets:	
Contribution received in the acquisition of Charity B	$ 250
Increase in permanently restricted net assets:	
Contribution received in the acquisition of Charity B	$ 200

Example 14: Donor restrictions on a contribution received (application of paragraph 73)

A129. The facts are the same as in Example 13, except that Charity B is a subsidiary of Parent before the acquisition by Charity A.

A130. As a condition of the merger, Parent's governing board requires that Charity A 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 B that are assumed when Charity B's assets and liabilities are acquired, Charity A would classify changes to its net assets as follows:

Increase in unrestricted net assets:	
Contribution received in the acquisition of Charity B	$ 375
Increase in temporarily restricted net assets:	
Contribution received in the acquisition of Charity B	$ 425
Increase in permanently restricted net assets:	
Contribution received in the acquisition of Charity B	$ 200

Illustration of Presentation in the Cash Flow Statement (Application of Paragraph 75)

A131. A not-for-profit entity (Entity X) 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:

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

A132. Entity X reports the acquisition as a single line in the investing activities section of the statement of cash flows, as follows:

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

A133. Entity X discloses the following additional information in a supplemental schedule of noncash investing and financing activities:

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	$	405

Continuing Authoritative Guidance

A134. Paragraphs A135–A148 provide continuing authoritative guidance for asset acquisitions and for transactions between entities under common control. The guidance in this appendix has been quoted, paraphrased, or modified as necessary so that it can be understood in the context of this Statement. The original source of the guidance is noted parenthetically or otherwise. Although those sources did not initially apply to not-for-profit entities, inclusion of the guidance in this Statement makes it applicable to them.

Accounting for Asset Acquisitions—General Concepts

A135. Paragraph 21 of this Statement clarifies that if assets acquired and liabilities assumed do not constitute a *business* or a *nonprofit activity,* as defined in paragraphs 3(e) and 3(t), respectively, the transaction should be accounted for as an asset acquisition. The typical accounting for an asset acquisition is described in paragraphs A136–A140.

A136. *Initial recognition.* Assets commonly are acquired in exchange transactions that trigger the initial recognition of the assets acquired and any liabilities assumed. If the consideration given in exchange for the assets (or net assets) acquired is in the form of assets surrendered (such as cash), the assets surrendered are derecognized at the date of acquisition. If the consideration given is in the form of liabilities incurred or equity interests issued, the liabilities incurred and equity interests issued are initially recognized at the date of acquisition. (FAS 141, ¶4)

A137. *Initial measurement.* Assets are recognized based on their *cost* to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. For transactions involving nonmonetary consideration within the scope of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* an acquirer must first determine if any of the conditions in paragraph 20 of Opinion 29 apply. (FAS 141, ¶5)

A138. Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on either the cost, which shall be measured based on the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Opinion 29, an acquirer must first determine if any of the conditions in paragraph 20 of Opinion 29 apply. (FAS 141, ¶6)

A139. *Allocating cost.* Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group shall be determined using the concepts described in paragraphs A137 and A138. The cost of a group of assets acquired in an asset acquisition shall be allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall not give rise to goodwill. The allocated cost of an asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name, shall nevertheless be measured on the basis of its relative fair value. (FAS 141, ¶7; FAS 142, ¶9)

A140. *Accounting after acquisition.* After the acquisition, the acquiring entity accounts for the asset or liability in accordance with the appropriate GAAP. The basis for measuring the asset acquired or liability assumed has no effect on the subsequent accounting for the asset or liability. (Opinion 16, ¶69; FAS 141, ¶8)

Transactions between Entities under Common Control

A141. Paragraph 2(c) states that this Statement does not apply to combinations between entities or businesses under common control. The following are examples of those types of transactions:

a. An entity charters a newly formed entity and then transfers some or all of its net assets to that newly chartered entity.
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.
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.

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, ¶D11)
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 or an acquisition by a not-for-profit entity from the perspective of the parent. (FTB 85-5, ¶7)
f. A limited liability company is formed by combining entities under common control. (AICPA Practice Bulletin 14, ¶05)
g. Two or more not-for-profit entities 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.

A142. Sometimes, the mission, operations, and historical sources of support of two or more not-for-profit entities may be closely linked to benefiting a particular group of citizens. However, that group neither owns nor controls the not-for-profit entities. Therefore, mergers and acquisitions between or among two or more organizations, all of which benefit a particular group of citizens, should not be considered common control transactions solely because those entities benefit a particular group.

A143. When accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests should initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. (FAS 141, ¶D12) If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, for example, because push-down accounting had not been applied, then the financial statements of the receiving entity should reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control. (Issue 90-5)

Procedural guidance

A144. Some transfers of net assets or exchanges of shares between entities under common control result in a change in the reporting entity. In practice, the method that many entities have used to account for those transactions is similar to the pooling method. Paragraphs A145–A148 provide procedural guidance that shall be considered when preparing financial statements and related disclosures for the entity that receives the net assets. (FAS 141, ¶D14)

A145. In some instances, the entity that receives the net assets or equity interests (the receiving entity) and the entity that transferred the net assets or equity interests (the transferring entity) may account for similar assets and liabilities using different accounting methods. In such circumstances, the carrying amounts of the assets and liabilities transferred may be adjusted to the basis of accounting used by the receiving entity if the change would be preferable. Any such change in accounting method should be applied retrospectively, and financial statements presented for prior periods should be adjusted unless it is impracticable to do so. FASB Statement No. 154, *Accounting Changes and Error Corrections,* provides guidance if retrospective application is impracticable. (FAS 141, ¶D15)

A146. The financial statements of the receiving entity should report [changes in net assets] for the period in which the transfer occurs as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. [Changes in net assets] for that period will thus comprise those of the previously separate entities combined from the beginning of the period to the date the transfer is completed and those of the combined operations from that date to the end of the period. By eliminating the effects of intraentity transactions in determining the [changes in net assets] for the period before the combination, those results will be on substantially the same basis as the [changes in net assets] for the period after the date of combination. The effects of intraentity transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on [net assets] at the beginning of the periods presented should be eliminated to the extent possible. The nature of and effects of nonrecurring intraentity transactions involving long-term assets and liabilities need not be eliminated but should be disclosed. (Opinion 16, ¶56; FAS 141, ¶D16)

A147. Similarly, the receiving entity should present the statement of financial position and other financial information as of the beginning of the period as though the assets and liabilities had been transferred at that date. Financial statements and financial information presented for prior years also should be retrospectively adjusted to furnish comparative information. All adjusted financial statements and financial summaries should indicate clearly that financial data of previously separate entities are combined. However, the comparative information in prior years should only be adjusted for periods during which the entities were under common control. (Opinion 16, ¶57; FAS 141, ¶D17)

A148. The notes to the financial statements of the receiving entity should disclose the following for the period in which the transfer of assets and liabilities or exchange of equity interests occurred:

a. The name and brief description of the entity included in the reporting entity as a result of the net asset transfer or exchange of equity interests
b. The method of accounting for the transfer of net assets or exchange of equity interests. (FAS 141, ¶D18)

The receiving entity also should consider whether additional disclosures are required in accordance with FASB Statement No. 57, *Related Party Disclosures.*

Appendix B

DISCLOSURES FOR AND ILLUSTRATION OF PRESENTATION OF NONCONTROLLING INTERESTS REQUIRED BY ARB 51, AS AMENDED BY STATEMENT 160 AND THIS STATEMENT

CONTENTS

Appendix B

DISCLOSURES FOR AND ILLUSTRATION OF PRESENTATION OF NONCONTROLLING INTERESTS REQUIRED BY ARB 51, AS AMENDED BY STATEMENT 160 AND THIS STATEMENT

Introduction

B1. In December 2007, the Board issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* Not-for-profit entities were excluded from the scope of Statement 160 until the Board issued interpretative guidance, which this Statement provides. Paragraph 93 of this Statement makes the amendments Statement 160 made to ARB No. 51, *Consolidated Financial Statements* (and to other existing pronouncements), applicable to not-for-profit entities. Paragraphs B2–B10 also amend ARB 51 to provide certain presentation and disclosure requirements and illustrative guidance for a not-for-profit entity that has one or more consolidated subsidiaries with a noncontrolling interest. The requirements and guidance are based on the reporting provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* that apply to not-for-profit entities. They are in lieu of the disclosure requirements of paragraph 38 of ARB 51, as amended by Statement 160, which are based on provisions that apply to business entities. The provisions included in FASB Statement No. 130, *Reporting Comprehensive Income,* are one example of such provisions.

Presentation of Noncontrolling Interests

B2. 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. 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 include 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 Statement 117 and FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations.* (Paragraphs B5–B9 illustrate the reporting requirements.)

Disclosures for Noncontrolling Interests

B3. A not-for-profit entity (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.

B4. The schedule required by paragraph B3 shall, at a minimum, include:

a. A performance indicator, if the entity is within the scope of the AICPA Audit and Accounting Guide, *Health Care Organizations*
b. Amounts of discontinued operations
c. Amounts of extraordinary items
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 separately from any revenues, expenses, gains, or losses and outside any measure of operations, if reported
e. An aggregate amount of all other changes in unrestricted net assets (or other net asset classes, if restricted) for the period.

(Paragraph B10 illustrates the requirements of paragraphs B3 and B4 using a reconciling schedule in notes to the consolidated financial statements.)

Illustration of Presentation of Noncontrolling Interests

B5. The following example illustrates one way in which the consolidated financial statements of a not-for-profit entity might satisfy the presentation and disclosure requirements for noncontrolling interests in a consolidated subsidiary and subsequent changes in ownership interests of that subsidiary. The example uses simplified assumptions and highly aggregated amounts to illustrate how to apply the provisions of ARB 51, as amended. It does not illustrate all possible situations or applications of ARB 51 or of other generally accepted accounting principles (GAAP). For example, Exhibits 1 and 2 show relatively few highly aggregated amounts of assets, liabilities, revenues, and expenses rather than details such as expenses by function or nature. Exhibit 1 also does not classify assets and liabilities, which is required for a not-for-profit hospital under paragraph 1.06 of the health care Guide that states "health care organizations should classify assets and liabilities as current and noncurrent." The example also omits a statement of cash flows, which does not bear on the presentation and disclosure requirements for noncontrolling interests.

B6. 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 (paragraph B2 of this Statement).

B7. The example is based on the following assumptions:

Assumptions for all years

a. Hospital A, a not-for-profit tax-exempt entity, 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.
b. Subsidiary A is an investor-owned entity that is subject to income taxes. The tax rate for all years is 40 percent.
c. Subsidiary A has 10,000 shares of common stock outstanding and does not pay dividends.

Assumptions for 20X2

d. 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:

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

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.

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:

(1) A noncontrolling interest is recognized in unrestricted net assets in the amount of $41,000 ($205,000 × 20 percent).
(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).
(3) The top-level (consolidated) journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholder is as follows:

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

e. 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.

Assumptions for 20X3

f. 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:

(1) The noncontrolling interest balance within unrestricted net assets is reduced by $24,000 ($48,000 × 50 percent interest acquired by Hospital A).
(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).
(3) The top-level (consolidated) journal entry to record that purchase of Subsidiary A's shares from the noncontrolling shareholders is as follows:

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

g. For the year ended December 31, 20X3, the amount of Subsidiary A's net income included in the consolidated financial statements is $15,000.

Consolidated Statement of Financial Position

B8. This consolidated statement of financial position illustrates the requirement in paragraph B2 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.

Exhibit 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

Consolidated Statement of Operations and Other Changes in Unrestricted Net Assets

B9. This consolidated statement of operations and other changes in unrestricted net assets illustrates how the requirements in paragraph B4(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 might be presented on the face of a consolidated statement of operations and other changes in net assets.

Exhibit 2

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

	20X3	20X2
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	395,000	360,000
Patient care and other operationg expenses	366,000	337,000
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	$ 4,000	$ 81,000

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

B10. This note depicting the changes in consolidated net assets attributable to the controlling financial interest of Hospital A (parent) and the noncontrolling interests illustrates the requirements in paragraph B3 that a not-for-profit entity 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 paragraph B4(a), (b), and (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.

Exhibit 3

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

	Total	Controlling Interest	Noncontrolling Interest
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	81,000	33,000	48,000
Balance December 31, 20X2	$ 481,000	$ 433,000	$ 48,000
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	4,000	26,000	(22,000)
Balance December 31, 20X3	$ 485,000	$ 459,000	$ 26,000

Appendix C

BASIS FOR CONCLUSIONS

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Appendix C

BASIS FOR CONCLUSIONS

Introduction

C1. This appendix summarizes the Board's considerations in reaching the conclusions in this Statement. It includes the reasons why the Board accepted particular approaches and rejected others. Individual Board members gave greater weight to some factors than to others.

C2. This appendix focuses primarily on issues that are either unique to not-for-profit entities or for which the Board's conclusions differ between not-for-profit entities and for-profit business entities. For conclusions that are the same in this Statement and in FASB Statement No. 141 (revised 2007), *Business Combinations,* the discussion in this appendix generally summarizes the Board's reasoning and refers the reader to the paragraphs in Statement 141(R)'s basis for conclusions in which a more detailed discussion appears.

Conduct of the Project

C3. In developing this Statement, the Board affirmed its belief that accounting standards should result in accounting for similar transactions and circumstances similarly and for different transactions and circumstances differently. Thus, the Board's overall approach in this project was based on the conclusion that the standards for for-profit entities, including Statement 141(R), are relevant to not-for-profit entities unless circumstances unique to not-for-profit entities justify a departure from those standards. The Board modified the requirements for not-for-profit entities in situations in which the costs outweigh the benefits of providing information that is the same as that required for for-profit entities.

Circumstances Unique to Combinations of Not-for-Profit Entities

C4. The Board observed that combinations of not-for-profit entities and combinations by business entities are similar in many ways. In particular, acquisitions by the two types of entities are sufficiently similar that the same basic accounting method—the acquisition method—is appropriate for both. The Board also observed that some characteristics of not-for-profit entities distinguish them from business entities. Thus, the work in this project began by identifying and analyzing differences between not-for-profit entities and business entities and the combinations in which they engage. The Board then considered how the similarities and differences between business entities and not-for-profit entities should affect the financial accounting and reporting requirements for combinations of not-for-profit entities. For example, the Board concluded that differences between not-for-profit and business entities, including the difference discussed in paragraph C5, justify applying a different accounting method for some combinations of not-for-profit entities. Statement 141(R) does not require (or permit) a different method for business combinations that some constituents consider to be mergers rather than acquisitions. Thus, the different accounting method for mergers in this Statement results in a significant difference between the accounting for combinations by not-for-profit and business entities. Paragraphs C7–C12 further discuss that issue.

C5. The Board identified a fundamental difference between some combinations of not-for-profit entities and business combinations—a fundamental difference that has financial accounting and reporting implications. That difference exists in combinations in which all of the combining entities are not-for-profit entities. Because a not-for-profit entity lacks the type of ownership interests that business entities have, negotiations in those combinations generally focus on the furtherance for the benefit of the public of the mission, governance, and programs of the entity rather than on maximizing returns for equity holders. Many combinations of not-for-profit entities do not involve a transfer of consideration. In other words, many combinations of not-for-profit entities are not fair value exchanges. Rather, many of those transactions or events are nonreciprocal transfers and, for an acquisition, constitute an inherent contribution received by the acquirer.

C6. The Board was mindful of the wide and varied spectrum of not-for-profit entities throughout the development of this Statement. For example, entities that are considered nongovernmental not-for-profit entities for purposes of applying GAAP include most human service entities, churches, foundations, museums, colleges and universities, and some other types of entities, such as certain hospitals and other health care entities. Some of those entities receive significant portions of their support from sources other than the sale of goods and services, while others receive their primary support from the sale of goods and services. Therefore, certain transactions described in this Statement would be relevant to various sectors of not-for-profit entities but would not be relevant to other sectors.

Methods of Accounting

Conclusions in Statement 141(R) and in the Exposure Draft That Preceded This Statement

C7. In Statement 141(R), the Board reaffirmed its conclusion in FASB Statement No. 141, *Business Combinations,* that using a single method of accounting for all business combinations results in similar transactions and events being accounted for similarly and therefore improves the relevance, faithful representation, comparability, and understandability of the resulting financial information. The Board considered three alternative accounting methods (the acquisition method, the pooling method, and the fresh-start method) before concluding that the acquisition method should be used for all business combinations. Paragraphs B22–B79 of Statement 141(R) provide the Board's reasons for adopting the acquisition method for all business combinations. In particular, paragraph B35 explains that as part of the FASB's joint project with the IASB:

> Both Boards concluded that "true mergers" or "mergers of equals" in which none of the combining entities obtain control of the others are so rare as to be virtually nonexistent, and many respondents agreed. Other respondents stated that even if a true merger or merger of equals did occur, it would be so rare that a separate accounting treatment is not warranted. The Boards also observed that respondents and other constituents were unable to suggest an unambiguous and nonarbitrary boundary for distinguishing true mergers or mergers of equals from other business combinations and concluded that developing such an operational boundary would not be feasible. Moreover, even if those mergers could feasibly be distinguished from other combinations, both Boards noted that it does not follow that mergers should be accounted for on a carry-over basis. If they were to be accounted for using a method other than the acquisition method, the fresh-start method would be better than the pooling method.

C8. In this project, the Board considered whether the reasons that support the use of the acquisition method for business combinations also apply to all combinations of not-for-profit entities. The Exposure Draft reflected the Board's conclusion at that time that the acquisition method was appropriate for all not-for-profit combinations for reasons similar to those that supported the conclusion on requiring the acquisition method for all business combinations. For example, paragraph B28 of the Exposure Draft said:

> The Board affirmed [the conclusions in the proposed Statement 141(R)] in this proposed Statement and concluded that, generally, the economic substance of the merger or acquisition by a not-for-profit organization is that one organization acquires an integrated group of assets (by purchase or by gift). Therefore, because those transactions are generally acquisitions and because those that are not acquisitions cannot be distinguished using an unambiguous basis, all mergers and acquisitions by not-for-profit organizations should be accounted for using the acquisition method.

Redeliberations and Conclusion on Accounting Methods

Whether to distinguish a merger from an acquisition

C9. A majority of the respondents to the Exposure Draft disagreed with the conclusion that combinations of not-for-profit entities generally are acquisitions in which one entity—the acquirer—obtains control over one or more other entities—the acquiree or acquirees.[10] In general, those respondents said that "true mergers" (in which none of the participating entities retain control over their own net assets and one of them does not obtain control over the net assets of the other participants) occur more frequently among not-for-profit entities than among business entities. Those respondents also said that in the vast majority of situations such true mergers could be distinguished from acquisitions on a basis that would be sufficiently unambiguous to result in representationally faithful financial statements. Participants in the roundtable discussion held in

[10]Appendix D provides background information on the project that led to this Statement, including issuance of the Exposure Draft and responses to it, as well as other means by which the Board sought input from constituents.

March 2007 expressed similar views. Respondents to the Exposure Draft and roundtable participants also suggested potential ways to distinguish mergers from acquisitions.

C10. In general, respondents did not provide definitive reasons for the greater frequency of mergers among not-for-profit entities than among business entities, including mutual entities. The Board observed, however, that one reason mergers are more common in the not-for-profit sector might be related to the fundamental difference between mergers and acquisitions of not-for-profit entities and business combinations discussed in paragraph C5. Because of the public service mission of not-for-profit entities, the not-for-profit entities participating in a combination are not competing with each other to maximize returns to their shareholders or members. That difference in the mission or purpose of not-for-profit entities and business entities also generally removes from the negotiating table the question of whether the stakeholders in one or more combining entities—the acquiree(s)—will receive adequate or fair compensation for transferring their control to the acquirer. Those factors, which are related to the absence of economic interests of owners or members in not-for-profit entities, may make it more feasible for not-for-profit entities than for business entities to consider a form of combination other than an acquisition.

C11. Many of the respondents who opposed requiring all not-for-profit combinations to be accounted for by the acquisition method supported applying the fresh-start method to mergers. Others, however, favored the carryover method, which is essentially the same as the pooling method in APB Opinion No. 16, *Business Combinations*. Although the Board concluded that the fresh-start method would be more appropriate from a conceptual perspective, this Statement requires the carryover method for practical reasons (paragraphs C23 and C24).

C12. After extensive discussion and consideration of constituents' views and the other information constituents provided on mergers versus acquisitions, the Board concluded that requiring the acquisition method to be applied to all combinations of not-for-profit entities would not be appropriate.

What Is the Defining Feature of a Merger?

C13. Having decided that the economic circumstances surrounding mergers of and acquisitions by not-for-profit entities are sufficiently different to call for different accounting methods, the Board then considered how to distinguish the two types of combinations. The Board identified three potential criteria for identifying a merger, which were based on suggestions of respondents to the Exposure Draft and additional input from members of its resource group:

a. Ceding of control to a new not-for-profit entity
b. Common or similar missions
c. No transfer of consideration.

Ceding of control

C14. Paragraph 3(e) of Statement 141(R) defines a business combination as, "a transaction or other event in which an acquirer obtains control of one or more businesses." Because Statement 141(R) considers all business combinations to be acquisitions for which applying the acquisition method is appropriate, that is also the definition of an acquisition by a business entity. In other words, one combining entity's obtaining control of the other combining entity or entities is the distinguishing feature of an acquisition. It follows that the distinguishing feature of a merger also should be based on how control of the combining entities changes. Respondents and roundtable participants generally said that a merger is distinguished by the governing bodies of all of the combining entities' ceding of control to a new entity with a newly formed governing body. In a merger, unlike in an acquisition, none of the combining entities obtain control of (or continue to control) the other combining entity or entities. The Board agreed.

Common or similar missions

C15. Some respondents suggested that for a combination to qualify as a merger the combining entities must have similar missions before the combination, and the combined entity must reflect the key components of those prior mission statements. Respondents noted that merging entities often have similar missions, and furthering those missions may be an important part of the motivation for a merger. Mergers often occur among contiguous or affiliated entities that serve similar constituents and seek opportunities to provide their services more cost effectively (for example, to achieve cost savings through economies of scale).

C16. However, the Board noted that if mergers occur between not-for-profit entities that have different (perhaps complementary) missions, use of a criterion or indicator based on the similarity of missions could preclude accounting for those transactions as mergers, even if the ceding of control criterion is met. Moreover, experience in other areas of accounting with criteria based on whether something is similar suggests that differing views of the meaning of *similar* often lead to repeated requests for more detailed guidance. In addition, similar missions also may be part of the motivation for an acquisition. Therefore, the Board rejected a criterion based on the missions of the combining entities as part of the guidance in this Statement for distinguishing a merger from an acquisition.

No transfer of consideration

C17. In a merger, the combining entities generally do not exchange monetary consideration; a transfer of consideration from one combining entity (the acquirer) to the other(s) (the acquiree or acquirees) is much more common in an acquisition. But acquisitions also sometimes occur without a transfer of consideration. The Board therefore did not find a criterion based on whether consideration is exchanged to be determinative in distinguishing a merger from an acquisition.

Inapplicability to Combinations of Businesses

C18. Some aspects of certain business combinations may seem similar to combinations of not-for-profit entities, for example, no consideration may be exchanged in some combinations of businesses, and identifying the acquirer in such a business combination may not be straightforward. Regardless of whether a particular combination of businesses is similar in some aspects to a merger of not-for-profit entities, the Board concluded that the guidance in this Statement on mergers does not apply in a business combination. It also should not be applied by analogy.

Is a Criterion of Ceding Control Workable?

C19. Before proceeding to develop a final Statement that would distinguish between mergers and acquisitions, with a different accounting method required for each, the Board saw a need for additional information about the appropriateness and workability of potential criteria for making that distinction. It sought that input by means of a Request for Additional Comments on a Potential Revision to the October 2006 Proposed Statement, *Not-for-Profit Organizations: Mergers and Acquisitions* (the Request), posted to its website in May 2008. Among other things, the Request described the Board's tentative conclusion that the distinguishing feature of a merger is that the governing bodies of two or more not-for-profit entities cede control of those entities to create a new entity. It also discussed potential problems with that criterion, especially in combination with a requirement to use the carryover method to account for mergers, and sought input on the workability of the ceding of control criterion and possible other criteria that the Board had considered but tentatively rejected (paragraphs C15–C17). In addition to seeking written input on the issues it raised, the Request also asked for volunteers to participate in field visits with Board and staff members to discuss those issues.

C20. Virtually all of the respondents to the Request, as well as the participants in five field visits with not-for-profit entities and their auditors, supported the Board's decision to distinguish a not-for-profit merger from an acquisition, and most of those respondents also said that ceding of control is the appropriate distinguishing feature of a merger. But almost all of the respondents also said that additional guidance would be needed to make the ceding-of-control criterion workable in practice. They made various suggestions about the nature of such additional guidance, for example, some suggested providing a list of indicators that a transaction is a merger, perhaps accompanied by a list of indicators of an acquisition. Others suggested establishing a rebuttable presumption that a combination is an acquisition, together with indicators that might overcome that presumption.

C21. The Board agreed with respondents and field visit participants that implementation guidance beyond the definitions of a merger and an acquisition would be necessary to help not-for-profit entities apply those definitions in a reasonably consistent manner. But the Board also considered it important to avoid providing implementation guidance in a form that might evolve into the sort of lengthy and overly detailed list of criteria for distinguishing a pooling from a purchase that appeared in Opinion 16. Such guidance often serves more as an aid to structuring a transaction to achieve the desired accounting result than as helpful guidance for applying a distinction in a neutral manner to faithfully represent the underlying economics of a transaction or other event. The Board concluded that the guidance on distinguishing between a merger and an acquisition in paragraphs A2–A28 strikes a reasonable balance between overly detailed guidance with a significant potential for unintended effects and guidance that, applied in a good faith manner, appropriately distinguishes between the two types of combinations.

C22. The Board decided not to provide a rebuttable presumption that a combination is an acquisition. It recognizes that the lower costs and other results of applying the carryover method (paragraphs C23 and C24) may provide an accounting incentive to treat an acquisition as if it were a merger. The Board concluded, however, that applying the guidance on distinguishing between mergers and acquisitions in a neutral manner generally should produce a better result than applying the guidance in the context of an initial presumption of the outcome.

Accounting Method for a Merger—Fresh-Start or Carryover Basis?

C23. As indicated in the quotation from paragraph B35 of Statement 141(R) in paragraph C7 of this Statement, the Board noted that the fresh-start method would be better than the pooling (carryover) method for mergers if some business combinations were accounted for as mergers rather than acquisitions. In this project, the Board reaffirmed the conceptual superiority of the fresh-start method for mergers, which is consistent with defining a merger as 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 entity. The Board believes that fresh-start accounting is conceptually preferable to carryover basis for the formation of a new entity in which the combining entities cease to exist.

C24. Regardless of the conceptual superiority of the fresh-start method for mergers, the Board observed that the implementation and application of fresh-start accounting raises issues that extend beyond this project. Attempting to resolve even the implementation issues now would have unduly delayed issuance of this Statement. Thus, the Board concluded that it would not be feasible to require the fresh-start method for accounting for a merger of not-for-profit entities at this time. Depending on other agenda priorities, the Board may undertake a broad project on fresh-start accounting at some future time. In the meantime, the Board decided to require that mergers be accounted for using the carryover method, which is similar, though not identical, to the pooling method in Opinion 16. Requiring the carryover method thus essentially continues the method that has been applied in practice to poolings, with a few improvements to that method. (Paragraphs C34–C44 discuss the Board's conclusions on applying the carryover method.) Given the impracticability of requiring the fresh-start method, the Board concluded that requiring the carryover method is the best available alternative—better than requiring the acquisition method, the effect of which would be to require a "fresh start" for only one of the combining entities.

Definition of Control of a Not-for-Profit Entity

C25. Statement 141(R) (paragraph 3(g)) defines *control* as having the meaning of *controlling financial interest* in paragraph 2 of ARB No. 51, *Consolidated Financial Statements,* as amended. ARB 51's notion of *controlling financial interest* is based on voting rights. Because a distinguishing feature of a not-for-profit entity is the absence of shareholders or other parties with ownership interests similar to those in a business entity, the Board concluded that the Statement 141(R) definition of control is insufficient for not-for-profit entities. Both AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* (SOP 94-3), and AICPA Audit and Accounting Guide, *Health Care Organizations,* define *control* as "the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise." The Board used that definition of control in this Statement because it is more appropriate for a not-for-profit entity than a definition based on the existence of a controlling financial interest. It also is the definition that not-for-profit entities use in determining whether one not-for-profit entity should consolidate another. Accordingly, this Statement does not introduce new guidance for determining whether one entity controls another, including whether participants in a merger have ceded control to a new entity. Instead, it relies on the guidance that not-for-profit entities already use in evaluating control issues.

C26. The Board observed that the AICPA guidance requires that an entity have control of another entity to consolidate that entity. However, some entities that control other entities are not necessarily required to consolidate the controlled entities. The guidance in SOP 94-3 and the health care Guide:

a. Requires an entity to consolidate another not-for-profit entity in which it has a controlling financial interest through direct or indirect ownership of a majority ownership interest. However, it prohibits its consolidation if control does not rest with the majority owner.

b. Requires an entity to consolidate another not-for-profit entity in which it has a majority ownership interest (or a majority voting interest in its board) and also has an economic interest. However, it prohibits consolidation if control is temporary or does not rest with the majority owner.
c. Permits an entity to consolidate another entity in which it has a controlling economic interest other than a majority ownership or voting interest, such as control through contract or affiliation agreement. However, it prohibits consolidation if control is likely to be temporary.

C27. The Board concluded that the meaning of control should be based on the existing requirements because defining control is beyond the scope of this project. That conclusion also is consistent with the Board's approach in FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others,* which requires a not-for-profit entity to use existing definitions of control in determining whether a transfer should be accounted for as an asset by the resource provider and as a liability by the recipient entity.

Scope of This Statement

C28. The scope of this Statement is based on the definitions of a *merger* (paragraph 3(q)) and an *acquisition by a not-for-profit entity* (paragraph 3(c)). The definition of a merger depends in part on the definition of a not-for-profit entity, which is taken directly from paragraph 209 of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made.* The same definition is used throughout the authoritative literature, and the Board did not reconsider it in this project. Accordingly, this appendix does not discuss that definition.

C29. The definition of an acquisition by a not-for-profit entity refers to the definitions of a *business* (paragraph 3(e)) and a *nonprofit activity* (paragraph 3(t)). This Statement uses the terms *business* and *nonprofit activity* to differentiate an acquisition of an integrated set of assets and activities that is within the scope of this Statement from an acquisition of a group of assets that is outside its scope. (That is the same way that Statement 141(R) uses the term *business.*) The following paragraphs discuss those definitions.

Definitions of a Business and a Nonprofit Activity

C30. Statement 141(R) defines a *business* as:

> . . . an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. [paragraph 3(d)]

Because the definition of a business in Statement 141(R) is used for essentially the same purpose as the definition is used in this Statement, the Board concluded that both Statements should use the same definition. (Paragraphs B15–B21 of Statement 141(R) explain the reasons for adopting that definition.)

C31. The Board decided to base the definition of a *nonprofit activity* on the definition of a *business* in Statement 141(R), revised as necessary to accommodate the differences between a business entity and a not-for-profit entity. Accordingly, this Statement defines a *nonprofit activity* as:

> . . . an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). [paragraph 3(t)]

Thus, the definition of a *nonprofit activity* recognizes that the essential difference between a business and a not-for-profit entity is in the nature of the benefits provided and that they may be provided to beneficiaries of the entity's mission and purpose as well as (or rather than) to customers or members. Respondents generally agreed with that definition of a nonprofit activity.

Transactions That Are Not Mergers or Acquisitions

C32. To further clarify its scope, this Statement explicitly excludes the formation of a joint venture and mergers and acquisitions involving businesses, nonprofit activities, or entities that are under common control. Statement 141(R) also excludes those transactions from its scope. Paragraph B59 of Statement 141(R) explains that:

> Formations of joint ventures and combinations of entities under common control are excluded from the scope of this Statement. Those transactions also were excluded from the scope of both Statement 141 and IFRS 3, and the Boards continue to believe that issues related to such combinations are appropriately excluded from the scope of this project. The Boards are aware of nothing that has happened since Statement 141 and IFRS 3 were issued to suggest that the issuance of this Statement should be delayed to address the accounting for those events.

C33. For the same reasons discussed in Statement 141(R), the Board limited the scope of this Statement to acquisitions of asset groups that make up a business or nonprofit activity, and respondents to the Exposure Draft generally agreed with that scope limitation. Paragraph B20 of Statement 141(R) explains that:

> The Boards considered whether to expand the scope of this Statement to all acquisitions of groups of assets. They noted that doing so would avoid the need to distinguish between those groups that are businesses and those that are not. However, both Boards noted that broadening the scope of this Statement beyond acquisitions of businesses would require further research and deliberation of additional issues and delay the implementation of this Statement's improvements to practice. The Boards therefore did not extend the scope of this Statement to acquisitions of all asset groups.

Applying the Carryover Method

C34. In developing this Statement's guidance on applying the carryover method, the Board began with Opinion 16's guidance on applying the pooling method. Except for the guidance on the date from which the combining entities are included in the new entity's financial statements—the measurement date—and the related presentation and disclosure issues, the guidance in this Statement on applying the carryover method is consistent with Opinion 16's guidance on the pooling method. In addition, because Statement 141(R) and this Statement provide guidance on classifying and designating assets and liabilities in an acquisition, the Board concluded that this Statement should provide guidance on that issue for the carryover method. This Statement also provides guidance on the effect of a merger on selection of accounting options.

Measurement Date and Presentation Guidance

C35. Opinion 16 required the combined entity resulting from a pooling to:

> [Report the] results of operations for the period in which the combination occurs *as though the companies had been combined as of the beginning of the period.* Results of operations for that period thus comprise those of the separate companies combined from the beginning of the period to the date the combination is consummated and those of the combined operations from that date to the end of the period. . . . [Paragraph 56; emphasis added.]
>
> [Present] balance sheets and other financial information of the separate companies as of the beginning of the period . . . *as though the companies had been combined at that date.* Financial statements and financial information of the separate companies presented for prior years should also be restated on a combined basis to furnish comparative information. All restated financial statements and financial summaries should indicate clearly that financial data of the previously separate companies are combined. [Paragraph 57; emphasis added.]

C36. Thus, the measurement date in Opinion 16 is the beginning of the period in which a pooling occurs, regardless of the actual date of the combination. Opinion 16 does not explain why that date was selected, but it might have been related to how the pooling method developed. Paragraph 13 of Opinion 16 notes that the method was first applied to combinations of affiliated entities—entities under common control. Use of the method then was extended to other types of combinations. Opinion 16 does not describe the combined entity resulting from a merger as a new entity.

C37. The measurement date for a merger in this Statement is the merger date—the date the combination becomes effective. As indicated in paragraph 15, the not-for-profit entity that results from a merger is a new entity and therefore a new reporting entity. An entity's history begins at its inception; a new entity has no previous operations. The Board concluded that the guidance on measurement date and related presentation issues in this Statement should be consistent with the merged entity's status as a new entity. Opinion 16's measurement date results in including in the new entity's financial statements for the reporting period in which the merger occurred the results of activities before the date of the merger. Including in the body of its financial statements the results of activities before the entity came into existence does not faithfully represent the entity's situation. (Also see paragraphs C51–C53 for a discussion of the pro forma disclosures this Statement requires of public entities.)

C38. The Board and its staff discussed this Statement's provisions on the measurement date with members of its resource group and other constituents, including users of not-for-profit entities' financial statements. Most of the responding group members and other constituents agreed with the requirement in this Statement.

Classifying and Designating Assets and Liabilities

C39. Statement 141(R) (paragraph B185) notes that in some situations, GAAP provides for different accounting depending on how a particular asset or liability is classified or designated. For example, the accounting for a derivative instrument in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* depends on whether the derivative is designated as a hedge and, if so, the type of hedge designated. Another important classification issue for a business is classifying certain debt securities as trading, available for sale, or held to maturity in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* in particular, because held-to-maturity debt securities are measured at amortized cost. However, FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* requires all debt securities to be measured at fair value in the statement of financial position. Under the health care Guide, designating a security as other than trading results in reporting changes in its value outside the performance indicator. Classification as trading or other than trading, however, does not affect the amount at which the security is measured in the statement of financial position and thus is a less significant issue than a business entity's classification of a security as held to maturity.

C40. Statement 141(R)'s basis for conclusions notes that applying the acquisition method results in the initial recognition in the acquirer's financial statements of the assets acquired and liabilities assumed in a business combination. Therefore, in concept, the acquirer should classify and designate all items acquired at the acquisition date in the context of the contractual terms, economic conditions, and other pertinent factors at that date. Accordingly, that is the principle for classifying and designating assets acquired and liabilities assumed in an acquisition stated in both paragraph 17 of Statement 141(R) and paragraph 32 of this Statement. Statement 141(R) and this Statement (paragraph 34) provide two exceptions to that principle for classifying or designating assets acquired and liabilities assumed in an acquisition.

C41. The Board decided that stating a principle for classifying or designating assets and liabilities in an acquisition calls for also stating a principle for classifying or designating the opening balances of the assets and liabilities of the new entity resulting from a merger. Not to do so could lead to confusion about whether the related principles for a merger and an acquisition are the same or different. In considering what the principle for a merger should be, the Board observed that the status of the merged entity as a new entity and the nature of the carryover method point in different directions. All else being equal, a new entity should classify and designate its assets and liabilities at its inception on the basis of the contractual terms, economic conditions, and other pertinent factors at that date. In other words, the classification or designation principle for a new entity, in concept, should be the same as for the acquirer in an acquisition. But all else is not equal here because this Statement requires the carryover method rather than the fresh-start method to account for a merger.

C42. The Board concluded that carrying forward the classifications and designations of the merging entities is consistent with the carryover method. The essence of that method is simply to combine the amounts of assets and liabilities reported in the financial statements of the participating entities, without recognizing either changes in the value of existing assets or liabilities or other assets or liabilities not already recognized in the financial statements of the merging entities. For example, treating an asset or liability as the hedged item in a fair value hedge on the merger date if one of the combining entities had not so designated it would be inconsistent with carrying forward the combining entities' recorded amounts of assets and liabilities into the new entity's opening balances. However, provided that the hedge designation criteria of Statement 133 are met, the new entity may designate a new fair value or cash flow hedge. That fact, combined with the elimination of a held-to-maturity category for debt securities held by a not-for-profit entity, makes initial classification and designation a less significant issue for a not-for-profit acquirer than for the acquirer in a business combination.

C43. The Board observed that the terms of some types of contractual assets and liabilities may be modified as part of a merger agreement; leases are one example. If such a modification could change the way other GAAP would classify the contract, its classification should be reevaluated in light of the modification.

Restriction on Election of Accounting Options

C44. If the merging entities have measured assets and liabilities using different methods of accounting in their separate financial statements, paragraph 13 of this Statement requires the new entity to adjust the amounts of those assets and liabilities as necessary to reflect a consistent method of accounting. However, it also provides that a merger is not an event that justifies the election of one-time accounting options that are restricted to the entity's initial acquisition or recognition of an item. Thus, for example, one merging entity's election of the fair value option in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* for a particular financial asset or liability permits neither the new entity's election of the fair value option for other financial assets or liabilities nor the reversal of a previous election. The Board concluded that accounting for a merger using the carryover method rather than the fresh-start method makes that prohibition appropriate. The carryover method generally does not treat assets and liabilities as newly acquired items, which would require them to be recognized at amounts related to the transaction or other event in which they were acquired.

Disclosures for a Merger

C45. In developing the specific disclosures to be required for a merger of not-for-profit entities, the Board focused on the information that users of the merged entity's financial statements would need to understand and evaluate the nature and financial effect of the merger that resulted in the entity's formation. In doing so, the Board considered both the pooling-related disclosures in Opinion 16 and the disclosures required for an acquisition by this Statement, which in turn are based on the disclosures Statement 141(R) requires for a business combination.

C46. As already indicated, the Exposure Draft did not provide for merger accounting; it therefore also did not propose disclosures for a merger. Because of the limited input from constituents on merger disclosures, the Board decided to keep those disclosures as similar as possible to the disclosures made for a pooling and those required for an acquisition. However, the nature of a merger in this Statement and the status of a merged entity as a new reporting entity, as well as the nature of the carryover method, render some of those disclosures irrelevant or moot. For example, Opinion 16's required disclosures pertaining to the shares issued to effect a pooling are not pertinent to a merger of not-for-profit entities. Statement 141(R)'s disclosures pertaining either to goodwill recognized in the transaction or to the fair values of assets and liabilities recognized in a business combination, as well as certain other acquisition-related disclosures, are not pertinent to a merger accounted for using the carryover method. The following paragraphs discuss the Board's reasons for requiring disclosure of particular information for a merger.

Information about the Merger and the Merging Entities

C47. The information required by paragraph 18(a)–(c) identifies and describes the merging entities and particular aspects of the merger. It is comparable both to disclosures that Opinion 16 required for a pooling and disclosures that this Statement requires for an acquisition. Paragraph 18(d) then requires each merging entity to disclose the amounts of major classes of recognized assets, liabilities, and net assets and the nature and amounts of any significant assets or liabilities that are not recognized because of GAAP requirements, such as receivables or payables from conditional promises to give. This Statement requires similar disclosures for an acquisition by a not-for-profit entity.

C48. The Board concluded that resource providers and other users of the new entity's financial statements need the basic information required by paragraph 18(a)–(d) to understand the nature of the entity and how it was formed. That information may be pertinent not only in the year of the merger but also as a reference for users in considering financial statements for periods following the merger. Because that information is readily available or is already required by GAAP in the financial statements of the merging entities, disclosing it will not be costly. For example, Statement 116 requires disclosure of conditional promises.

Significant Adjustments Made to Conform Accounting Policies or to Eliminate Intraentity Amounts

C49. Paragraph 13 notes that the merging entities may have been using different accounting methods and requires that any such differences be conformed so that the new entity resulting from the merger will have a consistent accounting policy. Because the assets and liabilities of the merging entities are the merged entity's opening balances, such adjustments will be reflected in those opening balances.

C50. Opinion 16 required that accounting changes made to conform the accounting policies of entities participating in a pooling be applied retroactively and that the related adjustments be disclosed. The Board decided to require disclosure of the nature and amount of any significant adjustments made to conform the individual accounting policies of the merging entities or to eliminate intraentity balances (paragraph 18(e)), in part because that requirement continues disclosures being made in practice. In addition, the Board believes that the amount of such adjustments would be helpful to users who wish to consider the results of the new entity's activities in the context of the combined results of the activities of the merging entities.

Supplemental Pro Forma Information for Public Entities

C51. Having concluded that a merged entity's financial statement for the period of the merger should not include the combined results of the separate merging entities before the date of the merger (paragraph C37), the Board considered whether such combined information should be disclosed on a supplemental pro forma basis. The Board concluded that such disclosures should be required for a public entity, if practicable; paragraph 18(f) details the specific information to be disclosed. That information is similar both to pro forma information currently disclosed for a pooling and to pro forma information that both this Statement and Statement 141(R) require to be disclosed for an acquisition.

C52. Regardless of the fact that a merged entity is a new entity with no history of its own to report and may take advantage of the merger to eliminate redundancies in the combined operations, the new entity generally continues the major activities of the separate merging entities. Users of the new entity's financial statements, such as credit analysts, may wish to continue to consider trend information for the separate combining entities before the date of the merger in assessing the new entity's financial performance. However, to avoid imposing costs on many not-for-profit entities that may exceed the benefits of the information, the Board limited the requirement to disclose supplemental pro forma information to a new entity that qualifies as a public entity. The Board thinks that the users of a public not-for-profit entity's financial statements, such as credit analysts and bondholders, are more likely to be interested in the combined results of the merging entities in assessing the effect of the merger on the new entity's ability to meet its commitments when due.

C53. As with the requirement on the measurement date, the Board and its staff discussed this Statement's required pro forma disclosures for public entities with members of its resource group and other constituents, including users of not-for-profit entities' financial statements. Most of the responding group members and other constituents agreed with those requirements.

Applying the Acquisition Method

C54. Paragraph C3 explains that the Board's approach to the issues in this project was based on the conclusion that the standards for business entities, including Statement 141(R), are relevant to not-for-profit entities unless circumstances unique to not-for-profit entities justify a departure from those standards. Respondents to the Exposure Draft generally agreed with that approach. Except for particular aspects of accounting for goodwill or a contribution received, the guidance in this Statement on applying the acquisition method is the same as the related guidance in Statement 141(R). This Statement adds guidance on items that are unique or especially significant to a not-for-profit entity, such as donor relationships and collections. Discussion in paragraphs C56–C177 of this Statement's guidance on applying the acquisition method focuses largely on circumstances that are unique to not-for-profit entities. (Also see paragraph C2.)

C55. Paragraph 22 of this Statement identifies four steps in a not-for-profit entity's application of the acquisition method:

a. Identify the acquirer
b. Determine the acquisition date
c. Recognize and measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree
d. Recognize and measure goodwill acquired (or the immediate charge to the statement of activities required by paragraph 51) or the contribution received.

Identifying the Acquirer

C56. Identifying the acquirer determines which of the combining entities is the continuing reporting entity. The acquirer is the entity that obtains control of the other entity (or entities) involved in the combination (paragraph 3(b)). Because consolidation criteria also are based on control, the Board concluded in both this Statement and Statement 141(R) that the existing guidance on consolidated financial statements should be applied to identify the acquirer.

C57. This Statement, like Statement 141(R), provides additional guidance to help in determining the acquirer if an acquisition has occurred but applying the consolidation guidance, by itself, does not clearly identify the acquirer. The guidance in paragraphs A38–A44 is generally the same as the guidance on identifying the acquirer in Statement 141(R). The reasons for that guidance are discussed in paragraphs B84–B92 and B102–B105 of Statement 141(R). However, this Statement omits Statement 141(R)'s guidance that applies to an acquisition effected by an exchange of equity securities because an acquisition by a not-for-profit entity would not involve such an exchange.

C58. The Board also identified an additional indicator that may be particularly useful for identifying the acquirer in an acquisition by a not-for-profit entity—the ability to select or dominate the process of selecting the governing body of the ongoing entity. That indicator may provide strong evidence of the identity of the acquirer, particularly if one of the combining entities has the ability to select or to dominate the process of selecting a voting majority of the ongoing entity's governing body. To help ensure consistent application of that indicator, the Board decided to provide factors to consider in determining which entity is able to select or to dominate the process of selecting the governing body of the entity (paragraph A44).

C59. Respondents generally agreed with the guidance in the Exposure Draft on identifying the acquirer, which was essentially the same as the guidance in this Statement. A few suggested either prioritizing the guidance or indicating that one of the factors, such as relative size, is not, by itself, determinative. Because acquisitions can be structured in many different ways and not-for-profit entities can be governed under different structures, the Board rejected prioritizing the guidance in paragraphs A40–A44. The Board also concluded that those paragraphs do not suggest that any one of the factors, whether relative size of the combining entities or some other factor, is determinative by itself.

Determining the Acquisition Date

C60. Both businesses and not-for-profit entities are required to account for an acquisition as of the acquisition date. As noted in paragraph B109 of Statement 141(R):

> The [Board] concluded that to faithfully represent an acquirer's financial position and results of operations, the acquirer should account for all business combinations at the acquisition date. In other words, its financial position should reflect the assets acquired and liabilities assumed at the acquisition date—not before or after they are obtained or assumed. Moreover, the acquirer's financial statements for the period should include only the cash inflows and outflows, revenues and expenses, and other effects of the acquiree's operations after the acquisition date.

C61. The Board concluded that this Statement and Statement 141(R) should provide the same guidance on the acquisition date—nothing unique to a not-for-profit entity would call for using a different acquisition date. Therefore, this Statement defines *acquisition date* in the same manner as Statement 141(R).

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

Recognition principle and conditions

C62. This Statement's recognition principle, stated in paragraph 27, is the same as the recognition principle for a business combination in Statement 141(R). In addition, the Board concluded, as it did in Statement 141(R), that to achieve a reasonably high degree of consistency in practice and to resolve existing inconsistencies, this Statement should provide guidance for applying its recognition principle. That guidance emphasizes two fundamental conditions. To recognize identifiable assets acquired and liabilities assumed as part of applying the acquisition method, the item acquired or assumed must:

a. Meet the definition of assets and liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements,* at the acquisition date
b. Be part of what the acquirer and the acquiree (or its former owners) exchanged in the acquisition transaction rather than the result of a separate transaction.

An asset or liability at the acquisition date

C63. In determining whether an item should be recognized at the acquisition date as part of the acquisition transaction, the Board decided that the appropriate first step is to apply the definitions of assets and liabilities in Concepts Statement 6. The FASB and the IASB observed in paragraph B114 of Statement 141(R) that:

> . . . in accordance with both Statement 141 and IFRS 3, and their predecessors and the related interpretative guidance, particular items were recognized **as if** they were assets acquired or liabilities assumed at the acquisition date even though they did not meet the definition of an asset or a liability. That practice was related to the previous emphasis on measuring the cost of (or investment in) the acquiree rather than the acquisition-date fair values of the assets acquired and liabilities assumed. For example, as discussed in paragraphs B365–B370 [of Statement 141(R)], some expenses for services received in connection with a business combination were capitalized as part of the cost of the acquiree (and recognized as part of goodwill) **as if** they were an asset at the acquisition date. In addition, some future costs that an acquirer expected to incur often were viewed as a cost of the acquiree and recognized **as if** they were a liability at the acquisition date—expected restructuring costs were an example. The Boards concluded that the representational faithfulness, consistency, and understandability of financial reporting would be improved by eliminating such practices.

The Board concluded that the same rationale for recognizing only assets acquired and liabilities assumed that meet the definitions applies in an acquisition by a not-for-profit entity.

Part of the acquisition transaction

C64. The second recognition condition is that the asset or liability must be part of the acquisition transaction rather than a result of a separate transaction. Making that distinction requires an acquirer to identify the components of a transaction in which it obtains control over an acquiree. The objective of the condition and the guidance on identifying the components of an acquisition is to ensure that each component is accounted for in accordance with its economic substance.

C65. The discussion in paragraphs C66–C69 is based on the discussion in paragraphs B115–B124 of Statement 141(R) because the two Statements provide the same substantive guidance on determining what is part of a business combination or an acquisition by a not-for-profit entity. Those paragraphs in Statement 141(R) also discuss the differences between its guidance on determining what is part of a business combination and the related guidance in the Exposure Draft that preceded Statement 141(R) (referred to in the remainder of this appendix as the proposed Statement 141(R)), which was the same as in the Exposure Draft that preceded this Statement.

C66. The Board decided to provide application guidance to help address concerns about the difficulty of determining whether a part of the consideration transferred is for the acquiree or is for another purpose. The Board observed that parties directly involved in the negotiations of an impending acquisition may take on the characteristics of related parties. Therefore, they may be willing to enter into other agreements or include as part of the acquisition agreement some arrangements that are designed primarily for the benefit of the acquirer or the combined entity, for example, to achieve more favorable financial reporting outcomes after the acquisition. Because of those concerns the Board decided to develop a principle for determining whether a particular transaction or arrangement entered into by the parties to the combination is part of what the acquirer and acquiree exchange in the acquisition or is a separate transaction.

C67. The Board concluded that a transaction that is designed primarily for the economic benefit of the acquirer or the combined entity (rather than the acquiree or its former owners before the acquisition) is likely to be a separate transaction rather than part of the exchange for the acquiree. If so, those transactions should be accounted for separately. The Board acknowledges that judgment may be required to determine whether part of the consideration paid or the assets acquired and liabilities assumed stems from a separate transaction. (For example, an acquisition in which the acquiree in effect "gifts" itself to the acquirer may be for the purpose of furthering the mission of the combined entity. But that fact does not mean that the entire transaction does not qualify as an acquisition.) To help in applying the principle, paragraph 68 of this Statement includes four examples of payments or other arrangements that are separate from the transaction in which an acquirer obtains control over an acquiree. The first three examples also are in Statement 141(R). The Board included the fourth example because it is a separate transaction that might occur in conjunction with an acquisition by a not-for-profit entity.

C68. To provide additional help in identifying the components of an acquisition, paragraph A106 specifies three factors to be considered in assessing an acquisition transaction:

a. The reason for the transaction
b. Who initiated the transaction
c. The timing of the transaction.

Although those factors are neither mutually exclusive nor individually conclusive, the Board decided that they could help in considering whether a transaction or event is arranged primarily for the economic benefit of the acquirer or the combined entity or primarily for the benefit of the acquiree (or its former owners before the acquisition).

C69. Therefore, in principle, this Statement would require an acquirer to recognize in its financial statements all items that meet the definitions of an asset and a liability that are acquired or assumed as part of the acquisition. This Statement provides limited exceptions to that recognition principle, which are discussed in paragraphs C99–C116.

Recognizing particular identifiable assets acquired and liabilities assumed

C70. To help ensure the consistent application of the requirements of this Statement, the Boards decided to provide specific recognition guidance for particular types of identifiable assets acquired and liabilities assumed. Because the Board concluded that whether or how those assets or liabilities are recognized does not depend on whether the item is held or owed by a business or a not-for-profit entity, the guidance in this Statement is the same as that in Statement 141(R). The discussion of that guidance in paragraphs C71–C89 briefly summarizes the Board's reasoning and refers the reader to the pertinent paragraphs of Statement 141(R) for a more complete discussion.

Operating leases

C71. FASB Statement No. 13, *Accounting for Leases,* does not require the separate recognition of assets and liabilities for rights and obligations of operating leases. In Statement 141(R), the Board considered whether to require, for example, the separate recognition of an asset acquired for an acquiree's rights to use property for the specified period and related renewal options or other rights and a liability assumed for an acquiree's obligations to make required lease payments for an operating lease acquired in a business combination. However, at the time the Board (together with the IASB) considered how to account for operating leases in a business combination, they were considering adding to their agendas a joint project on accounting for leases. That project was added in 2006. Accordingly, they concluded that Statement 141(R) should be consistent with the existing accounting requirements on accounting for leases, and the Board applied that conclusion in this Statement for the same reason. Therefore, this Statement provides that the acquirer recognizes no assets or liabilities related to an operating lease in which the acquiree is the lessee other than those referred to in paragraphs A46 and A47, which are discussed below.

C72. Regardless of whether the acquiree is the lessee or the lessor, paragraph A46 of this Statement requires the acquirer to recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and to recognize a liability if the terms are unfavorable relative to market terms. In addition, an identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. The background and reasons for that requirement are discussed in paragraphs B145–B147 of Statement 141(R).

Research and development assets

C73. This Statement, like Statement 141(R), requires an acquirer to recognize all tangible and intangible research and development assets acquired. Before Statement 141(R), FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method,* required an acquirer to measure and immediately expense tangible and intangible assets to be used in research and development that had no alternative future use. A research and development asset was recognized as such only if it had an alternative future use. In Statement 141(R), the Board concluded that the requirement to immediately write off assets to be used in research and development activities if they have no alternative future use resulted in information that was not representationally faithful. Paragraphs B149–B156 of Statement 141(R) further discuss the reasons for requiring recognition of research and development assets acquired.

Distinguishing acquired intangible assets from goodwill

C74. This Statement requires the acquirer to recognize separately from goodwill the acquisition-date fair value of *identifiable* intangible assets acquired in an acquisition. Paragraph A48 indicates that an intangible asset is identifiable if it meets either the contractual-legal criterion or the separability criterion, and paragraph 3(o) defines those criteria. In practice under Opinion 16, intangible assets acquired often were included in the amount recognized as goodwill, although Opinion 16 also required recognition of intangible assets separately from goodwill. The Board decided to separate intangible assets from goodwill to enhance the decision usefulness of financial statements. Specifically, separately recognizing intangible assets and separating finite-lived assets from indefinite-lived assets allows for subsequent treatment (amortization or impairment testing) that is more consistent with the wasting or nonwasting nature of those assets.

C75. The criteria for determining whether an intangible is identifiable and thus should be recognized separately from goodwill are the same as the criteria in Statement 141(R), which in turn are consistent with the same criteria in Statement 141. Paragraphs B163–B174 of Statement 141(R) discuss the development of the identifiability criteria, including why the Board rejected other suggested criteria. The Board did not reconsider those criteria in developing this Statement but rather focused on whether not-for-profit entities differ from business entities in a way that would call for revising the identifiability criteria. The Board concluded that not-for-profit entities should apply the same criteria as business entities, and respondents to the Exposure Draft generally agreed that the criteria are appropriate for application by not-for-profit entities.

Recognition of donor-related intangible assets

C76. A resource group member suggested that the Board provide guidance for recognizing donor-related intangible assets, such as donor lists and donor relationships, apart from goodwill. The Board agreed. In developing the Exposure Draft, the Board observed that donor-related intangible assets are similar to customer-related intangible assets and decided that its approach for developing the guidance for donor lists and donor relationships should be consistent with Statement 141(R). The Board took that approach in the Exposure Draft because previous input from constituents indicated that donor relationships are often among the main reasons for a combination, just as customer relationships are often one of the main reasons for a business combination. Additionally, the Board expected that the methods used to value a donor relationship would be similar to those used to value a customer relationship.

C77. However, some Board members disagreed that donor relationships are sufficiently similar to customer relationships to be recognized according to the same guidance. Those members also were concerned about whether donor-related intangible assets can be measured with sufficient reliability and can be separated from the value of the acquiree. They noted that donor relationships, unlike customer relationships, arise from contributions that have characteristics that differentiate them from the transactions considered in developing the guidance for customer relationships. First, unlike customers, donors do not expect to receive goods and services in return for the payments they make. Second, donors often have personal affinities and attachments to entities rather than commercial attachments.

C78. Despite those concerns, the Board concluded in developing the Exposure Draft that the guidance for donor lists and donor relationships should be consistent with the guidance for customer lists and customer relationships. The Board also sought further input from constituents and through the comment letter process about the measurability and separability of donor relationships.

C79. Commentators expressed significant disagreement with the proposed requirements for donor-related intangible assets in the Exposure Draft. Reactions to the proposed requirement to recognize donor relationships on the basis that they are similar to customer relationships were particularly negative. Many of the reasons given for that disagreement were similar to the concerns some Board members noted during the development of that guidance (paragraph C77). For example, some commentators observed that a customer relationship is based on supply and demand of goods and services that the customer personally needs. In contrast, a donor relationship is based on the donor's concern about how the entity uses its contribution to carry out its mission. In addition, a customer often would incur significant costs to change vendors for particular goods or services. In contrast, a donor generally would incur no costs to stop donating to Charity A and begin donating to Charity B instead.

C80. Commentators also generally disagreed that the fair value of donor relationships can be measured with sufficient reliability for recognition upon acquisition. They identified specific difficulties with measurement, including the potentially significant and unpredictable effects of the acquiree's structural change—its acquisition by another entity—on its donor relationships and pattern of future contributions. Commentators also noted the unpredictable and nonrecurring patterns of many donations, and they said that subsequent testing for impairment would be unduly cumbersome.

C81. If donor relationships had to be recognized separately, some commentators, including some resource group members, said that the Board would need to provide more robust measurement guidance. For example, resource group members suggested that valuation experts likely would measure a donor relationship using the same methodology as for a customer relationship—a multi-period excess earnings method. The inputs into that valuation method would be especially troublesome. For example, the valuation method would require an estimate of donor turnover to forecast how far out cash flows will go. The unpredictability and nonrecurring nature of many donations would raise questions about the reliability of the estimated donor turnover and the costs to gather the information for the estimates. Commentators also said that even if it were feasible to measure the fair value of donor relationships with sufficient reliability, to do so would be too costly to satisfy a reasonable cost-benefit test.

C82. Many of the commentators on donor-related intangible assets generally agreed that donor lists are separable and, in the absence of confidentiality agreements that would prevent transferring them, should be recognized separately from goodwill. However, some commentators disagreed with a requirement to recognize donor lists separately, generally for the same reasons they disagreed with separately recognizing donor relationships.

C83. In reconsidering the appropriate guidance to provide on donor-related intangible assets in light of the information received through the exposure process, the Board, like many of the commentators, separated donor lists from donor relationships. The Board concluded that donor lists meet the separability criterion because donor lists not bound by confidentiality agreements are capable of being separated or divided from the acquiree and sold, transferred, licensed, rented, or exchanged. This Statement (paragraph A67) explicitly provides that a donor list does 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, which is consistent with the treatment of customer lists. The Board understands that donor lists may be sold or otherwise transferred less frequently than are the customer lists of businesses. Nevertheless, the Board considers a donor list to be subject to reasonably reliable measurement at an acceptable cost.

C84. The Board reached a different conclusion on the measurability and the cost-benefit relationship of separately recognizing donor relationships because it generally agrees with the concerns raised by commentators. In particular, the Board agrees that the substantive differences between a customer's relationship with a supplier of goods or services and a donor's relationship with a charity or other not-for-profit entity result in significant problems with the reliability of estimates of donor turnover and the amount of future donations that a current donor relationship might produce. Because of those reliability concerns and the high cost of overcoming them, if that was even possible, the Board concluded that recognizing donor relationships separately from goodwill does not pass a cost-benefit test.

C85. Some Board members also consider donor relationships not to qualify for separate recognition under the criteria for determining whether a particular intangible asset is identifiable. For example, some Board members continue to believe that the personal affinities and attachments that donors often have to the entities to which they contribute raise significant questions about the extent to which a donor relationship is separable from the other assets of a not-for-profit entity, particularly goodwill. Those Board members believe that a donor relationship, like an assembled workforce (paragraph C87), cannot be sold, transferred, licensed, rented, or otherwise exchanged without causing disruption to the acquirer's operations. Some also questioned whether a donor relationship clearly arises from a contractual or legal relationship. In light of those concerns, the Board considered whether this Statement should indicate that donor relationships, like an assembled workforce, do not satisfy the identifiability criteria rather than establishing an exception to the recognition principle for donor relationships. The Board concluded, however, that regardless of whether donor relationships qualify as identifiable, they should not be recognized because of concerns about the ability to obtain reliable fair value measurements, especially at a cost that does not exceed the benefits of separate recognition of donor relationships. Therefore, the Board decided to provide a recognition exception on cost-benefit grounds, which does not require the resolution of the concerns about the extent to which donor relationships qualify as identifiable.

Assembled workforce

C86. An assembled workforce is an existing collection of employees that permits an acquirer to continue to operate an acquired business or nonprofit activity from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs.

C87. This Statement, like Statement 141(R), precludes separately recognizing an assembled workforce. In developing Statement 141(R), the Board concluded that because an assembled workforce is a collection of employees rather than an individual employee, it does not arise from contractual or legal rights. Although individual employees might have employment contracts with the employer, the collection of employees, as a whole, does not have such a contract. In addition, an assembled workforce is not separable, either as individual employees or together with a related contract, identifiable asset, or liability. An assembled workforce cannot be sold, transferred, licensed, rented, or otherwise exchanged without causing disruption to the acquirer's business. In contrast, an entity could continue to operate after transferring an identifiable asset. Therefore, an assembled workforce is not an identifiable intangible asset to be recognized separately from goodwill. Paragraphs B176–B180 of Statement 141(R) further discuss an assembled workforce and how it differs from the intellectual capital of skilled employees, which sometimes is recognized separately from goodwill.

Reacquired rights

C88. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquiree to use the acquirer's recognized or unrecognized intangible assets. Examples of such rights include a right to use the acquirer's legal name under a franchise agreement and a right to use the acquirer's technology under a technology licensing agreement. This Statement, like Statement 141(R), requires an acquirer to recognize such a reacquired right as an identifiable intangible asset (paragraph A52). The fair value of a reacquired right is to be amortized over the remaining term of the contract that gave rise to the right. (Paragraph C118 discusses the measurement of reacquired rights.)

C89. The Board concluded that recognizing a reacquired right separately from goodwill provides users of the financial statements of the combined entity with more decision-useful information than subsuming the right into goodwill. The Board also observed that a reacquired right meets the contractual-legal and the separability criteria and therefore qualifies as an identifiable intangible asset. Paragraphs B181–B184 of Statement 141(R) further discuss the recognition of reacquired rights.

Measurement principle

Identifiable assets acquired and liabilities assumed

C90. The Board decided that, in principle, fair value is the relevant attribute for measuring the identifiable assets acquired and liabilities assumed in an acquisition of a business or nonprofit activity. Thus, this Statement would significantly reduce the use of inconsistent measures for specified assets and liabilities, which is the existing practice for not-for-profit entities that analogize to the purchase method described in Opinion 16. (Opinion 16 used the term *purchase method* instead of *acquisition method.* Therefore, this Statement refers to the purchase method in referencing that Opinion.)

C91. The purchase method in Opinion 16 required an acquirer to allocate the cost (rather than the fair value) of an acquiree to the assets acquired and liabilities assumed. Paragraph 37 of that Opinion required a variety of measures for that allocation, including fair values, current replacement costs, net realizable values, or in accordance with other GAAP. In Statement 141(R) and in this Statement, the Board concluded that measuring assets acquired or liabilities assumed at amounts other than their fair values at the acquisition date does not provide relevant information that faithfully represents either their economic values or the acquirer's economic circumstances resulting from the acquisition. Measurement at fair value provides information that is not only more relevant, but also more comparable and understandable than measurement at cost or on the basis of allocating the total cost of an acquisition. Although this Statement provides several exceptions to fair value measurement, those exceptions generally are due to practical reasons—not because the resulting information is more relevant.

Noncontrolling interests

C92. The Board observed that, although it may not happen often, a not-for-profit entity may acquire an acquiree in stages or acquire less than 100 percent of the equity of an acquiree. For example, a not-for-profit entity may purchase or receive a contribution of a majority ownership in the equity of a business entity. A not-for-profit entity also might have a controlling economic interest in another not-for-profit entity in which a noncontrolling interest is recognized. Therefore, the Board decided to provide guidance in this Statement on measuring the resulting noncontrolling interest.

C93. This Statement requires a not-for-profit entity to measure any noncontrolling interest in the acquiree at its fair value at the acquisition date. That is a change from the Exposure Draft, which would have required that a noncontrolling interest in an acquiree be determined as the sum of the noncontrolling interest's proportional interest in the identifiable assets acquired and liabilities assumed. The noncontrolling interest's proportional share of goodwill would not have been included. That is, in an acquisition of less than 100 percent of a business, an acquirer would have recognized only the amount of goodwill purchased (the goodwill that is related to the controlling interest), rather than the full amount of goodwill as would have been required by the proposed Statement 141(R).

C94. In redeliberating the proposed Statement 141(R), the Board decided that including the measurement of a noncontrolling interest in the measurement principle would be preferable to specifying the mechanics of determining the amount of a noncontrolling interest. (Because the proposed Statement 141(R) would have included the noncontrolling interest's proportional share of goodwill, the amounts determined by measuring the fair value of a noncontrolling interest and by the specified mechanics generally would be the same.) Paragraphs B205–B208 of Statement 141(R) discuss in more detail why the Board concluded that measuring a noncontrolling interest at its fair value at the acquisition date is appropriate. The Board concluded that those reasons also apply to an acquisition by a not-for-profit entity.

C95. The Board considered whether a requirement to measure a noncontrolling interest at fair value would impose undue costs on acquirers. The Board observed that acquisitions by not-for-profit entities of less than 100 percent of an acquiree often involve an acquisition of a business entity. For some of those acquisitions, market prices will be available for the shares held by the noncontrolling interest. If no market prices are available, the acquirer will need to estimate the fair value using another valuation technique, which the Board acknowledges will generally be more costly. However, for an acquisition of either a business or a not-for-profit entity, the Board understands that the acquirer often applies other techniques as part of the due diligence procedures, and using them to determine the fair value of the noncontrolling interest for financial reporting purposes thus often would not add significant incremental costs.

C96. The Board also asked resource group members about the cost of measuring a noncontrolling interest at fair value; most of the members who responded said that such a requirement usually would not impose significant incremental costs on acquirers.

Guidance for measuring particular identifiable assets acquired and a noncontrolling interest

C97. Because the fair value of a particular asset does not depend on whether it is held by a for-profit entity or a not-for-profit entity, the Board concluded that this Statement should provide the same measurement guidance that Statement 141(R) provides for the following items:

a. Trade receivables and other short- or long-term receivables acquired and other assets with uncertain cash flows (paragraphs B252–B260 of Statement 141(R))
b. Assets subject to operating leases in which the acquiree is the lessor
c. Assets that the acquirer intends not to use or to use in a way other than their highest and best use (paragraphs B261 and B262 of Statement 141(R)).

Exceptions to the recognition principle

C98. This Statement provides three exceptions to its recognition principle, primarily because of cost-benefit or practicability concerns. The exception for donor relationships was discussed in paragraphs C76–C85. The reasons for allowing the other two exceptions are discussed in paragraphs C99–C105.

Collections

C99. This Statement uses the term *collections* consistent with its meaning in Statement 116. Paragraph 39 of this Statement provides an exception to the recognition principle for collection items if the acquirer has a policy of not capitalizing collections in accordance with Statement 116. Rather than applying this Statement's recognition principle, an acquirer with such a policy should account for collections in accordance with Statement 116. For contributed collections, paragraph 11 of Statement 116 states:

> An entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections that meet all of the following conditions:
>
> a. Are held for public exhibition, education, or research in furtherance of public service rather than financial gain
> b. Are protected, kept unencumbered, cared for, and preserved
> c. Are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

C100. The Board concluded that the cost to measure separately the fair value of collection items would, in many circumstances, exceed the incremental benefits of the information gained. In Statement 116, the Board concluded that works of art, historical treasures, and similar items are assets. However, for cost-benefit reasons, Statement 116 permits nonrecognition of assets under certain specific circumstances for works of art, historical treasures, and similar items held as part of a collection. Although capitalization of collections was permitted upon the initial adoption of Statement 116 (either retrospectively or prospectively), most entities that have collections do not currently capitalize them. Therefore, requiring recognition of collection items in an acquisition would be inconsistent with Statement 116 and would be of limited usefulness because the recognized collection would include only those newly acquired assets.

C101. As part of an acquisition, collection items that are added to the acquirer's collection may also be purchased. Paragraph 141 of Statement 116 contains an illustration for an entity that does not capitalize collections. In that example, the entity reports its purchases of collection items as a decrease to its net assets in the statement of activities. Therefore, the Board concluded that collections that are purchased as part of an acquisition should be included as part of the acquisition accounting. However, consistent with Statement 116, if the acquirer's organizational policy is not to capitalize its collections, the cost of purchased collections is recognized as a decrease in the appropriate class of net assets in the statement of activities. Paragraphs A86–A92 provide guidance on determining whether collection items are purchased or contributed and, if purchased, the cost to attribute to them.

Conditional promises

C102. Similar to its conclusion for collection items, the Board concluded that this Statement's requirements for conditional promises to give should be consistent with Statement 116's requirements. Therefore, paragraph 40 of this Statement requires the acquirer to apply the guidance in Statement 116 to account for conditional promises to give that it acquires or assumes as part of an acquisition.

C103. When the Board issued Statement 116 in 1993, it concluded that "in certain circumstances, uncertainties may be so significant that recognition of an asset or liability must be delayed until there is adequate evidence that it exists, has value, and can be reliably measured" (paragraph 75). Paragraph 79 of that Statement states:

> The Board believes that until the condition is substantially met, there is insufficient basis to make a presumption about the expected outcome. Doubt remains about whether all or none of the promised assets will be realized. Presently, there are no cost-effective techniques to measure with sufficient reliability the value of a conditional right to receive a promised gift or a conditional obligation to deliver a promised gift. The Board concluded that substantially meeting the condition is the underlying event resulting in a contribution to the promisee from the promisor and until that event occurs a contribution should not be recognized, regardless of whether the promisor has already transferred the assets or has promised to transfer the assets in the future.

C104. In that Statement, the Board concluded that conditional promises should not be recognized in the financial statements until the conditions on which they depend are substantially met. However, the Board did not reach a conclusion about whether a conditional right to receive a promised gift or a conditional obligation to deliver a promised gift meets the definition of an asset or liability in Concepts Statement 6 before the conditions are substantially met.

C105. The FASB and the IASB are currently working on a joint project to improve and achieve convergence of their conceptual frameworks. That project includes reconsiderations of the definitions of an asset and a liability as well as how accounting should address uncertainties surrounding assets and liabilities. Those reconsiderations may provide future insight and guidance to comprehensively address conditional promises and other arrangements. Until those reconsiderations are completed, the Board concluded that the recognition requirements in this Statement should be the same as those in Statement 116.

Exceptions to both the recognition and measurement principles

Assets and liabilities arising from contingencies

C106. After the issuance of Statement 141(R), preparers, auditors, and members of the legal profession raised a number of application issues about the requirements in Statement 141(R) related to assets and liabilities arising from contingencies. In particular, preparers and members of the legal profession were concerned about providing auditors with evidence to support the recognition and measurement of liabilities related to certain loss contingencies assumed in a business combination under Statement 141(R) because such information could be prejudicial.

C107. In addition to concerns about litigation-related contingencies, preparers and auditors raised concerns about determining when a contingency should be considered contractual or noncontractual because of the different recognition thresholds for contractual and noncontractual contingencies. Some constituents also expressed concerns about situations in which a target entity may have determined that a loss contingency should be recognized in accordance with FASB Statement No. 5, *Accounting for Contingencies,* because the entity intends to settle out of court but the liability does not meet the more-likely-than-not threshold for recognition of a noncontractual contingency because Statement 141(R) would not have permitted an acquirer to consider a potential out-of-court settlement as a conclusive basis for recognizing a liability.

C108. In light of those and other concerns raised by constituents before the effective date of Statement 141(R), the Board decided to amend its requirements on assets and liabilities arising from contingencies to adopt a model similar to the guidance in Statement 141. That amendment is intended to temporarily address the application issues raised by constituents until the Board determines whether to separately address the accounting for all contingencies by reconsidering Statement 5 or by participating in the IASB's project to revise IAS 37, *Provisions, Con-*

tingent Liabilities and Contingent Assets. Statement 141 required that an asset or liability arising from a contingency be recognized at fair value if the fair value can be determined.

C109. In April 2009, FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,* implemented that amendment. Appendix C of FSP FAS 141(R)-1 further discusses the reasons for its requirements. In developing this Statement, the Board concluded that no significant differences between business and not-for-profit entities exist that would justify different accounting for assets and liabilities arising from contingencies. Accordingly, the requirements of this Statement on that issue are the same as those of Statement 141(R) as amended by FSP FAS 141(R)-1.

Income taxes

C110. Not-for-profit entities generally are exempt from income taxes under the Internal Revenue Code and most state laws. However, entities may be subject to certain income taxes (for example, income taxes on unrelated business income).

C111. The Board concluded that acquiring entities that are subject to taxes on various portions of their income should account for deferred and current tax assets (including valuation allowances) and liabilities in the same way as acquirers that are business entities. Therefore, income tax assets or liabilities would be recognized and measured in accordance with FASB Statement No. 109, *Accounting for Income Taxes,* as amended, rather than in accordance with the recognition and measurement principles in this Statement, which is the same as the requirements for income taxes in Statement 141(R). Paragraph B280 of Statement 141(R) explains why income taxes are an exception to both the recognition and measurement principles even though most, if not all, of the requirements of Statement 109 are arguably consistent with the recognition principle.

C112. The Board provided an exception to the measurement principle in this Statement and in Statement 141(R) for income taxes primarily because of the complexities of subsequent measurement of income tax assets and liabilities if those items were recognized at fair value at the acquisition date. To overcome those difficulties, Statement 109 would need to be comprehensively reconsidered. The Board concluded that the benefits of applying the fair value measurement principle were not sufficient to warrant the costs or complexities that the application of that principle would cause at this time.

Employee benefits

C113. Like business entities, not-for-profit entities provide a variety of different benefits to their employees. Not-for-profit entities are subject to FASB Statements No. 87, *Employers' Accounting for Pensions,* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* as well as the other pronouncements related to various types of employee benefit arrangements listed in paragraph 45 of this Statement. Statement 141(R) provides an exception to the recognition and measurement principles for assets and liabilities related to employee benefit arrangements. This Statement provides the same exception. A liability (or asset, if any) related to the acquiree's employee benefit arrangements is recognized and measured in accordance with other GAAP, such as the pronouncements listed in paragraph 45 of this Statement.

C114. As with the exception for income taxes, the Board provided an exception for employee benefit arrangements because of the difficulties associated with subsequent measurement. To overcome those difficulties, Statements 87 and 106 and other standards on employee benefits would need to be comprehensively reconsidered. The Board decided that the only practicable alternative is to require employee benefit obligations, and any related assets, to be measured in accordance with existing GAAP.

Indemnification assets

C115. In developing Statement 141(R), the Board responded to the request of some constituents to provide guidance on recognizing and measuring an indemnification asset. Constituents raised the issue because of the anomaly that would result if an indemnification asset was measured at fair value at the acquisition date and the related liability, such as an income tax liability, was measured using a different measurement attribute. Paragraphs B301–B303 of Statement 141(R) discuss that issue.

C116. Although indemnification assets may arise less frequently in an acquisition by a not-for-profit entity than in a business combination, the Board concluded that any indemnification assets that arise in a not-for-profit acquisition should be accounted for the same as those in a business combination. Therefore, this Statement provides the same exception as Statement 141(R) does for indemnification assets.

Exceptions to the measurement principle

C117. The Board decided to allow certain exceptions to the application of this Statement's principle for measuring the identifiable acquired assets and assumed liabilities. Paragraphs 42–48 of Statement 141(R) provide exceptions to the requirement that the acquirer measure the acquisition-date fair values of the identifiable assets acquired and liabilities assumed separately from goodwill. Those exceptions are for reacquired rights and assets held for sale. For the reasons discussed in paragraphs C118–C120, the Board concluded that those exceptions also should apply to acquisitions by not-for-profit entities.

Reacquired rights

C118. Like Statement 141(R), this Statement requires the fair value of a reacquired right recognized as an intangible asset to be measured on the basis of the remaining contractual term of the contract that gave rise to the right, without taking into account potential renewals of that contract (paragraphs 48 and A52). The reasons for that conclusion are the same as discussed in paragraphs B308–B310 of Statement 141(R).

Assets held for sale

C119. In this Statement, the Board affirmed the conclusions in Statement 141(R) on measuring an acquired long-lived asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Proposed Statement 141(R) would have required assets qualifying as held for sale at the acquisition date under Statement 144 to be measured as that standard requires—at fair value less costs to sell. The purpose of that proposed exception was to avoid the need to recognize a loss for the selling costs immediately after a business combination because assets measured at fair value would then have to be measured at fair value less costs to sell for subsequent accounting.

C120. In reconsidering the proposals in the proposed Statement 141(R), the Board decided that the exception to the measurement principle for assets held for sale should be eliminated. The definition of fair value in this Statement, and its application in other areas, focuses on market data. Costs that a buyer (acquirer) incurs to purchase or expects to incur to sell an asset are excluded from the amount at which an asset is measured. But avoiding recognizing a loss immediately after the acquisition date would require an amendment to Statement 144 to require assets held for sale to be measured at fair value. Because such an amendment would be subject to the Board's due process procedures, Statement 141(R) includes an exception to fair value measurement for assets held for sale, which the Board expects to eliminate after it amends Statement 144. The Board has not yet undertaken that amendment because of other priorities on its agenda. Thus, this Statement also includes a measurement exception for assets held for sale.

Recognizing and Measuring Goodwill Acquired or the Contribution Received

C121. The discussion of measuring goodwill acquired or the contribution received focuses on acquisitions of 100 percent of the ownership interests in (or the net assets of) the acquiree. The noncontrolling interest that arises in an acquisition of less than 100 percent of an acquiree was discussed earlier (paragraphs C92–C96).

Recognizing goodwill

Goodwill is an asset

C122. Unless the acquirer expects the operations of the acquiree to be predominantly supported by contributions and returns on investments, this Statement requires the acquirer to recognize goodwill as of the acquisition date, measured as the excess of the amount in paragraph 50(a) over the amount in paragraph 50(b). In developing that requirement, the Board reaffirmed the conclusion reflected in both Statement 141 and Statement 141(R) that goodwill meets the definition of an asset in Concepts Statement 6. Paragraphs B313–B321 of Statement 141(R) discuss the components of goodwill and explain how goodwill satisfies that definition. The Board concluded that the considerations discussed in those paragraphs apply equally to goodwill acquired in an acquisition by a not-for-profit entity.

Acquirees with operations in the combined entity that are expected to be predominantly supported by contributions and returns on investments

C123. The Exposure Draft would have required goodwill to be recognized as an asset in all acquisitions by not-for-profit entities, regardless of the nature of the acquiree's expected predominant source of support. However, concurrent with the issuance of the Exposure Draft, the Board also issued an Exposure Draft that would have amended FASB Statement No. 142, *Goodwill and Other Intangible Assets,* to add a *qualitative evaluation* of whether goodwill is impaired following an acquisition. That method was designed for use by a reporting unit of the combined entity that is primarily supported by contributions and returns on investments. A reporting unit primarily supported by means other than contributions and returns on investments would have applied the fair value impairment test in Statement 142.

C124. The qualitative evaluation would have required an acquirer to identify at the acquisition date the reasons that goodwill arose in the acquisition. The acquirer also would have determined at that time potential impairment events whose occurrence would indicate that goodwill is impaired. Upon the occurrence of one of the identified events, an acquirer would have recognized a goodwill impairment loss equal to the reporting unit's carrying amount of goodwill.

C125. Respondents' reactions to the proposed initial recognition and measurement provisions for goodwill, combined with the proposed amendment to Statement 142 to add a qualitative evaluation for impairment, were mixed. Although a few respondents agreed with both proposals, many others said that information about goodwill acquired, including subsequent impairments, is less useful for a not-for-profit entity than for a for-profit entity. Because of that perceived relative lack of benefit, those respondents generally favored either not recognizing goodwill as of the acquisition date or, if recognized, immediately charging it to expense. Many of the respondents also generally said that, although it would be less costly than the fair value test, the proposed qualitative evaluation for goodwill impairment was too subjective and would be difficult to apply.

Decision usefulness of information about goodwill for acquiree operations in the combined entity that are expected to be predominantly supported by contributions and returns on investments

C126. In developing the Exposure Draft, the Board considered whether the recognition of goodwill enhances the decision usefulness of a not-for-profit entity's financial statements for the various users of those statements, including creditors and others seeking or requiring a return on their investments, donors, grantors, and potential donors. The Board concluded that information about goodwill may be of limited use to donors in their assessments of whether to provide resources to a not-for-profit entity. Information about goodwill could be useful to creditors who, unlike donors, are interested in a return on and return of their investments. However, because goodwill is not separately exchangeable, creditors look first to information about assets that can be directly used to settle obligations.

C127. The Board's considerations leading to the issuance of Statement 142 provide a foundation for understanding the information needs of creditors of a not-for-profit entity. The information needs of creditors of not-for-profit entities and others who require a return of and return on their investments are similar to the needs of a business entity's investors and creditors. In the project that led to Statement 142, the Board learned during its field visits that many analysts disregard goodwill amortization expense in assessing a business entity's performance. The Board also learned that a business entity's management also often ignores goodwill amortization in measuring operating performance internally. However, both analysts and management of business entities often include goodwill in total assets when computing performance ratios such as return on assets or return on equity.

C128. Performance measures for not-for-profit entities differ from those used to evaluate business entities. Because not-for-profit entities are not operated with the goal of maximizing return in the typical sense, many of their performance measures do not focus on return on assets, return on net assets, or on a single performance measure similar to net income. Paragraph 9 of FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* establishes two performance indicators for not-for-profit entities: information about the nature of and relationship between inflows and outflows of resources and information about service efforts and accomplishments. Paragraph 49 of Concepts Statement 4 further elaborates on the first of those indicators:

> . . . financial reporting must distinguish between resource flows that are related to operations and those that are not. In this way, financial reporting may provide information that is useful in assessing whether the activities of a nonbusiness organization during a particular period have drawn upon, or have contributed to, past or future periods. Thus, it should show the relation of resources used in operations of a period to resource inflows

> available to finance those operations. Similarly, it should provide information about changes in resources that are not related to operations. . . . [Footnote reference omitted.]

C129. The Board is not convinced that reporting goodwill in the statement of financial position or the impairment of goodwill in the statement of activities meets that objective in Concepts Statement 4 any better than alternative methods. For example, if goodwill was immediately written off upon acquisition, users of financial statements could distinguish that event as one that was not related to operations if the write-off was displayed separately from revenues, expenses, gains, and losses.

C130. The Board also observed that some performance measures used for not-for-profit entities are nonfinancial in nature. In part, that is because many of the individuals or entities that provide resources to a not-for-profit entity do so for reasons other than a return on and return of their investments. For example, donors, grantors, and potential donors have motives other than a return on investment when making decisions about whether to provide resources to a not-for-profit entity. Paragraph 19 of Concepts Statement 4 explains that:

> . . . noneconomic reasons are commonly factors in decisions to provide resources to particular nonbusiness organizations. For example, contributors to philanthropic organizations, such as charities, and to some membership organizations, such as churches, generally seek no direct economic benefits. Rather, their reasons for voluntarily providing resources relate to their interests in furthering the purpose and goals of the organization. . . . [Footnote reference omitted.]

C131. In paragraphs 51–53 of Concepts Statement 4, the Board concluded that the accomplishments of nonbusiness entities generally cannot be measured in terms of sales, profit, or return on investment. Rather, information about service accomplishments of an entity is better furnished by manager's explanations and sources other than financial reporting. Information about service efforts should focus on how the entity's resources (inputs such as money, personnel, and materials) are used in providing different programs or services.

C132. The Board considered whether information about goodwill helps users of financial statements understand an entity's service efforts and accomplishments. The Board concluded that other information better serves that purpose. For example, rather than information about the amount of goodwill recognized in that acquisition, the Board believes that a combination of nonfinancial information and financial information would be more useful in evaluating the combined entity's ability to render future services.

C133. Although the preceding discussion refers to not-for-profit entities in general, the Board observed that it applies largely to acquiree operations in the combined entity that are predominantly supported by contributions and returns on investments. Other not-for-profit entities and activities, such as a hospital whose operations in the combined entity are predominantly supported by fees it charges for its services, are more "businesslike" in nature, and creditors may want to compare their financial statements to those of similar entities in the for-profit sector. Such entities also are more likely to be able to apply the goodwill impairment test in Statement 142 without undue difficulty or cost.

C134. In light of respondents' comments and the considerations about the relative usefulness of information about goodwill, the Board decided to modify the proposals in the Exposure Draft to require different initial recognition of goodwill depending on the nature of the expected predominant means of support of an acquiree's operations in the combined entity. For operations expected to be predominantly supported in the combined entity by contributions and returns on investments, the Board concluded that cost-benefit considerations support a requirement that the amount that otherwise would be recognized as a goodwill asset should be written off at the acquisition date. For acquirees other than those with operations in the combined entity expected to be predominantly supported by contributions and returns on investments, an excess of the amount in paragraph 50(a) over the amount in paragraph 50(b) is to be recognized as goodwill at the acquisition date. Subsequently, the acquirer would apply the impairment provisions of Statement 142 to that asset. The Board concluded that those requirements reflect the differences between "true" not-for-profit entities that are sufficiently different from for-profit entities to support different accounting for goodwill, while not extending different accounting to not-for-profit entities that are businesslike.

C135. Paragraph 71 provides guidance on how to present the separate charge for the excess of the amount in paragraph 50(a) over the amount in paragraph 50(b) in the statement of activities. That guidance is discussed in paragraph C170.

Level of the test for expected predominant means of support

C136. As noted earlier, the Exposure Draft also would have distinguished between the accounting for goodwill depending on whether the main source of support of operations in the combined entity is contributions and returns on investments or other means. But the Exposure Draft would have applied that test in subsequently accounting for goodwill recognized at the acquisition date, and it also would have applied the test at the level of the acquirer's reporting units.

C137. Many respondents who addressed the issue raised concerns about requiring the test of support to be at the level of the reporting unit to which the acquirer assigns the acquiree. They noted that not-for-profit entities are not subject to FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* and thus are not familiar with the criteria for establishing reporting units. Those respondents also said that most not-for-profit entities view their entity as a single reporting unit and that few regularly review their financial information by segments; one respondent said that larger hospital systems might be an exception.

C138. The Board observed that impairment testing at the entity level rather than at a lower level sometimes may be appropriate under Statement 142. However, it generally accepted that requiring a not-for-profit entity to test for support at the level of the acquirer's reporting units could be problematic and costly for not-for-profit entities other than those that are more businesslike because they are primarily supported by fees charged for their services. The Board concluded that the test should be on the basis of the acquirer's expectations as of the acquisition date of the predominant means of support of the acquiree's operations in the combined entity. The Board thinks that an acquirer generally should be able to apply that test on the basis of how it intends to integrate the acquiree's activities into its own activities.

C139. The Exposure Draft also referred to "primarily supported" rather than "predominantly supported." *Primary* generally connotes more than half, and the Board decided that a higher threshold is needed to capture only entities that are not hybrid or more businesslike because a significant means of their support is from fees rather than from contributions and returns on investments. The Board concluded that the term *predominant* would be appropriate. This Statement uses *predominantly supported by* to mean that contributions and returns on investments are expected to be significantly more than the total of all other sources of revenues.

Measuring goodwill

C140. In this Statement, the Board affirmed its conclusion in Statement 141(R) that goodwill cannot be measured directly; goodwill can only be measured as a residual and that is what both this Statement and Statement 141(R) require. Goodwill is measured as the "residual debit" if the amount in paragraph 50(a) exceeds the amount in paragraph 50(b).

C141. The proposed Statement 141(R) would have required the acquirer to measure goodwill as the excess of the fair value of the acquiree as a whole over the net amount of the recognized identifiable assets acquired and liabilities assumed. In contrast, the Exposure Draft would have required the acquirer to measure goodwill as the excess of the acquisition-date values of the consideration transferred, if any, and liabilities assumed over the acquisition-date values of the identifiable assets acquired. That is, the fair value of the consideration transferred replaced the fair value of the acquiree as a whole in the equation for measuring goodwill. The Exposure Draft termed its method the *net asset approach.* (The proposed Statement 141(R) would have established a presumption that, in the absence of evidence to the contrary, the acquisition-date fair value of the consideration transferred is the best basis for measuring the fair value of the acquirer's interest in the acquiree on that date. Thus, the two methods often, but not always, would have produced the same result. One situation in which they would not is an acquisition effected without consideration.)

C142. The reason for the difference between the two methods of measuring goodwill was the Board's conclusion in developing the Exposure Draft that it was not feasible to require not-for-profit entities to measure the fair value of the acquiree as a whole (or the fair value of the acquirer's interest in the acquiree). The proposed Statement 141(R) method, which included a presumption that the value of the consideration transferred is the best measure of the acquiree as a whole, could have been feasible for a transaction in which a not-for-profit acquirer purchases a business or nonprofit activity. But the Board observed that in some acquisitions by not-for-profit entities, the net assets of the acquiree are contributed to the acquirer for no consideration or for consideration that is substantially less than the value of the net assets. The presumption about the equality of the fair value of the acquiree and the consideration transferred would not have applied in those acquisitions, and the acquirer would have been required to determine the fair value of the acquirer as a whole (or the fair value of its interest in the acquirer) using other valuation techniques.

C143. In developing the final Statement 141(R), the Board replaced the reference in the equation for measuring goodwill to the fair value of the acquiree as a whole with the value of the consideration transferred. Thus, Statement 141(R) moved in the direction of the net asset method in this Statement, and the method of measuring goodwill in paragraph 50 of this Statement is the same as in paragraph 34 of Statement 141(R). However, paragraph 35 of Statement 141(R) requires use of the fair value of the acquirer's interest in the acquiree to measure goodwill in the absence of readily measurable consideration. Examples of such situations are a business combination effected by an exchange of equity interests in which the fair value of the acquiree's equity interests are easier to measure than the acquirer's interest in the acquiree and a business combination effected without consideration, such as by contract. The net asset method of measuring goodwill in this Statement includes no such provision. Accordingly, although the differences between this Statement and Statement 141(R) in measuring goodwill were reduced from what they would have been under the two Exposure Drafts, a difference remains in the absence of consideration, such as a not-for-profit acquisition by gift. The Board decided that it would not be feasible or cost-beneficial to require a not-for-profit entity to measure goodwill on the basis of the fair value of the acquirer's interest in the acquiree. The relative decision usefulness of goodwill recognized by a not-for-profit entity versus goodwill recognized in a business combination was discussed in paragraphs C126–C135. The following paragraphs discuss the difficulty and cost of obtaining the information needed to apply a valuation technique to measure the fair value of the acquirer's interest in the acquiree, that is, the cost part of the cost-benefit ratio.

Difficulty and cost of obtaining information

C144. In an acquisition involving consideration, the fair value of the acquirer's interest in the acquiree could be measured on the basis of the fair value of the consideration transferred in accordance with a presumption that the two amounts ordinarily are equal. However, in an acquisition by gift, the acquirer would have to use another valuation approach, such as a market approach or an income approach, to estimate the value of the acquirer's interest in the acquiree. The Board concluded that the application of other valuation approaches could be significantly more problematic for not-for-profit entities than for for-profit entities because of the absence of available and comprehensive comparable market transactions for similar nonprofit activities and the absence of a profit-driven "business" motive. Those absences make both the market approach and the income approach to valuation more difficult, raise questions about the quality of the resulting estimates, and raise concerns about the costs to obtain those estimates in certain acquisitions.

Recognizing goodwill measured by the net asset method in acquisitions of net deficits

C145. During the Board's deliberations, several constituents expressed concerns about the nature of the excess in an acquisition in which the liabilities assumed exceed the identifiable assets acquired (a net-deficit acquisition). Some suggested that the nature of the excess is a contribution made by the acquirer. Others view the nature of the excess as an acquired unidentifiable intangible asset, that is, goodwill. The Board's discussions with constituents led to the following observations about the possible reasons an acquirer would assume the net deficit of the acquiree:

a. The acquirer believes that the acquisition would result in operating synergies.
b. The acquirer acquires identifiable or unidentifiable assets that did not meet the recognition criteria (such as a collection or an assembled workforce).
c. The acquirer erroneously understates the acquisition-date fair values of the identifiable acquired assets.
d. The acquirer erroneously overstates the acquisition-date fair values of the liabilities assumed.
e. The acquirer contributes to the acquiree or to the community (for example, the acquirer decides to assume the liabilities of the acquiree to preserve the acquiree's standing in the community or mission).
f. The acquirer "overpays" for the acquiree.

C146. The Board concluded that many of the reasons cited support the existence of goodwill, although some of the reasons support the recognition of an expense. This Statement does not require the identification or separation of the net deficit into the items in paragraph C145. In determining whether goodwill should be recognized in a net-deficit acquisition, the Board considered the characteristics and conceptual recognition requirements for each of the items. Items (a) and (b) in the list are valid sources of recognized goodwill. Items (c) and (d) conceptually are not part of goodwill, but the Board acknowledges that they might be subsumed in goodwill. Item (e) should be recognized as an expense, consistent with Statement 116. Item (f) conceptually should be an expense but it is typically subsumed in goodwill because the "overpayment" is not known at the date of acquisition. Therefore, of the above list of six items, four are typically included in goodwill. Two items (items (e) and (f)—a contribution made to the acquiree or the community and an "overpayment") conceptually should be expensed.

C147. Because the fair value of an acquiree is not measured, the acquirer cannot objectively determine whether the excess in a net-deficit acquisition is goodwill, an overpayment, or a contribution made. The Board concluded that the excess should be recognized as goodwill rather than as contribution expense. The primary reason for its conclusion is that the fiduciary responsibilities of an acquiring entity and its directors would preclude them from assuming the liabilities of a financially weaker entity unless they believed there was some unidentifiable intangible asset, such as goodwill. Additionally, if an acquirer assumed an acquiree's liabilities that exceeded both its identifiable and unidentifiable assets, the acquirer essentially would be making a charitable contribution to another entity's creditors, which would be highly unlikely.

C148. The Board also considered whether this Statement should include special provisions to account for an acquisition in which a buyer pays an amount that is more than the fair value of its interest in the acquiree. The Board acknowledged that that circumstance is possible and, in concept, an overpayment should lead to recognition of an expense by the acquirer. However, the Board believes that in practice that circumstance, if it occurs, would not be detectable or known at the acquisition date. That is, the Board is aware of no instances in which a buyer knowingly would overpay a seller to acquire a business or nonprofit activity or would be otherwise compelled to make such an overpayment. Rather, the Board believes that the relatively rare situation in which an acquirer overpays occurs unknowingly and generally is a result of misinformation at the acquisition date. Thus, consistent with its conclusion in Statement 141(R) (paragraph B382), the Board concluded that in practice it is not possible to identify and reliably measure an overpayment at the acquisition date. The Board concluded that the accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises.

Subsequent accounting for goodwill acquired

C149. As noted in paragraph C123, concurrently with the issuance of the Exposure Draft that preceded this Statement, the Board issued an Exposure Draft that would have amended Statement 142 to add a qualitative evaluation of whether goodwill is impaired following an acquisition. That method was designed for use by a reporting unit of a not-for-profit entity that is primarily supported by contributions and returns on investments.

C150. Because of the change to the Exposure Draft's proposals on initial recognition of goodwill of an acquiree whose operations as part of the combined entity are expected to be predominantly supported by contributions and returns on investments, that amendment to Statement 142 is no longer needed. No goodwill will be recognized for such acquirees, and subsequent evaluation for impairment thus will not be needed.

C151. As did the Exposure Draft, this Statement requires that the fair value method of evaluating goodwill for impairment in Statement 142 be used for acquirees whose operations as part of the combined entity are not expected to be predominantly supported by contributions and returns on investment. Those acquirees are sufficiently similar to business entities already applying that evaluation method to make it appropriate and feasible to apply.

Recognizing and measuring a contribution received

C152. Paragraph C140 notes that goodwill is the residual that results if the amount in paragraph 50(a) exceeds the amount in paragraph 50(b). Similarly, a contribution received recognized in accordance with paragraph 54 is the residual that results if the amount in paragraph 50(b) exceeds the amount in paragraph 50(a).[11]

C153. The Board observed that the net asset method of measuring goodwill in an acquisition by gift in this Statement is an exception to the requirements of Statement 116 for measuring a contribution received at its fair value at the date of gift. Paragraph 5 of Statement 116 defines a contribution as "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." The Board reached the following basic conclusions in Statement 116, some of which bear on the difficulty and cost of measuring the fair value of the contribution received in an acquisition by gift:

a. The donor and the donee should recognize a contribution made and a corresponding contribution received at the same time, that is, upon occurrence of the underlying event, which is the nonreciprocal transfer of an economic benefit.
b. Fair value is the relevant measurement attribute for a contribution made and a contribution received.
c. Contributions are generally measurable with sufficient reliability by both donors and donees.
d. Certain forms of contributed resources may be more difficult to measure reliably than others, but the form of the contributed resources alone should not change conclusions about whether to recognize the underlying event.
e. A major uncertainty about the existence of value may indicate that a specific item received or given should not be recognized. If an item is accepted solely for a potential educational value or historical significance and has no alternative use, it may have uncertain value, or no value, and should not be recognized. For example, contributions of flora, fauna, photographs, and objects that are identified with historic persons, places, or events often have no value or have highly restricted alternative uses.

C154. For the reasons discussed in paragraph C144, the Board rejected requiring the use of other valuation approaches to measure the fair value of an acquiree for acquisitions of nonprofit activities by gift. Therefore, the net asset approach in this Statement is an exception to the requirement of Statement 116 to measure a contribution received at its fair value as well as to the requirements of Statement 141(R) for an acquisition effected in the absence of readily measurable consideration.

C155. The Board acknowledges that this exception could result in a potential loss of information because a not-for-profit acquirer may:

a. Understate the measurement of the assets acquired (that is, goodwill and other intangible assets that are not identifiable) and the contribution received by the acquirer. For example, the acquirer may be the recipient of a contribution of an acquiree that has significant goodwill or significant value in its workforce.
b. Omit from recognition the assets acquired and contributions received by the acquirer. For example, the acquirer may transfer consideration that is less than the fair value of the identifiable net assets of the acquiree (that is, the acquirer would receive a partial gift or would pay less than the fair value of the acquiree). In those circumstances, if the acquiree has significant goodwill or significant value in its workforce, the acquirer would recognize none of the contribution received for those assets.

However, the Board considers that potential loss to be outweighed by the reduction in costs. A not-for-profit acquirer would not be required to measure the fair value of the acquiree as a whole, which significantly reduces the costs of applying this Statement.

C156. The Board considered whether an excess of the amount in paragraph 50(b) over the amount in paragraph 50(a) should in some circumstances be recognized as a bargain purchase rather than a contribution received. In theory at least, a not-for-profit entity could acquire a business or a nonprofit activity in a forced or liquidation sale in which the net assets acquired exceed the consideration paid; in that situation, Statement 141(R) would require recognition of a bargain purchase. The Board observed, however, that regardless of whether the amount is termed a contribution received or a bargain purchase, the accounting treatment is the same—either would be recognized as a credit in the statement of activities for the period. Therefore, the Board concluded that little

[11]See footnote 4 on the terminology used to describe an excess of the amount in paragraph 50(b) over the amount in paragraph 50(a).

benefit would be achieved by establishing criteria for recognizing a bargain purchase rather than a contribution received. Therefore, paragraph 72 of this Statement suggests that in an acquisition by gift, the excess might be described either as "excess of assets acquired over liabilities assumed in donation of Entity XY" or as "contribution received in donation of Entity XY." If a not-for-profit entity, in effect, achieves a bargain purchase, the amount might be described as "excess of fair value of net assets acquired over consideration paid in acquisition of Entity XY." However, because both amounts are an immediate credit to the statement of activities, the Board concluded that this Statement should not require an acquirer to distinguish between a contribution received and a bargain purchase in describing an excess of the amount in paragraph 50(b) over the amount in paragraph 50(a).

C157. Paragraph 73 provides additional guidance on how to present an inherent contribution received in the statement of activities. That guidance is discussed in paragraphs C171–C175.

Measuring the consideration transferred, including contingent consideration

C158. The recognized amount of goodwill or a contribution received depends in part on the amount of consideration, if any, transferred in exchange for the acquiree. Paragraph 56 of this Statement requires an acquirer to measure consideration transferred at its fair value as of the acquisition date. The following paragraphs discuss the Board's conclusions on measuring and recognizing contingent consideration.

C159. Opinion 16 defines contingent consideration as "consideration which is issued or issuable at the expiration of the contingency period or which is held in escrow pending the outcome of the contingency . . ." (paragraph 78). Under the guidance in Opinion 16, an acquirer's obligations to make payments conditioned on the outcome of future events usually were not recognized at the acquisition date. Rather, acquirers usually recognized those obligations when the contingency was resolved and consideration was issued or became issuable. In general, issuing additional securities or distributing additional cash or other assets upon resolving contingencies based on reaching particular earnings levels resulted in delayed recognition of an additional element of cost of an acquiree. In contrast, issuing additional securities or distributing additional assets upon resolving contingencies based on security prices did not change the recognized cost of an acquiree.

C160. In developing Statement 141(R), the Board concluded that the delayed recognition of contingent consideration was unacceptable because it ignored the fact that the acquirer's agreement to make contingent payments is the obligating event in a business combination transaction. Although the amount of the future payments the acquirer will make is conditional on future events, the obligation to make the payments if the specified future events occur is unconditional. The same is true for a right to the return of previously transferred consideration if specified conditions are met. Failure to recognize that obligation or right at the acquisition date would not faithfully represent the economic consideration exchanged at that date. Thus, the Board concluded that obligations and rights associated with contingent consideration arrangements should be measured and recognized at their acquisition-date fair values.

C161. To the extent that contingent consideration arrangements exist, the Board concluded that not-for-profit entities should account for them in the same manner that Statement 141(R) requires for business entities. That is, contingent consideration, like other consideration transferred, should be measured at its acquisition-date fair value. Paragraphs B347–B351 of Statement 141(R) further discuss its requirements for the recognition and measurement of contingent consideration.

Additional Guidance for Applying the Acquisition Method

Acquisitions in stages

C162. A not-for-profit entity may acquire an acquiree in stages. For example, an entity that owns 20 percent of a for-profit entity may purchase another 60 percent of that entity, thereby obtaining control. In acquisitions achieved in stages, consistent with Statement 141(R), the acquirer would remeasure its noncontrolling ownership investment at its acquisition-date fair value and recognize any gains or losses in the statement of activities. Paragraph B384 of Statement 141(R) includes the following reasons for that decision:

> The Boards concluded that a change from holding a noncontrolling investment in an entity to obtaining control of that entity is a significant change in the nature of and economic circumstances surrounding that investment. That change warrants a change in the classification and measurement of that investment.

Once it obtains control, the acquirer no longer is the owner of a noncontrolling investment asset in the acquiree. As in present practice, the acquirer ceases its accounting for an investment asset and begins reporting in its financial statements the underlying assets, liabilities, and results of operations of the acquiree. In effect, the acquirer exchanges its status as an owner of an investment asset in an entity for a controlling financial interest in all of the underlying assets and liabilities of that entity (acquiree) and the right to direct how the acquiree and its management use those assets in its operations.

C163. The Board concluded that those same reasons apply to a not-for-profit entity that gains control of an acquiree in stages. Paragraphs B385–B389 of Statement 141(R) further discuss that requirement.

Measurement period

C164. In response to concerns about the quality and availability of information necessary to recognize all assets acquired and liabilities assumed or incurred and to measure their fair values at the acquisition date, this Statement establishes a measurement period during which the acquirer may adjust provisional amounts recognized at the acquisition date (paragraphs 61–65). The purpose and requirements of the measurement period are consistent with the related requirements in Statement 141(R).

C165. The Board concluded that in applying the requirements for the measurement period, an acquirer should:

a. Only consider information that pertains to the values as of the acquisition date in recording assets acquired and liabilities assumed in an acquisition. Information discovered about an event that occurred after the acquisition date should be recognized as part of the postacquisition accounting.
b. Provide users of its financial statements with relevant information about the status of items that have been measured only provisionally. Therefore, paragraph 90(a) of this Statement requires the acquirer to disclose specified information about amounts recognized in the financial statements for the acquisition that have been determined only provisionally.
c. End the measurement period as soon as it receives the necessary information about facts and circumstances that existed as of the acquisition date or learns that the information is not obtainable. However, the measurement period should not exceed one year after the acquisition date. As in Statement 141(R), the Board decided to place constraints on the period of time for which it is deemed reasonable to seek necessary information.
d. Adjust comparative information in previously issued financial statements, including any change in depreciation, amortization, or other income effect recognized as a result of completing the initial accounting. The Board acknowledged concerns that retrospective adjustments and adjusting previously issued comparative information are more costly. But it concluded that the cost of this presentation requirement is acceptable because it significantly improves the quality of comparative information reported in financial statements.

C166. Respondents to the Exposure Draft that commented on the measurement period generally agreed both that a measurement period should be provided and that the limit of one year is reasonable.

Determining what is part of the acquisition transaction

C167. This Statement (paragraph 67) requires the acquirer to identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the acquisition. The acquirer is to recognize as part of applying the acquisition method only the consideration transferred for the acquiree. Separate transactions are accounted for in accordance with the relevant GAAP. This requirement was discussed earlier (paragraphs C64–C69) because recognizing as part of the acquisition accounting only items that are part of the acquisition transaction also is a recognition condition. The following paragraphs discuss a more specific aspect of that requirement—accounting for acquisition-related costs.

Acquisition-related costs

C168. The Board observed that transaction-related costs incurred by business entities are similar to those incurred by not-for-profit acquirers. Paragraph 27 of Statement 141(R) requires that those costs be accounted for separately from the business combination. The Board concluded in this Statement that that same requirement should apply to transaction-related costs incurred in connection with an acquisition by a not-for-profit entity.

C169. The primary reason for the requirement in Statement 141(R) is that transaction-related costs are not part of what a buyer and a seller exchange in a business combination. Rather, they are separate payments in exchange for services and generally do not represent assets of the acquirer at the acquisition date because they are consumed as the services are rendered. The Board decided that the nature of acquisition-related costs is the same in an acquisition by a not-for-profit entity as in a business combination. Thus, the same treatment of those costs is appropriate in both transactions.

Presentation

Statement of Activities

Write-off of goodwill for acquiree operations expected as part of the combined entity to be predominantly supported by contributions and returns on investments

C170. If the acquirer is within the scope of the health care Guide, the separate charge for an excess of the amount in paragraph 50(a) over the amount in paragraph 50(b) is to be presented within the performance indicator. The Board understands that the purpose of the performance indicator presented by entities subject to the health care Guide is to provide an indicator comparable to a business entity's income from continuing operations. The Board concluded that presentation within the performance indicator is appropriate because the write-off is similar in nature to an immediate impairment of goodwill, which a business entity would recognize within income from continuing operations.

Inherent contribution received

C171. Consistent with Statement 116 and FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* this Statement requires an inherent contribution received to be reported as an increase in permanently restricted net assets, temporarily restricted net assets, or unrestricted net assets depending on the type of donor-imposed restrictions assumed by the acquiring entity.

C172. The Board also decided that determining whether a contribution received in an acquisition is included as part of "operations," if such a measure is reported, should be left to the discretion of the entity (or other guidance). Requiring contributions received in an acquisition to be presented within operating or nonoperating classes (or other classes) would be more restrictive than the requirements of Statement 117. The Board concluded that it is clear from Statement 117 that the requirements allow flexibility in determining operating and nonoperating items, as well as other classifications, provided the measure is clear or otherwise defined.

C173. The health care Guide, however, defines a performance indicator and provides guidance on what is included in and excluded from the indicator. Therefore, the Board considered whether it should provide guidance specifying whether an acquirer of a business or nonprofit activity that applies the provisions of the health care Guide should include those contributions received in the performance indicator.

C174. In reaching its conclusions about the presentation of a contribution received in an acquisition, the Board considered whether the contribution of a business or nonprofit activity, as a whole, would meet the existing criteria in the health care Guide. Paragraph 10.21c of the health care Guide requires that receipt of restricted contributions (both temporary and permanent restrictions, as defined by Statement 116) be reported separately from the performance indicator. Consistent with the health care Guide, if the donor restricts the use of the acquired business or nonprofit activity, the associated contribution received that is recognized in the acquisition should be presented separately from the performance indicator. Therefore, the Board concluded that an unrestricted contribution should be presented within the performance indicator.

C175. Presenting an unrestricted contribution received within the performance indicator is a change from the Exposure Draft, which would have required that unrestricted contributions also be reported separately from the performance indicator. That proposal was based on an analogy of a contribution of a business or nonprofit activity to a contribution of long-lived assets, which the health care Guide requires to be reported separately from the performance indicator. In reconsidering that guidance in the context of the requirement to include a write-off of goodwill at the acquisition date for acquiree operations expected to be predominantly supported by contributions and returns on investments, the Board concluded that a better analogy is to unrestricted contributions in general (that is, other than contributions of long-lived assets), which the Guide includes in the performance indicator. The Board also observed that to exclude an unrestricted contribution received from the performance indicator would be inconsistent with including a write-off of goodwill at the acquisition date for acquiree operations that qualify for that provision within that indicator. The Board could not identify a valid rationale to support that inconsistency. Accordingly, the Board concluded that an unrestricted contribution received in an acquisition should be presented within the performance indicator.

Cash Flow Statement

C176. FASB Statement No. 95, *Statement of Cash Flows,* as amended, establishes standards for providing a statement of cash flows in the general-purpose financial statements of not-for-profit entities. It requires that entities classify cash receipts and payments according to whether they result from investing, financing, or operating activities. In this Statement, the Board considered whether cash inflows and outflows resulting from an acquisition should be presented as an investing or financing activity. Consistent with Statement 95, an acquisition that is an exchange of commensurate values generally would be reported as an investing activity to the extent of cash consideration paid. However, if the assets acquired are resources that by donor stipulation must be used for long-term purposes, some portion of the transaction might be considered a financing transaction.

C177. Paragraph 18 of Statement 95, as amended by Statement 117, states:

> Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; receiving restricted resources that by donor stipulation must be used for long-term purposes; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.

In this Statement, the Board concluded that, unlike resources that by donor stipulation must be used for long-term purposes (such as gifts restricted to the creation of permanent or term endowments, gifts subject to life estates, and gifts for the purchase of long-lived assets), the cash flows associated with the acquisition of a business would not be mistakenly identified by users of the financial statements as resources freely available for use. Therefore, paragraph 75 requires the entire portion of any net cash flow (cash paid as consideration transferred, if any, less cash of the acquiree that is acquired) from an acquisition to be reported as an investing activity outflow or inflow.

Disclosures for an Acquisition

C178. The Board used the disclosure requirements in Statement 141(R) as its point of reference for formulating the disclosure requirements for an acquisition in this Statement. The Board considered whether those disclosure requirements should apply to not-for-profit entities and whether they would result in useful information for the users of those entities' financial statements.

C179. The disclosure requirements in Statement 141(R) include overall objectives for the disclosure of information. Additionally, that Statement specifies particular disclosures that generally would be required to meet the disclosure objectives and requires that an acquirer disclose any additional information it believes is necessary to meet those objectives. In this Statement, the Board concluded that the disclosure objectives for a not-for-profit entity should be the same as those required for a business entity, to the extent that they apply. Those objectives are that the acquirer disclose information that enables users of its financial statements to evaluate:

a. The nature and financial effect of an acquisition that occurs either:
   (1) During the current reporting period; or
   (2) After the reporting date but before the financial statements are issued or are available to issue (paragraph 85)
b. The financial effects of adjustments recognized in the current reporting period that relate to acquisitions that occurred in the current or previous reporting periods (paragraph 89).

C180. The Board then considered whether any compelling differences between business entities and not-for-profit entities exist that would call for differences from the guidance for the specific disclosures that are generally required to meet the disclosure objectives in Statement 141(R). In developing the Exposure Draft, the Board found no such compelling differences, and most respondents to the Exposure Draft also generally agreed with the objectives and the minimum disclosures specified to meet them. (Paragraphs C185–C192 discuss the public entity disclosures, including the comments on them.)

C181. A few respondents suggested additional disclosures. For example, two respondents suggested required disclosures of any opt-out clauses in the acquisition agreement. The Board observed that opt-out clauses are not unique to not-for-profit entities and that Statement 141(R) does not require business entities to make that specific disclosure. The Board also observed that regardless of the type of entity involved, the terms and conditions of so-called opt-out clauses can vary significantly and may in some situations indicate that an acquisition has not yet occurred. For those reasons, this Statement does not explicitly require disclosure of opt-out clauses for acquisitions by not-for-profit entities. The Board also observed that the detailed disclosures listed in paragraphs 86 and 90 of this Statement are the minimum disclosures required to meet the disclosure objectives. An entity is not precluded from disclosing information about any opt-out clauses if it thinks that information is important to achieving those objectives.

C182. Other respondents suggested required disclosure of any portion of the consideration transferred (payments or other arrangements) and any assets acquired or liabilities assumed or incurred that are not part of the acquisition. The Board added that disclosure (paragraph 86(o)), which Statement 141(R) also requires.

C183. After considering the comments on the Exposure Draft, the Board affirmed its conclusion that the disclosure objectives and related minimum disclosure requirements for an acquisition by a not-for-profit entity should be the same as for a business combination. However, the Board modified some disclosure requirements for differences that originate from:

a. Accounting requirements in this Statement that differ from those in Statement 141(R). For example, this Statement's requirements on recognizing and measuring goodwill differ in some respects from those in Statement 141(R).
b. Existing accounting requirements for not-for-profit entities that differ from those for business entities. For example, not-for-profit entities present a statement of changes in net assets rather than an income statement.

Therefore, although the disclosure objectives are the same for a not-for-profit entity and a business entity, the disclosure requirements in this Statement and the requirements in Statement 141(R) are slightly different.

C184. This Statement reflects a few changes to the disclosures proposed in the Exposure Draft as a result of changes made to the disclosures for a business combination between the proposed and the final Statement 141(R). For example, in response to requests from some commentators on the proposed Statement 141(R), the Board added required disclosure of information about receivables acquired. Paragraphs B258–B260 of Statement 141(R) discuss the comments received and why the Board required that disclosure. The Board concluded that the disclosure would be equally useful to the users of a not-for-profit entity's financial statements.

Public Entity Disclosures

C185. Statement 141(R) (paragraph 68(r)) requires additional disclosures by a *public business enterprise,* as defined. Specifically, Statement 141(R) requires a public business enterprise to disclose:

a. The amounts of revenue and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period
b. The revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (*supplemental pro forma information*)
c. If comparative financial statements are presented, the revenue and earnings of the combined entity for the comparable prior reporting period as though the acquisition date for all business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period (*supplemental pro forma information*).

The Board considered the potential usefulness of similar additional disclosure requirements for a not-for-profit acquirer that is a public entity.

C186. First, the Board observed that a not-for-profit entity may have public debt outstanding, and it concluded that disclosure requirements for public entities should apply equally to public entities that are business entities and those that are not-for-profit entities, including those that are obligated for conduit debt. Therefore, paragraph 3(w) of this Statement defines a public entity consistent with the definition used in paragraph 9 of Statement 131, as amended by FASB Staff Position FAS 126-1, *Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities.*

C187. The public entity disclosure in paragraph C185(a), which this Statement refers to as the acquired growth disclosure, was added in Statement 141 and carried forward in Statement 141(R) in response to requests from users for information that would enable them to distinguish between "organic" and acquisition-related growth. A group of users of financial statements of not-for-profit entities was asked to consider whether that type of information also would be useful in evaluating public not-for-profit entities. Those users said that the acquired growth disclosure could be useful in providing information to evaluate the potential future achievements of the consolidated entity.

C188. The Board believes that the disclosures of revenue growth and the ability to fund issued debt based on consolidated activity are equally important to users of the financial statements regardless of whether the entity is a not-for-profit or business entity. Therefore, the Board concluded that a public not-for-profit entity should be required to provide the same information as a public business entity, if practicable. Paragraph B425 of Statement 141(R) explains the Board's rationale for providing a practical exception to the acquired growth disclosure if obtaining that information is impracticable:

> The [FASB and the IASB] agreed with users that the information about postcombination revenues and earnings of the acquiree is useful. However, for practical reasons, the Boards concluded that this Statement should provide an exception to that requirement if distinguishing the postcombination earnings of the acquiree from earnings of the combined entity is impracticable. The Boards also decided that in those circumstances the acquirer should disclose that fact and the reasons why it is impracticable to provide the postcombination information. The period for that disclosure is limited to the end of the current annual period because the Boards concluded that the information needed to provide the disclosure during that period generally will be available. A short period often is required to fully integrate an acquiree's operations with those of the acquirer. The Boards also observed that the usefulness of the separate information diminishes as the operations of the acquiree are integrated with the combined entity.

C189. Opinion 16, as modified by FASB Statement No. 79, *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises,* required disclosures similar to the pro forma disclosures in paragraphs C185(b) and C185(c) (referred to as the pro forma disclosures) by acquirers that are public entities that apply the purchase method. Paragraph 96 of that Opinion stated that those entities:

> . . . should include as supplemental information the following results of operations on a pro forma basis:
>
> a. Results of operations for the current period as though the companies had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period.
> b. Results of operations for the immediately preceding period as though the companies had combined at the beginning of that period if comparative financial statements are presented.

C190. In assessing the benefits of requiring the pro forma disclosures for public not-for-profit entities, the Board sought feedback from various users of the financial statements of those entities. Those users generally supported requiring the pro forma disclosures. However, their views differed about the type of information that would be most beneficial, for example, whether the information should be provided on a historical or a forecasted basis and whether the information should be based on the statement of financial position, the statement of activities, or the statement of cash flows.

C191. The views of respondents to the Exposure Draft on the public entity disclosures were mixed, with about half of those who commented agreeing with the proposed disclosures. Others suggested modifications, generally to provide an impracticability exception, or suggested a cost-benefit exception for not-for-profit entities. The Board observed that this Statement provides an impracticability exception to all of the required public entity disclosures. With that exception, the Board thinks the disclosures will not impose an undue burden on public not-for-profit entities.

C192. Additionally, to increase the consistency of application of the disclosures, the Board decided that this Statement should be explicit about the metrics on which the pro forma and acquired growth disclosures are based. Therefore, this Statement would require separate disclosure of the amounts of revenue, changes in unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets for purposes of providing the public entity disclosures required in this Statement.

Effective Date and Transition

C193. This Statement is effective for mergers for which the merger date is on or after December 15, 2009 and for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. The Exposure Draft said that the final Statement would be effective for fiscal years that begin "approximately six months after the issuance of a final Statement." The issuance date of this Statement provides a slightly longer period between issuance and effective date. The Board notes that the period between the issuance date and the effective date would help not-for-profit entities to:

a. Reduce the potential for situations in which negotiations had already been underway, requiring a mid-deal change in accounting (that is, the elimination of the pooling method).
b. Prepare for this Statement's implementation, especially for many of the smaller not-for-profit entities that have small accounting departments with few employees.
c. Enlist the advice of others to assist in transition, if needed.
d. Train staff on the accounting for mergers and acquisitions.

C194. In response to a suggestion from a respondent to the Exposure Draft, the Board considered providing a delayed effective date for smaller not-for-profit entities. The reason given for that suggestion was that smaller not-for-profit entities might benefit from the experiences of larger entities in applying this Statement. The Board decided against a delayed effective date for smaller entities for several reasons:

a. As already noted, this Statement provides more than the six-month period suggested in the Exposure Draft before all entities are required to apply it.
b. A delayed effective date would postpone improvements to current mergers and acquisitions accounting guidance and impair comparability.
c. This Statement applies to merger and acquisition transactions, and its effective date is transaction based. Mergers and acquisitions by not-for-profit entities occur relatively infrequently, and generally may be less frequent for smaller than for larger entities. Thus, it is not clear that a delayed effective date for smaller entities would gain much in terms of experiences from which a smaller not-for-profit entity could benefit.
d. Any dividing line between "smaller" and "larger" not-for-profit entities for purposes of different effective dates would necessarily be arbitrary.

C195. The Board decided that the provisions of this Statement should be applied prospectively. Prospective application of this Statement is consistent with the transition requirements of Opinion 16, Statement 141, and Statement 141(R). Consistent with the Board's reasons for rejecting retrospective application in prior pronouncements for business combinations, the Board concluded that retrospective application would be impractical and burdensome for many entities because the information needed may not exist or may no longer be obtainable.

C196. Because the Board wants this Statement to be adopted at the same time as changes to the accounting for noncontrolling ownership interests, the Board decided that this Statement should be effective as of the beginning of an annual period, as is FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* The Board decided to coordinate the effective dates for this Statement and the requirements for a noncontrolling ownership interest in a subsidiary for the same reasons given in Statement 141(R). Paragraph B430 of Statement 141(R) explains that the amendment to ARB 51 that addresses the subsequent accounting for an acquiree in consolidated financial statements is related to provisions in Statement 141(R) that address the initial accounting for an acquiree at the acquisition date. The Boards concluded that linking the timing of the changes in accounting required by that amendment to those required by Statement 141(R) would minimize disruptions to practice, which benefits both preparers and users of financial statements. The Board affirmed that conclusion in developing the effective date of this Statement.

C197. In addition, because this Statement is effective at the beginning of a fiscal year for acquisitions, not-for-profit entities would cease amortizing previously recognized goodwill in the same way as other first-time adopters of Statement 142. One of the primary factors that led the Board to require the application of Statement 142 at the beginning of a fiscal year is that the Board believes that amortization of all previously recognized goodwill should stop within comparable annual periods following issuance of that Statement.

C198. Like Statement 141(R), this Statement prohibits early adoption. Paragraph B431 of Statement 141(R) notes that the FASB's Investors Technical Advisory Committee and other users of financial statements told the FASB that providing alternatives for when entities adopt a new standard impairs comparability. The Board decided that the comparability problems caused by some entities adopting a Statement before its effective date apply equally to business entities and not-for-profit entities.

Effective Date for Related Pronouncements and Amendments

C199. Because not-for-profit entities were excluded from the scope of the following upon their issuance, this Statement also provides effective dates for:

a. Statement 142's requirements on subsequent accounting for goodwill and other intangible assets acquired in an acquisition by a not-for-profit entity. (Statement 142 refers to assets acquired in a *business combination.*)
b. The amendments Statement 160 made to ARB 51 and to other existing pronouncements.
c. The amendments Statement 141(R) made to existing pronouncements.

To be consistent with the basic effective date of this Statement, those requirements are to be applied prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009.

Transition for Previously Recognized Goodwill

C200. This Statement (paragraph 95) requires an acquirer that is predominantly supported by contributions and returns on investments to write off previously recognized goodwill by a separate charge in the statement of activities for the effect of the accounting change. An acquirer that is not predominantly supported by contributions and returns on investments is required to subject previously recognized goodwill to the transitional impairment evaluation required by paragraphs 55–58 of Statement 142. The Board concluded that those requirements are more consistent with this Statement's requirement for recognizing goodwill in an acquisition and the reasons for those requirements than other alternatives would be. For example, the Board considered requiring that goodwill of a unit predominantly supported by contributions and returns on investments continue to be amortized, while all other goodwill would be subjected to the transitional impairment test. But the Board decided that that alternative would be inconsistent with this Statement's requirement to write off acquired goodwill at the acquisition date for an acquiree whose operations are expected as part of the combined entity to be predominantly supported by contributions and returns on investment.

C201. The Board also considered limiting the write-off of previously recognized goodwill in paragraph 95 to goodwill assigned to a reporting unit that is predominantly supported by contributions and returns on investments rather than applying that requirement to an acquirer as a whole. However, before the amendment to Statement 142 to make it apply to goodwill acquired in an acquisition by a not-for-profit entity, such entities were not required to assign goodwill to reporting units. The Board observed that an acquirer that is predominantly supported by contributions and returns on investments will not be required to recognize goodwill for future acquisitions unless it acquires operations that do not qualify for that exemption from recognizing goodwill. Requiring such an entity to develop procedures for assigning previously recognized goodwill to reporting units although it is unlikely to need those procedures in the future (barring a significant change in its operations) would be impractical and would not pass a reasonable cost-benefit test. In contrast, an acquirer that is not supported, as a whole, by contributions and returns on investments may be required to recognize goodwill in future acquisitions; if so, that goodwill must be assigned to reporting units. Accordingly, such an entity may need procedures for assigning goodwill to reporting units for purposes other than transition to this Statement, although it too would not have assigned previously recognized goodwill to reporting units when it was acquired.

Transition for Previously Recognized Intangible Assets Other Than Goodwill

C202. Statement 142 has applied to a not-for-profit entity's intangible assets other than goodwill acquired other than in an acquisition by a not-for-profit entity since its initial effective date. However, an entity that had a previous acquisition accounted for using the purchase method in Opinion 16 might have recognized intangible assets other than goodwill, and

Statement 142 was not effective for those assets. Because the situations are essentially the same, the Board concluded that the transition guidance for such intangible assets should be essentially the same as that provided in paragraph 53 of Statement 142 for all previously recognized intangible assets. Paragraph 100 of this Statement provides that guidance.

Benefits and Costs

C203. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement a new standard are borne primarily by the present stakeholders in the reporting entity. The Board's assessment of the benefits and costs of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

C204. The Board believes that the requirements of this Statement will result in improved financial reporting in several ways. Some of those benefits have already been achieved for business entities through the issuance of Statements 141 and 142 in June 2001 and Statement 141(R) in December 2007. This Statement will result in the following improvements:

a. **Improve the relevance and comparability of reported financial information.** The Exposure Draft would have required all combinations of not-for-profit entities to be accounted for as acquisitions. Input the Board received on the Exposure Draft convinced it that forcing all combinations of not-for-profit entities into a single mold—a mold that does not fit some of them well—would impair not only comparability but also the relevance of information provided for combinations that are in substance mergers. Therefore, this Statement establishes definitions and related guidance for distinguishing between a merger and an acquisition and provides accounting guidance for both types of combinations.

   Not-for-profit entities currently apply Opinion 16 by analogy. That Opinion and related interpretative guidance permit the use of the pooling method in circumstances in which there has been no exchange of consideration; otherwise, the purchase method should be used. Because an entity can choose whether to use the pooling or purchase method in certain transactions, economically similar transactions are being accounted for using different methods that produce dramatically different financial results. For example, a not-for-profit entity may choose to use the pooling method solely because the transaction does not involve consideration. As a result of the guidance this Statement provides on distinguishing a merger from an acquisition, entities no longer will have wide discretion in selecting between two different accounting methods.
b. **Provide more complete financial information.** The explicit criteria for recognition of intangible assets apart from goodwill in this Statement will provide more information about the assets acquired and liabilities assumed in acquisitions. Not-for-profit entities currently analogize to Opinion 16, which requires the recognition of intangible assets apart from goodwill. However, the Opinion 16 criteria for determining whether an acquired intangible asset should be recognized apart from goodwill are vague and often result in intangible assets not being separately identified and recognized, but instead being subsumed into goodwill.
c. **Better reflect the value of the assets received and liabilities assumed.** This Statement will require an acquirer to measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values (with limited exceptions) regardless of whether the acquisition results from a purchase, contribution, or other means. Not-for-profit entities currently analogize to Opinion 16, which requires the use of the acquiree's carryover basis (for the pooling method) or an allocation of the cost based on "estimated fair values" (for the purchase method). Some of the Opinion 16 purchase method requirements are inconsistent with fair value measurement objectives.
d. **Better reflect the contributions that are received in some acquisitions by not-for-profit entities.** This Statement will require an acquirer

to recognize a contribution received in circumstances in which the sum of the fair values of the identifiable assets acquired exceeds the fair values of the liabilities assumed and any consideration transferred. It appears that some not-for-profit entities that use the purchase (acquisition) method do not recognize any contribution received and currently reduce the amounts assigned to noncurrent assets acquired and possibly recognize negative goodwill.

e. **Improve the comparability and the usefulness of disclosures.** This Statement provides broad requirements for both the new entity resulting from a merger and the acquirer in an acquisition to disclose information about the financial effects of a merger or acquisition, respectively. That information will be required for all merging and acquiring entities and will be useful in making resource allocation decisions, in assessing services and ability to provide services, and in assessing management's stewardship and performance.

C205. Additionally, by focusing on the fundamental requirements for recognizing and measuring all mergers and acquisitions, this Statement, like Statement 141(R), will assist the Board in establishing principles-based standards that simplify GAAP whenever possible while improving the comparability and understanding of the resulting information. The principles and related requirements for an acquisition in this Statement and the principles in Statement 141(R) are similar. But the requirements and application guidance in this Statement take into consideration the characteristics of not-for-profit entities and the transactions and events in which they commonly engage, such as receiving contributions of a business or nonprofit activity and acquiring permanent collection items.

C206. The Board concluded that the guidance in this Statement is not overly complex. Indeed, it eliminates guidance in Opinion 16 and its related implementation guidance that many have found to be complex, costly, and arbitrary and that has been the source of considerable uncertainties and costs in the marketplace. In addition, the Board sought to reduce the costs of applying this Statement without significantly reducing the expected benefits by:

a. Requiring the carryover method rather than the fresh-start method for a merger. As discussed in paragraphs C23 and C24, although the Board considers the fresh-start method to be the conceptually appropriate way to account for a merger, that method raises various issues that need to be considered broadly before the Board imposes it in a given situation. Therefore, this Statement does not introduce a new method of accounting but rather clarifies particular aspects of the pooling method in Opinion 16.
b. Requiring the acquirer in an acquisition effected without the transfer of consideration to measure goodwill or a contribution received by comparing the acquisition-date values of the identifiable assets acquired with the acquisition-date values of the liabilities assumed. That requirement is different from the requirements of Statement 141(R) that would require substituting the fair value of the acquirer's interest in the acquiree for consideration transferred in the equation for measuring goodwill or a contribution received in that situation.
c. Requiring that particular assets and liabilities (for example, those related to certain collection items, deferred taxes, pensions, and other postemployment benefits) continue to be recognized and measured in accordance with existing accounting standards rather than at fair value.
d. Applying its provisions prospectively rather than retrospectively.

The Board acknowledges that those steps may result in some sacrifice to the benefits of improved financial reporting in accordance with this Statement. However, the Board believes that the benefits would not justify the complexities and costs that would result from imposing the fair value measurement requirement to the acquiree and to all assets and liabilities and from requiring retrospective application at this time.

Appendix D

BACKGROUND INFORMATION

CONTENTS

Appendix D

BACKGROUND INFORMATION

Introduction

D1. Before the issuance of FASB Statement No. 141, *Business Combinations,* the guidance on accounting for business combinations was provided by APB Opinion No. 16, *Business Combinations,* which the Accounting Principles Board of the American Institute of Certified Public Accountants (AICPA) issued in 1970. However, because neither Statement 141 nor Opinion 16 applied to not-for-profit entities, those pronouncements did not address the accounting and reporting for combinations of not-for-profit entities.

D2. Because of that lack of guidance for not-for-profit entities, the Accounting Standards Executive Committee (AcSEC) of the AICPA considered whether those entities should apply the guidance in Opinion 16. In 1994, AcSEC issued AICPA Statement of Position 94-2, *The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations* (SOP 94-2). In SOP 94-2, AcSEC concluded that not-for-profit entities should apply the guidance in Opinion 16, which provided for two methods of accounting for business combinations—the pooling method and the purchase method. Those methods were not alternatives for one another.

D3. The Opinion 16 criteria for applying the pooling method included an exchange of common stock of the combining entities; however, not-for-profit entities generally do not have common stock. Thus, AcSEC considered whether that method should ever be applied to combinations of not-for-profit entities. AcSEC concluded that in certain circumstances, the pooling method better reflects the substance of a combination of not-for-profit entities than does the acquisition method (formerly known as the purchase method). An example of those circumstances that AcSEC cited was the formation of a new entity through the combination of two or more existing entities without the exchange of consideration.

D4. Additional guidance on accounting for combinations of health care entities is included in the AICPA Audit and Accounting Guide, *Health Care Organizations.* That guidance describes combinations that involve the receipt or payment of monetary consideration, the change in legal title to assets, or the assumption of liabilities as being similar to a purchase transaction. Transactions that result in a change in control (for example, through a change in an entity's sole corporate member) are described as being similar to a pooling.

D5. The Board observed that currently there is diversity in practice in the accounting for combinations of not-for-profit entities and the use of the pooling method and acquisition method. That diversity stems in part from the limited guidance described above and the absence of specified criteria for determining the method to be used, and perhaps also from different views about what constitutes *consideration exchanged.* Many combinations of not-for-profit entities are currently accounted for in a manner similar to the pooling method. However, some not-for-profit entities and their auditors apply the acquisition method to all combinations that involve a change in control, while others apply the pooling method to those combinations unless monetary consideration has been exchanged.

Reasons the FASB Took on the Business Combinations Project

D6. In 1996, the Board added to its agenda a project on accounting for business combinations. The objective of that project was to improve the transparency of accounting for and reporting of combinations by all entities, including the accounting for goodwill and other intangible assets. A principal reason for taking on the business combinations project was the increase in combinations that brought greater attention to the fact that two transactions that are economically similar may be accounted for by different methods—either the pooling method or the purchase method—that produce dramatically different financial statement results. Consequently, both the representational faithfulness and the comparability of those financial statements suffered. (Paragraphs C9–C11 of FASB Statement No. 141 (revised 2007), *Business Combinations,* provide a fuller discussion of the reasons the FASB took on the project on business combinations.)

Conduct of the Business Combinations Project

D7. In 1999, the Board decided that the project objectives would best be achieved through several phases focused on specific issues. The Board also affirmed its decision that its project on business combinations should include combinations of not-for-profit entities. However, later that year the Board decided to address combinations of not-for-profit entities separately from the first phases of the business combinations project (phases one through three). Paragraphs D8–D10 summarize the significant steps taken during those phases of the project. Statement 141(R), paragraphs C13–C36, provides a more comprehensive discussion of the conduct of phases one through three of the business combinations project.

D8. In the first phase of the business combinations project, which ended in June 2001 with the concurrent issuance of Statement 141 and FASB Statement No. 142, *Goodwill and Other Intangible Assets,* the Board reconsidered the methods of accounting for business combinations and the accounting for goodwill and other intangible assets required in Opinion 16 and APB Opinion No. 17, *Intangible Assets* (which also was issued in 1970). The second phase began immediately after the issuance of Statements 141 and 142.

D9. In the second and third phases of the project, the Board considered issues related to the application of the acquisition method by business entities, including how that method should be applied to business combinations achieved in stages (step acquisitions) and combinations involving mutual entities. Statement 141(R) is a result of the Board's deliberations of those issues and revises Statement 141 to incorporate the decisions reached on those issues. (The scope of Statement 141(R) includes mutual entities, but excludes not-for-profit entities.)

D10. During the second phase of the project, the Board recognized that it would need to address the accounting for a noncontrolling interest in a subsidiary that results at the date of a business combination. The Board intended that the issue be addressed as part of the redeliberations of the Exposure Draft, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both.* However, it became evident that the broad project on liabilities and equity would not be completed before issuance of the final Statement on business combinations. Consequently, the Board decided to broaden the project's scope to include issues related to the noncontrolling interest in a subsidiary. That decision resulted in the issuance of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which amends the guidance in ARB No. 51, *Consolidated Financial Statements.* However, the scope of Statement 160 excludes not-for-profit entities. The Board concluded that not-for-profit entities should continue to apply the guidance in ARB 51 (as it was before the amendments made by Statement 160) and any other applicable standards, until the Board developed interpretive guidance for not-for-profit entities.

D11. The fourth phase of the project, which resulted in this Statement, addresses the accounting for and reporting of combinations of not-for-profit entities.

Fourth Phase—Combinations Involving Not-for-Profit Entities

D12. Paragraphs D1–D5 discuss the context within which the need for guidance on not-for-profit combinations arose. The Board began considering guidance on combinations of not-for-profit entities, the accounting for goodwill and intangible assets acquired in a not-for-profit merger or acquisition, and noncontrolling interests largely because of the lack of consistent application of Opinion 16 in practice and the resulting disparity in the accounting for economically similar transactions between not-for-profit entities. The Board observed that, through issuance of this Statement, it could improve the comparability of reported financial information, provide more complete financial information, better reflect the underlying economics of not-for-profit combinations, and improve the comparability and the usefulness of not-for-profit combination disclosures.

D13. In January 2000, the FASB held an open educational meeting with members of its newly formed not-for-profit resource group (then known as the not-for-profit working group). The purpose of the meeting was to solicit input about a number of issues, including the frequency with which not-for-profit combinations were occurring, the differences between for-profit and not-for-profit entities and the financial reporting implications of those differences, and the proposed differences-based approach to drafting the guidance on not-for-profit mergers and acquisitions. (The differences-based approach presumes that the guidance applicable to business combinations also would apply to not-for-profit combinations unless a unique characteristic of not-for-profit entities warrants a different accounting treatment.) Input from that meeting helped the Board reach its decisions on several key issues, including the method of accounting for mergers and acquisitions by not-for-profit entities and the criteria to be used to identify the acquiring not-for-profit entity. The Board deliberated those and other issues at several additional educational meetings and 20 public decision-making meetings. The decisions made during that time served as the foundation for the October 2006 Exposure Drafts, *Not-for-Profit Organizations: Mergers and Acquisitions,* and *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*. The comment period for those Exposure Drafts ended in January 2007. Between the time of issuance and the end of the comment period, the FASB received more than 45 comment letters. (Twenty-four constituents responded to the Exposure Draft on mergers and acquisitions. Twenty-one constituents responded to the Exposure Draft on goodwill and other intangible assets acquired in a merger or acquisition. The Board also received an additional 15 letters from affiliated organizations of one of those constituents supporting views of that constituent.)

D14. The Exposure Drafts addressed three primary areas:

a. Not-for-profit combinations (the requirements included in this Statement) and the subsequent accounting for any goodwill recognized (the requirements included in Statement 142)
b. The accounting for goodwill and other intangible assets acquired in a combination of not-for-profit entities (the requirements included in this Statement and Statement 142)
c. The accounting for a noncontrolling ownership interest in a subsidiary.

D15. On March 27, 2007, the Board held a roundtable to solicit additional input on the views and issues raised by respondents to the October 2006 Exposure Drafts. Eleven constituents participated in the roundtable.

D16. The Board met in eight public Board meetings to redeliberate the issues and comments received on the Exposure Drafts. Based on its redeliberations, the Board decided to revise the not-for-profit guidance in the following areas:

a. Distinguishing between an acquisition by a not-for-profit entity and a merger of not-for-profit entities (paragraphs C9–C21)
b. Applying the carryover method of accounting to a merger of not-for-profit entities, as defined by paragraph 3(q) of this Statement (paragraphs C22 and C23)
c. Measuring a noncontrolling interest in an acquiree (paragraphs C89–C93)
d. Eliminating the qualitative approach to goodwill impairment (paragraphs C123–C134)
e. Writing off goodwill for an acquiree whose operations are expected to be predominantly supported by contributions and returns on investments (paragraphs C123–C139)
f. Adding pro forma disclosures by not-for-profit entities that meet the definition of a *public entity* in paragraph 3(w) of this Statement (paragraphs C48 and C49 and C185–C192).

D17. In May 2008, the FASB issued a Request for Additional Comments on a Potential Revision to the October 2006 Proposed Statement, *Not-for-Profit Organizations: Mergers and Acquisitions* (the Request), to seek additional feedback on its tentative decision to distinguish between a not-for-profit merger and an acquisition by a not-for-profit entity using the ceding of control criterion. Of the 16 constituents who responded to the Request, all but 2 supported the basic principle.

D18. The FASB also solicited volunteers to participate in field visits with the objective of testing the workability of the proposed guidance and to evaluate the costs and benefits of the tentative decision to distinguish between a merger of not-for-profit entities and an acquisition by a not-for-profit entity. During July and August 2008, the FASB held five field visits with the senior management and auditors of organizations that had recently engaged in transactions qualifying for pooling accounting under Opinion 16. The field visit participants also supported the Board's tentative decision. Later that same year, the Board affirmed its tentative decision. This Statement requires that the carryover method of accounting, rather than the acquisition method, be applied in situations in which a merger (as defined by paragraph 3(q)) of not-for-profit entities occurs.

D19. In developing the final guidance on mergers and acquisitions by not-for-profit entities, the Board also considered how the post-Exposure Draft revisions to Statement 141(R) would affect this Statement and whether to make any conforming changes to its provisions. Appendix C of this Statement provides additional information about which portions of this Statement were changed as a result of the post-Exposure Draft revisions made to Statement 141(R).

D20. This document includes the decisions reached as a result of the Board's deliberations of the October 2006 Exposure Drafts and the May 2008 Request. This Statement also includes amendments to Statement 142 to make it fully applicable to not-for-profit entities. Those amendments are included because the Board decided not to finalize the Exposure Draft on goodwill and other intangibles acquired in a merger or acquisition in light of its decision to eliminate the qualitative impairment approach, as discussed in paragraphs C122–C133.

Appendix E

AMENDMENTS TO EXISTING PRONOUNCEMENTS AND OTHER AUTHORITATIVE LITERATURE

E1. ARB No. 51, *Consolidated Financial Statements,* is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Footnote a to paragraph 3:

> ~~Not-for-profit organizations shall continue to apply ARB 51 as it was before the amendments made by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* until the Board issues interpretative guidance.~~ FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* provides additional guidance on not-for-profit entities' application of the provisions of ARB 51. In addition, AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations,* and the AICPA Audit and Accounting Guide, *Health Care Organizations,* also provide guidance on the application of consolidation policy by not-for-profit organizations.

b. Paragraph 26, as added:

> 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* (paragraph A3). An entity with noncontrolling interests in more than one subsidiary may present those interests in aggregate in the consolidated financial statements. For a not-for-profit entity, the effects of donor-imposed restrictions, if any, on a partially owned subsidiary's net assets shall be reported in accordance with FASB Statements No. 117, *Financial Statements of Not-for-Profit Organizations,* and No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations.* (Paragraphs A8–A13 illustrate the reporting requirements.)

c. Paragraph 29, as added:

> Revenues, expenses, gains, losses, net income or loss, and other comprehensive income (and similar amounts reported by not-for-profit entities) shall be reported in the consolidated financial statements at the consolidated amounts, which include the amounts attributable to the ~~owners of the~~ parent and the noncontrolling interest.

d. Paragraph 33, as added:

> Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income or comprehensive income (changes in net assets). The carrying amount of the noncontrolling interest shall

be adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted shall be recognized in equity (net assets) attributable to the parent.

Example 1

Subsidiary A has 10,000 shares of common stock outstanding, all of which are owned by its parent, ABC Co. The carrying amount of Subsidiary A's equity is $200,000. ABC Co. 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 × 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 ABC Co. (If the parent is a not-for profit entity, 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 2

Subsidiary A has 10,000 shares of common stock outstanding. Of those shares, 9,000 are owned by its parent, ABC Co., and 1,000 are owned by other shareholders (a noncontrolling interest in Subsidiary A). The carrying amount of Subsidiary A's equity is $300,000. Of that amount, $270,000 is attributable to ABC Co., and $30,000 is a noncontrolling interest in Subsidiary A. Subsidiary A issues 2,000 previously unissued shares to a third party for $120,000 in cash, reducing ABC Co.'s ownership interest in Subsidiary A from 90 percent to 75 percent (9,000 shares owned by ABC Co. ÷ 12,000 issued shares).

Even though the percentage of ABC Co.'s ownership interest in Subsidiary A is reduced when Subsidiary A issues shares to the third party, ABC Co.'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, ABC Co. 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 ABC Co.). In addition, the noncontrolling interest is increased to $105,000, calculated as 25 percent of $420,000. (If the parent is a not-for profit entity, the $45,000 increase of additional paid-in capital in this example is recognized instead as an increase in net assets, generally of the unrestricted class.)

e. Paragraph 34, as added:

A change in a parent's ownership interest might occur in a subsidiary that has accumulated other comprehensive income. If that is the case, the carrying amount of accumulated other comprehensive income shall be adjusted to reflect the change in the ownership interest in the subsidiary through a corresponding charge or credit to equity (net assets) attributable to the parent.

[The remainder of the paragraph is omitted because it is unaffected by this Statement.]

f. Paragraph 36, as added:

If a parent deconsolidates a subsidiary through a nonreciprocal transfer to owners, such as a spinoff, the accounting guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* applies. Otherwise, a parent shall account for the deconsolidation of a subsidiary by recognizing a gain or loss in net income (or a change in net assets) attributable to the parent, measured as the difference between:

a. The aggregate of:
   (1) The fair value of any consideration received
   (2) The fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated
   (3) The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated

b. The carrying amount of the former subsidiary's assets and liabilities.

g. Paragraphs 39A and 39B and their related heading are added as follows:

Not-for-Profit Entities

39A. A not-for-profit entity (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.

39B. The schedule required by paragraph 39A shall, at a minimum, include all of the following:

a. A performance indicator, if the entity is within the scope of the AICPA Audit and Accounting Guide, *Health Care Organizations*
b. Amounts of discontinued operations
c. Amounts of extraordinary items
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
e. An aggregate amount of all other changes in unrestricted net assets (or other net asset classes, if restricted) for the period.

(Paragraph A13 illustrates the requirements of paragraphs 39A and 39B using a reconciling schedule in notes to the consolidated financial statement.)

h. Paragraph A1, as added:

This appendix discusses generalized situations and provides examples with simplified assumptions to illustrate how to apply the provisions of this ARB, as amended by FASB Statements No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* and No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. The examples do not address all possible situations or applications of this ARB.

i. Paragraphs A8–A13 and their related headings are added as follows:

[This Statement adds the following implementation guidance to ARB 51, but it is not shown as underlined text for ease of readability.]

Illustrations of the Presentation and Disclosure Requirements for a Not-for-Profit Parent with One or More Less-Than-Wholly-Owned Subsidiaries

A8. The example uses simplified assumptions and highly aggregated amounts to illustrate how to apply the provisions of ARB 51, as amended. It does not illustrate all possible situations or applications of ARB 51 or of other generally accepted accounting principles. For example, the consolidated statement of financial position (paragraph A11) and consolidated statement of operations and other changes in unrestricted net assets (paragraph A12) show relatively few highly aggregated amounts of assets, liabilities, 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 hospital under paragraph 1.06 of the AICPA Audit and Accounting Guide, *Health Care Organizations,* which states that "health care organizations should classify assets and liabilities as current and noncurrent." The example also omits a statement of cash flows, which does not bear on the presentation and disclosure requirements for noncontrolling interests.

A9. 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 (paragraph 26).

A10. The example is based on the following assumptions:

Assumptions for all years

a. Hospital A, a not-for-profit tax-exempt entity 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.

b. Subsidiary A is an investor-owned entity that is subject to income taxes. The tax rate for all years is 40 percent.

c. Subsidiary A has 10,000 shares of common stock outstanding and does not pay dividends.

Assumptions for 20X2

d. 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:

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

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.

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:

(1) A noncontrolling interest is recognized in unrestricted net assets in the amount of $41,000 ($205,000 × 20 percent).

(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).

(3) The top-level (consolidated) journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholder is as follows:

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

e. 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.

Assumptions for 20X3

f. 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:

(1) The noncontrolling interest balance within unrestricted net assets is reduced by $24,000 ($48,000 × 50 percent interest acquired by Hospital A).

(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).

(3) The top-level (consolidated) journal entry to record that purchase of Subsidiary A's shares from the noncontrolling shareholders is as follows:

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

g. For the year ended December 31, 20X3, the amount of Subsidiary A's net income included in the consolidated financial statements is $15,000.

Consolidated statement of financial position

A11. This consolidated statement of financial position illustrates the requirement in paragraph 26 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.

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

Consolidated statement of operations and other changes in unrestricted net assets

A12. This consolidated statement of operations and other changes in unrestricted net assets illustrates how the requirements in paragraph 39B(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 might be presented on the face of a consolidated statement of operations and other changes in unrestricted net assets.

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

	20X3	20X2
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	395,000	360,000
Patient care and other operating expenses	366,000	337,000
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	$ 4,000	$ 81,000

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

A13. This note depicting the changes in consolidated net assets attributable to the controlling financial interest of Hospital A (parent) and the noncontrolling interests illustrates the requirements in paragraph 39A that a not-for-profit entity 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 39B(a), 39B(b), and 39B(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.

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

	Total	Controlling Interest	Noncontrolling Interest
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	81,000	33,000	48,000
Balance December 31, 20X2	$ 481,000	$ 433,000	$ 48,000
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	4,000	26,000	(22,000)
Balance December 31, 20X3	$ 485,000	$ 459,000	$ 26,000

E2. APB Opinion No. 28, *Interim Financial Reporting,* is amended as follows:

Paragraph 21 and its related footnote 3a, as amended:

Extraordinary items should be disclosed separately and included in the determination of net income for the interim period in which they occur. In determining materiality, extraordinary items should be related to the estimated income for the full fiscal year. Effects of disposals of a component of an entity and unusual and infrequently occurring transactions and events that are material with respect to the operating results of the interim period but that are not designated as extraordinary items in the interim statements should be reported separately. In addition, matters such as unusual seasonal results, ~~and~~ business combinations, and mergers of and acquisitions by not-for-profit entities should be disclosed to provide information needed for a proper understanding of interim financial reports.[3a] Extraordinary items, gains or losses from disposal of a component of an entity, and unusual or infrequently occurring items should not be pro-rated over the balance of the fiscal year.

[3a]Disclosures required in interim financial information related to ~~a business~~ combinations are set forth as follows:~~in paragraphs 67–73 of FASB Statement No. 141 (revised 2007), *Business Combinations.*~~

a. If related to a business combination, see paragraphs 67–73 of FASB Statement No. 141 (revised 2007), *Business Combinations.*
b. If related to a merger of not-for-profit entities, see paragraphs 17–19 of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions.*

c. If related to an acquisition of a business or nonprofit activity by a not-for-profit entity see paragraphs 85–91 of Statement 164.

E3. APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* is amended as follows:

a. Paragraph 4(aa) is added as follows:

An acquisition of a business or nonprofit activity by a not-for-profit entity or a merger of not-for-profit entities accounted for in accordance with the provisions of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,*

E4. FASB Statement No. 2, *Accounting for Research and Development Costs,* is amended as follows:

a. Paragraph 3B is added as follows:

This Statement does not apply to research and development assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity. Tangible and intangible assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity that are used in research and development activities are recognized and measured at fair value in accordance with FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* regardless of whether they have an alternative future use. After initial recognition, tangible assets acquired in an acquisition of a business or nonprofit activity 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 an acquisition of a business or nonprofit activity by a not-for-profit entity that are used in research and development activities are accounted for in accordance with Statement 142, as amended.

b. Paragraph 12, as amended:

Research and development costs encompassed by this Statement shall be charged to expense when incurred. As noted in paragraph 3A, this Statement does not apply to tangible and intangible assets acquired in a business combination that are used in research and development activities. As noted in paragraph 3B, this Statement also does not apply to tangible and intangible assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity that are used in research and development activities.

E5. FASB Statement No. 5, *Accounting for Contingencies,* is amended as follows:

a. Paragraph 7B is added as follows:

This Statement does not apply to contingent gains or losses that are recognized at the acquisition or merger date in an acquisition of a business or nonprofit activity by a not-for-profit entity or merger of not-for-profit entities. FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* provides the subsequent accounting and disclosure requirements for contingent gains or losses recognized as part of an acquisition of a business or nonprofit activity by a not-for-profit entity or a merger of not-for-profit entities. This Statement does, however, apply to contingent gains or losses that were acquired or assumed in an acquisition of a business or nonprofit activity by a not-for-profit entity or merger of not-for-profit entities but that were not recognized at the acquisition or merger date because they did not meet the recognition threshold in Statement 164 at that date.

E6. FASB Statement No. 52, *Foreign Currency Translation,* is amended as follows:

a. Paragraph 101, as amended:

The functional currency approach applies equally to translation of financial statements of foreign investees whether accounted for by the equity method or consolidated. It also applies to translation after a business combination or after a combination of not-for-profit entities—that is, after an acquisition of a business or nonprofit activity by a not-for-profit entity or a merger of not-for-profit entities. Therefore, the foreign statements and the foreign currency transactions of an investee that are accounted for by the equity method should be translated in conformity with the requirements of this Statement in applying the equity method. Likewise, after a business combination, the amount assigned at the acquisition date to the assets acquired and the liabilities assumed (including goodwill or the gain recognized for a bargain purchase) should be translated in conformity with the requirements of this Statement. Accumulated translation adjustments attributable to noncontrolling interests should be allocated to and reported as part of the noncontrolling interest in the consolidated enterprise.

E7. FASB Statement No. 68, *Research and Development Arrangements,* is amended as follows:

a. Paragraph 11, as amended:

> If the enterprise's obligation is to perform research and development for others and the enterprise 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 acquisition of a business or nonprofit activity by a not-for-profit entity).[3]

E8. FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed,* is amended as follows:

a. Paragraph 2, as amended:

> This Statement establishes standards of financial accounting and reporting for the costs 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. It identifies the costs incurred in the process of creating a software product that are research and development costs and those that are production costs to be capitalized, and it specifies amortization, disclosure, and other requirements. As used in this Statement, the terms *computer software product, software product,* and *product* encompass a computer software program, a group of programs, and a **product enhancement.**[1] This Statement does not address the accounting and reporting of costs incurred for computer software created for internal use or for others under a contractual arrangement. This Statement does not apply to research and development assets acquired in a business combination or in a combination of not-for-profit entities—that is, an acquisition of a business or nonprofit activity by a not-for-profit entity or a merger of not-for-profit entities. Tangible and intangible assets acquired in ~~a business combination~~ those transactions (business combinations or combinations of not-for-profit entities) that are used in research and development activities are recognized and measured at fair value in accordance with FASB Statement No. 141 (revised 2007), *Business Combinations,* or No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. (A merger of not-for-profit entities results in tangible and intangible assets being recognized and measured at their carryover amounts in accordance with Statement 164.) However, this Statement applies to any costs incurred after the date of a business combination or combination of not-for-profit entities for 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.

E9. FASB Statement No. 109, *Accounting for Income Taxes,* is amended as follows:

a. Paragraph 11(h), as amended:

> *Business combinations and combinations of not-for-profit entities.* 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 of a business or nonprofit activity 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 the merger of two or more not-for-profit entities. Those differences will result in taxable or deductible amounts when the reported amounts of the assets or liabilities are recovered or settled, respectively.

b. Paragraph 16, as amended:

> An enterprise shall recognize a deferred tax liability or asset for all temporary differences[6] and operating loss and tax credit carryforwards in accordance with the provisions of paragraph 17. **Deferred tax expense** or **benefit** is the change during the year in an enterprise's deferred tax liabilities and assets.[7] For deferred tax liabilities and assets recognized in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity during the year, it is the change since the acquisition date. Total income tax expense or benefit for the year is the sum of deferred tax expense or benefit and income taxes currently payable or refundable.

c. Paragraph 259, as amended:

This Statement 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 of a business or nonprofit activity by a not-for-profit entity. A deferred tax liability is not recognized when the reported amount of goodwill exceeds the tax basis of goodwill or the portion thereof for which amortization is not deductible for tax purposes (paragraph 262) and leveraged leases (paragraphs 256–258). Acquired Opinion 23 differences are accounted for in accordance with the requirements of Opinion 23, as amended by this Statement (paragraphs 31–34).

d. Paragraph 261, as amended:

In a taxable business combination or acquisition of a business or nonprofit activity by a not-for-profit entity, the consideration paid is assigned to the assets acquired and liabilities assumed for financial reporting and tax purposes. However, the amounts recognized for particular assets and liabilities may differ for financial reporting and tax purposes. A deferred tax liability and asset are recognized for the deferred tax consequences of those temporary differences in accordance with the recognition and measurement requirements of this Statement. For example, a portion of the amount of goodwill for financial reporting may be allocated to some other asset for tax purposes, and amortization of that other asset may be deductible for tax purposes. If a valuation allowance is recognized for that deferred tax asset at the acquisition date, recognized benefits for those tax deductions after the acquisition date should be applied in accordance with paragraph 26.

e. Paragraph 264, as amended:

Changes in the acquirer's valuation allowance, if any, that result~~s~~ from the business combination (or acquisition of a business or nonprofit activity by a not-for-profit entity) shall reflect any provisions in the tax law that restrict the future use of either of the combining enterprises' deductible temporary differences or carryforwards to reduce taxable income or taxes payable attributable to the other enterprise subsequent to the business combination (or acquisition of a business or nonprofit activity by a not-for-profit entity). Any changes in the acquirer's valuation allowance should be accounted for in accordance with paragraph 266. For example, the tax law may limit the use of the acquired enterprise's deductible temporary differences and carryforwards to subsequent taxable income of the acquired enterprise included in a consolidated tax return for the combined enterprise. In that circumstance, or if the acquired enterprise will file a separate tax return, the need for a valuation allowance for some portion or all of the acquired enterprise's deferred tax assets for deductible temporary differences and carryforwards is assessed based on the acquired enterprise's *separate* past and expected future results of operations.

f. Paragraph 266, as amended:

The tax law in some tax jurisdictions may permit the future use of either of the combining enterprises' deductible temporary differences or carryforwards to reduce taxable income or taxes payable attributable to the other enterprise subsequent to the business combination (or acquisition of a business or nonprofit activity by a not-for-profit entity). If the combined enterprise expects to file a consolidated tax return, an acquirer may determine that as a result of the business combination, (or acquisition of a business or nonprofit activity by a not-for-profit entity) its valuation for its deferred tax assets should be changed. For example, the acquirer may be able to utilize the benefit of its tax operating loss carryforwards against the future taxable profit of the acquiree. In such cases, the acquirer reduces its valuation allowance based on the weight of available evidence. However, that reduction does not enter into the accounting for the business combination (or acquisition of a business or nonprofit activity by a not-for-profit entity) but is recognized as an income tax benefit (or credited directly to contributed capital (refer to paragraph 26)).

g. Footnote 18a to paragraph 270, as amended:

Statement 141 prohibited the use of the pooling-of-interests method for all business combinations initiated after June 30, 2001. Statement 141(R), which replaces Statement 141, continues to prohibit the use of the pooling-of-interests method. FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* requires the use of the carryover method (which is similar to the pooling-of-interests method) for those combinations of not-for-profit entities that meet the criteria for and definition of a merger of not-for-profit entities.

E10. FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* is amended as follows:

a. Paragraph 11(c), as amended:

Contracts between an acquirer and a seller to enter into a business combination (or an acquisition by a not-for-profit entity or a merger of not-for-profit entities as defined by FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*) at a future date.

b. Paragraph 29(f), as amended:

The forecasted transaction does not involve a business combination subject to the provisions of FASB Statement No. 141 (revised 2007), *Business Combinations,* (or acquisition by or merger of not-for-profit entities subject to the provisions of Statement 164) and is not a transaction (such as a forecasted purchase, sale, or dividend) involving (1) a parent company's interests in consolidated subsidiaries, (2) a noncontrolling interest in a consolidated subsidiary, (3) an equity-method investment, or (4) an entity's own equity instruments.

E11. FASB Statement No. 141 (revised 2007), *Business Combinations,* is amended as follows:

a. Paragraph E1:

~~The following amendments do not apply to mergers and acquisitions by not-for-profit organizations. The applicability of these amendments to mergers and acquisitions by not-for-profit organizations will be further considered as part of a separate FASB project that was exposed for comment in proposed Statements, *Not-for-Profit Organizations: Mergers and Acquisitions,* and *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition.*~~

b. Paragraph F2:

~~The following amendments do not apply to mergers and acquisitions by not-for-profit organizations. The applicability of these amendments to mergers and acquisitions by not-for-profit organizations will be further considered as part of a separate FASB project that was exposed for comment in proposed Statements, *Not-for-Profit Organizations: Mergers and Acquisitions,* and *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition.*~~

E12. FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is amended as follows:

a. Paragraph 1, as amended:

This Statement addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity) at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. FASB Statement No. 141 (revised 2007), *Business Combinations,* addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* addresses financial accounting and reporting for goodwill and other intangible assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity at acquisition.

b. Paragraph 2:

This Statement supersedes APB Opinion No. 17, *Intangible Assets;* however, it carries forward without reconsideration the provisions in Opinion 17 related to internally developed intangible assets. The Board did not reconsider those provisions because they were outside the scope of its separate projects on (a) business combinations and acquired intangible assets and (b) mergers and acquisitions by not-for-profit entities, including acquired intangible assets. The guidance carried forward from Opinion 17 has been quoted, paraphrased, or rephrased as necessary so that it can be understood in the context of this Statement. The original source of that guidance has been noted parenthetically.

c. Paragraph 4 and its related footnote 3, as amended:

> The initial recognition and measurement provisions of this Statement apply to **intangible assets**[2] acquired individually or with a group of other assets (but not those acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity).[3] The remaining provisions of this Statement apply to **goodwill** that an entity[4] recognizes in accordance with Statement 141(R) or Statement 164 and to other intangible assets that an entity acquires, whether individually, with a group of other assets, or in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity. While goodwill is an intangible asset, the term *intangible asset* is used in this section to refer to an intangible asset other than goodwill.
>
> [2]Terms defined in Appendix F, the glossary, are set forth in **boldface** type the first time they are used.
>
> [3]Statement 141(R) and Statement 164 address the initial recognition and measurement of intangible assets acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity. Statement 164 also addresses the initial measurement of intangible assets by the new entity resulting from the merger of two or more not-for-profit entities.
>
> [4]This Statement applies to a business enterprise, a **mutual enterprise,** and a **not-for-profit organization,** each of which is referred to herein as an *entity*.

d. Paragraph 6 and its related footnote 5, as amended:

> This Statement applies to goodwill and other intangible assets that were recognized on the acquisition of some or all of the noncontrolling interests in a subsidiary before the effective date of FASB Statement No. 141 (revised 2007), *Business Combinations* (or before the effective date of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*)—whether acquired by the parent, the subsidiary itself, or another affiliate.[5] This Statement, including its transition provisions, applies to 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 AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.* That excess reorganization value shall be reported as goodwill and accounted for in the same manner as goodwill.
>
> [5]FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and the interim periods within those fiscal years, beginning on or after December 15, 2008, requires acquisitions of noncontrolling interests to be accounted for as equity transactions. Thus, no goodwill or other intangible assets would be recognized on acquisitions of noncontrolling interests after the effective date of that Statement. For not-for-profit entities, the amendments to ARB No. 51, *Consolidated Financial Statements,* made by Statement 160 are effective for fiscal years, and the interim periods within those fiscal years, beginning on or after December 15, 2009.

e. Paragraph 9 and its related footnote 7, as amended:

> An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially recognized and measured based on the guidance included in paragraphs D2–D7 of Statement 141(R) or paragraphs A135–A140 of Statement 164. ~~its fair value. The fair value of an intangible asset shall be determined based on the assumptions that market participants would use in pricing the asset. An asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name or a research and development asset, shall nevertheles be measured at its fair value. General concepts related to the initial measurement of assets acquired in exchange transactions, including intangible assets, are provided in paragraphs D2–D7 of Statement 141(R).~~[6] As indicated in paragraph D6 of Statement 141(R) or in paragraph A139 of Statement 164, the ~~The~~ cost of a group of assets acquired in a transaction other than a business combination or an acquisition of a business or nonprofit activity 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.[7] Intangible assets acquired in a business combination are initially recognized and measured in accordance with Statement 141(R). Intangible assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity are initially recognized and measured in accordance with Statement 164.
>
> ~~[6]Although those paragraphs refer to determining the cost of the assets acquired, paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* note that, in general, cost should be measured based on the fair value of the consideration given or the fair value of the net assets acquired, whichever is more reliably measurable.~~

[7]Statement 141(R) requires intangible assets acquired in a business combination that do not meet certain criteria to be included in the amount initially recognized as goodwill. Statement 164 has similar requirements except that in an acquisition of a business or nonprofit activity by a not-for-profit entity, under certain conditions the amount of goodwill is written off. Those recognition criteria in Statements 141(R) and 164 do not apply to intangible assets acquired in transactions other than business combinations or acquisitions of businesses or nonprofit activities by a not-for-profit entity.

f. Paragraph 10:

> Costs of internally developing, maintaining, or restoring intangible assets (including goodwill) 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 (Opinion 17, paragraph 24).

g. Footnote 11 of paragraph 12, as amended:

> Statement 2 requires amounts assigned to intangible assets acquired in a transaction other than a business combination or an acquisition of a business or nonprofit activity 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.

h. Paragraph 16, as amended:

> If an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite. An entity shall evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset shall be tested for impairment in accordance with paragraph 17. That intangible asset shall then be amortized prospectively over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization. Intangible assets acquired in a business combination or in an acquisition of a business or nonprofit activity 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 paragraph 17. 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 Statement. Consistent with the guidance in paragraph 28 of Statement 144, intangible assets acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity that have been temporarily idled shall not be accounted for as if abandoned.

i. Paragraph 21 and its related footnote 14, as amended:

> The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination or in 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 in an acquisition of a business or nonprofit activity by a not-for-profit entity.[14] The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. That assignment process shall be performed only for purposes of testing goodwill for impairment; an entity shall not write up or write down a recognized asset or liability, nor should it recognize a previously unrecognized intangible asset as a result of that allocation process.
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> ---
>
> [14]The relevant guidance in paragraphs 12–33 of Statement 141(R) and paragraphs 27–49 of Statement 164 shall be used in determining how to assign the fair value of a reporting unit to the assets and liabilities of that unit. Included in that allocation would be research and development assets that meet the criteria in paragraph 32 of this Statement.

j. Paragraph 30 and its related footnote 18:

> A reporting unit is an operating segment or one level below an operating segment (referred to as a component).[17] A component of an operating segment is a reporting unit if the component constitutes a business or nonprofit activity[18] for which discrete financial information is available and segment management[19] regularly reviews

the operating results of that component. However, two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics.[20] An operating segment shall be deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if it comprises only a single component. The relevant provisions of Statement 131 and related interpretive literature shall be used to determine the reporting units of an entity.

[17]For purposes of determining reporting units, an operating segment is as defined in paragraph 10 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information.*

[18]Statement 141(R) includes guidance on determining whether an asset group constitutes a business. Statement 164 includes guidance on determining whether an asset group constitutes a nonprofit activity.

[19]Segment management consists of one or more segment managers, as that term is defined in paragraph 14 of Statement 131.

[20]Paragraph 17 of Statement 131 shall be considered in determining if the components of an operating segment have similar economic characteristics.

k. Paragraph 32:

For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities shall be assigned to a reporting unit as of the acquisition date if both of the following criteria are met:

a. The asset will be employed in or the liability relates to the operations of a reporting unit.
b. The asset or liability will be considered in determining the fair value of the reporting unit.

Assets or liabilities that an entity considers part of its corporate assets or liabilities shall also be assigned to a reporting unit if both of the above criteria are met. Examples of corporate items that may meet those criteria and therefore would be assigned to a reporting unit are environmental liabilities that relate to an existing operating facility of the reporting unit and a pension obligation that would be included in the determination of the fair value of the reporting unit. This provision applies to assets acquired and liabilities assumed in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity and to those acquired or assumed individually or with a group of other assets.

l. Paragraph 34:

For the purpose of testing goodwill for impairment, *all* goodwill acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity shall be assigned to one or more reporting units as of the acquisition date. Goodwill shall be assigned to reporting units of the acquiring entity that are expected to benefit from the synergies of the business combination (or acquisition) even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit. The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to determine the amount of goodwill to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. In addition, that methodology shall be consistent with the objectives of the process of assigning goodwill to reporting units described in paragraph 35.

m. Paragraph 35 and its related footnote 21, as amended:

In concept, the amount of goodwill assigned to a reporting unit would be determined in a manner similar to how the amount of goodwill recognized in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity is determined. An entity would determine the fair value of the acquired business (or portion thereof) or nonprofit activity (or portion thereof) to be included in a reporting unit—the fair value of the individual assets acquired and liabilities assumed that are assigned to the reporting unit.[21] Any excess of the fair value of the acquired business (or portion thereof) or nonprofit activity (or portion thereof) over the fair value of the individual assets acquired and liabilities assumed that are assigned to the reporting unit is the amount of goodwill assigned to that reporting unit. However, if goodwill is to be assigned to a reporting unit that has not been assigned any of the assets acquired or liabilities assumed in that acquisition, the amount of goodwill to be assigned to that unit might be determined by applying a "with and without" computation. That is, the difference between the fair value of that reporting unit before the acquisition and its fair value after the acquisition represents the amount of goodwill to be assigned to that reporting unit.

[21]Paragraphs 12–33 of Statement 141(R) provide guidance on assigning the fair value of the acquiree to the assets acquired and liabilities assumed in a business combination. Paragraphs 27–49 of Statement 164 provide guidance on assigning the fair value of the acquiree to the assets acquired and liabilities assumed in an acquisition of a business or nonprofit activity by a not-for-profit entity.

n. Paragraph 39:

> When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal. When a portion of a reporting unit that constitutes a business or nonprofit activity[23] is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal. The amount of goodwill to be included in that carrying amount shall be based on the relative fair values of the business or nonprofit activity to be disposed of and the portion of the reporting unit that will be retained. For example, if a business or nonprofit activity is being sold for $100 and the fair value of the reporting unit excluding the business or nonprofit activity being sold is $300, 25 percent of the goodwill residing in the reporting unit would be included in the carrying amount of the business or nonprofit activity to be sold. However, if the business or nonprofit activity to be disposed of was never integrated into the reporting unit after its acquisition and thus the benefits of the acquired goodwill were never realized by the rest of the reporting unit, the current carrying amount of that acquired goodwill shall be included in the carrying amount of the business or nonprofit activity to be disposed of. That situation might occur when the acquired business or nonprofit activity is operated as a standalone entity or when the business or nonprofit activity is to be disposed of shortly after it is acquired. When only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained shall be tested for impairment in accordance with paragraphs 19–22 (using its adjusted carrying amount).

o. Paragraph 39A, as added:

> 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 or in an acquisition of a business or nonprofit activity by a not-for-profit entity accounted for in accordance with Statement 141(R) or Statement 164, respectively. 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. For example, before Statements 141(R) ~~was~~and 164 were effective, generally only the goodwill attributable to the parent was recognized. 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 would be attributed to both the parent and the noncontrolling interest. Similarly, when all or a portion of a less-than-wholly-owned reporting unit is disposed of, the gain or loss on disposal shall be attributed to the parent and the noncontrolling interest.

p. Paragraph 42:

> At a minimum, all intangible assets shall be aggregated and presented as a separate line item in the statement of financial position. However, that requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items. The amortization expense and impairment losses for intangible assets shall be presented in income statement (statement of activities) line items within continuing operations (or a similar caption) as deemed appropriate for each entity. Paragraphs 14 and 16 require that an intangible asset be tested for impairment when it is determined that the asset should no longer be amortized or should begin to be amortized due to a reassessment of its remaining useful life. An impairment loss resulting from that impairment test shall *not* be recognized as a change in accounting principle.

q. Paragraph 43:

> The aggregate amount of goodwill shall be presented as a separate line item in the statement of financial position. The aggregate amount of goodwill impairment losses shall be presented

as a separate line item in the income statement (statement of activities) before the subtotal *income from continuing operations* (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation. A goodwill impairment loss associated with a discontinued operation shall be included (on a net-of-tax basis) within the results of discontinued operations.

r. Paragraph 44, as amended:

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

a. For intangible assets subject to amortization:
   (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 of a business or nonprofit activity by a not-for-profit entity and written off in the period and the line item in the income statement (statement of activities) in which the amounts written off are aggregated
d. For intangible assets with renewal or extension terms, the weighted-average period prior to 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 of a business or nonprofit activity by a not-for-profit entity or in the aggregate for individually immaterial business combinations or acquisitions of businesses or nonprofit activities by not-for-profit entities that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant.

s. Paragraph 47(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)

t. Paragraph 48(c) and its related footnote 24:

~~This Statement shall not be applied to previously recognized goodwill and intangible assets acquired in a combination between not-for-profit organizations or arising from the acquisition of a for-profit business entity by a not-for-profit organization until interpretive guidance related to the application of the acquisition method to those transactions is issued (refer to paragraph 52).[24]~~ Not-for-profit entities shall apply the provisions of this Statement, as amended by paragraphs 95, 96, and 100 of Statement 164, to previously recognized goodwill as of the beginning period of the *initial* or first *annual* reporting period beginning on or after December 15, 2009 (paragraph 92 of Statement 164).

~~[24]The Board is considering issues related to application of the acquisition method to combinations between not-for-profit organizations and the acquisition of a for-profit business entity by a not-for-profit organization in a separate project.~~

u. Paragraph 52, as amended:

~~Goodwill and intangible assets acquired in a combination between not-for-profit organizations or arising from the acquisition of a for-profit business entity by a not-for-profit organization for which the acquisition date is after June 30, 2001, shall continue to be accounted for in accordance with Opinion 17 until the Board's project on accounting for combinations between not-for-profit organizations is completed (refer to footnote 24).~~

v. Paragraphs 53A and 53B are added as follows:

53A. A not-for-profit entity that previously recognized intangible assets other than goodwill in a transaction accounted for using the purchase method in APB Opinion No. 16, *Business Combinations,* shall reassess the useful lives of those intangible assets using the guidance in paragraph 11 of this Statement 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 Opinion 17. That reassessment shall be completed before the end of the first interim period of the fiscal year in which this Statement is initially applied.

53B. The entity shall test previously recognized intangible assets deemed to have indefinite useful lives for impairment as of the beginning of the fiscal year in which this Statement is initially applied in accordance with paragraph 17. That transitional intangible asset impairment test shall be completed in the first interim period in which this Statement is initially applied, and any resulting impairment loss shall be recognized as the effect of a change in accounting principle. A not-for-profit entity 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.

w. Paragraph 54:

Except for those circumstances in which the provisions of paragraph 58A apply, ~~A~~at the date this Statement is initially applied, an entity shall establish its reporting units based on its reporting structure at that date and the guidance in paragraphs 30 and 31. Recognized net assets, excluding goodwill, shall be assigned to those reporting units using the guidance in paragraphs 32 and 33. 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. *All* goodwill recognized in an entity's statement of financial position at the date this Statement 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 34 and 35 may be useful in assigning goodwill to reporting units upon initial application of this Statement.

x. Paragraphs 58A–58D are added as follows:

58A. At the date this Statement is initially applied, a not-for-profit entity 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. That charge shall be presented as required by paragraphs 58C and 58D.

58B. An entity that is not predominantly supported by contributions and returns on investments shall establish its reporting units on the basis of the guidance in paragraph 54 of this Statement, which sometimes may result in a single reporting unit for the entire entity. After establishing its reporting units, an entity that is not predominantly supported by contributions and returns on investments shall subject previously recognized goodwill in each reporting unit to the transitional impairment evaluation required by paragraphs 55–58 of this Statement.

58C. An entity shall present a write-off of goodwill in accordance with paragraph 58A or an impairment loss recognized as a result of a transitional goodwill impairment evaluation, and the related income tax effects, if any, in a separate line item in the statement of activities. A not-for-profit entity shall present that transitional impairment loss outside a performance indicator or any intermediate measure of operations, if one is presented.

58D. A not-for-profit entity that reports on an interim basis shall recognize a write-off of goodwill or a transitional impairment loss for goodwill in the first interim period regardless of the period in which an impairment loss is measured. Interim periods of the fiscal year that precede the period in which the write-off of goodwill or transitional goodwill impairment loss is measured shall be restated to reflect the accounting change in those periods. 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). 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.

y. Paragraph 61:

In the period of initial application and thereafter until goodwill and all other intangible assets have been accounted for in accordance with this Statement in all periods presented, the following information shall be displayed either on the face of the income statement (statement of activities) or in the notes to the financial statements: income before extraordinary items (or a similar caption) and net income (changes in net assets) for all periods presented adjusted to exclude amortization expense (including any related tax effects) recognized in those periods related to goodwill, intangible assets that are no longer being amortized, any deferred credit related to an excess over cost (amortized in accordance with Opinion 16), and equity method goodwill. The adjusted income before extraordinary items (or a similar caption) and net income (changes in net assets) also shall reflect any adjustments for changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying this Statement (including any related tax effects). In addition, the notes to the financial statements shall disclose a reconciliation of reported net income (changes in net assets) to the adjusted net income (changes in net assets). Similarly adjusted earnings-per-share amounts for all periods presented may be presented either on the face of the income statement or in the notes to the financial statements. Illustration 2 in Appendix C provides an example of those transitional disclosure requirements.

E13. FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* is amended as follows:

a. Paragraph 2, as amended:

This Statement applies to costs associated with an *exit activity*[1] including exit activities associated with an entity newly acquired in a business combination (or acquisition of a business or nonprofit activity by a not-for-profit entity) or with a disposal activity covered by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*[3] Those costs include, but are not limited to, the following:

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 (hereinafter referred to as *one-time termination benefits*)[4]
b. Costs to terminate a contract that is not a capital lease[5]
c. Costs to consolidate facilities or relocate employees.

This Statement does not apply to costs associated with the retirement of a long-lived asset covered by FASB Statement No. 143, *Accounting for Asset Retirement Obligations.*

E14. FASB Statement No. 157, *Fair Value Measurements,* is amended as follows:

a. Paragraph 2, as amended:

This Statement applies under other accounting pronouncements[1] that require or permit fair value measurements, except as follows:

a. This Statement does not apply under accounting pronouncements that address share-based payment transactions: FASB Statement No. 123 (revised 2004), *Share-Based Payment,* and its related interpretive accounting pronouncements that address share-based payment transactions.
b. This Statement does not eliminate the practicability exceptions to fair value measurements in accounting pronouncements within the scope of this Statement.[2]
c. This Statement does not apply under FASB Statement No. 13, *Accounting for Leases,* and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. This scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under Statement 141 or Statement 141(R), regardless of whether those assets and liabilities are related to leases. This scope exception also does not apply to assets acquired and liabilities assumed in an acquisition of a business or nonprofit activity by a

not-for-profit entity that are required to be measured at fair value under FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* regardless of whether those assets and liabilities are related to leases.

E15. FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* is amended as follows:

a. Paragraph 2:

> This Statement applies to all entities that prepare consolidated financial statements~~, except not-for-profit organizations. Not-for-profit organizations shall continue to apply the guidance in Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* before the amendments made by this Statement, and any other applicable standards, until the Board issues interpretative guidance~~.

b. Paragraph C1:

> ~~The following amendments do not apply to not-for-profit organizations. Not-for-profit organizations shall continue to apply ARB No. 51, *Consolidated Financial Statements,* before the amendments made by this Statement until the Board issues interpretive guidance.~~

c. Paragraph D2:

> ~~The following amendments do not apply to not-for-profit organizations. Not-for-profit organizations shall continue to apply ARB No. 51, *Consolidated Financial Statements,* before the amendments made by this Statement until the Board issues interpretive guidance.~~

E16. FASB Interpretation No. 21, *Accounting for Leases in a Business Combination,* is amended as follows:

a. Paragraph 15, as amended, and its related footnote 2:

> In a business combination or combination of not-for-profit entities—that is, an acquisition of a business or nonprofit activity by a not-for-profit entity or a merger of not-for-profit entities, the acquiring or merged enterprise shall retain the previous classification in accordance with *FASB Statement No. 13* for the leases of an acquired or merged enterprise unless the provisions of the lease are modified as indicated in paragraph 13 above.[2] (At the acquisition or merger date, an acquirer or merged enterprise may contemplate renegotiating and modifying leases of the business or nonprofit activity acquired. Modifications made after the acquisition or merger date, including those that were planned at the time of the ~~business~~ combination, are postcombination events that should be accounted for separately by the acquirer (or merged not-for-profit enterprise) in accordance with the provisions of Statement 13.) The amounts assigned to individual assets acquired and liabilities assumed at the acquisition (or merger) date shall be determined in accordance with the general guides for that type of asset or liability in FASB Statement No. 141 (revised 2007), *Business Combinations,* or No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. Subsequent to the recording of the amounts called for by Statement 141(R) or 164, the leases shall thereafter be accounted for in accordance with Statement No. 13.[3] Paragraph 16 below explains the application of this paragraph to a leveraged lease by an enterprise that acquires a lessor.
>
> [2]If the acquired (or merged not-for-profit) enterprise has not applied *FASB Statement No. 13* retroactively at the date of the ~~business~~ combination, the acquiring (or merged not-for-profit) enterprise shall classify the leases of the acquired (or merged not-for-profit) enterprise as they would have been classified if the acquired (or merged not-for-profit) enterprise had applied Statement No. 13 retroactively at that date.
>
> [3]*FASB Statement No. 13* does not address the subsequent accounting for amounts recorded for favorable or unfavorable operating leases. Accordingly, present practice is not changed with respect to the amortization of those amounts.

b. Paragraph 16, as amended:

> In a business combination or combination of not-for-profit entities—that is, an acquisition of a business or nonprofit activity by a not-for-profit entity or a merger of not-for-profit entities, the acquiring or merged enterprise shall apply the following procedures to the acquired (or merged) enterprise's investment as a lessor in a leveraged lease. The acquiring (or merged) enterprise shall retain the classification of a leveraged lease at the date of the combination. The acquiring enterprise shall assign an amount to the acquired net investment in the leveraged lease in accordance with the general guides in

Statement 141(R) or Statement 164, based on the remaining future cash flows and giving appropriate recognition to the estimated future tax effects of those cash flows (but under Statement 164, a merged not-for-profit entity will use the carryover method as specified by that Statement). Once determined, that net investment 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. The acquiring or merged enterprise thereafter shall account for that investment in a leveraged lease in accordance with the provisions of *FASB Statement No. 13.* Appendix A illustrates the application of this paragraph.

E17. FASB Interpretation No. 26, *Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease,* is amended as follows:

a. Paragraph 5, as amended:

> The termination of a capital lease that results from the purchase of a leased asset by the lessee is not the type of transaction contemplated by paragraph 14(c) of *FASB Statement No. 13* but rather is an integral part of the purchase of the leased asset. The purchase by the lessee of property under a capital lease shall be accounted for like a renewal or extension of a capital lease that, in turn, is classified as a capital lease,[1] that is, any difference between the purchase price and the carrying amount of the lease obligation shall be recorded as an adjustment of the carrying amount of the asset. The provisions of this Interpretation do not apply to leased assets acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity.

E18. FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* is amended as follows:

a. Paragraph 7(c), as amended:

> A guarantee issued in a business combination or an acquisition of a business or nonprofit activity by a not-for-profit entity that represents contingent considerations (as addressed in FASB Statements No. 141 (revised 2007), *Business Combinations,* and No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*).

E19. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* is amended as follows:

a. Paragraph 12A, as added:

> The tax bases used in the calculation of deferred tax assets and liabilities as well as amounts due to or receivable from taxing authorities related to prior tax positions at the date of a business combination or combination of not-for-profit entities—that is, an acquisition of a business or nonprofit activity by a not-for-profit entity or a combination of not-for-profit activities—shall be calculated in accordance with this Interpretation.

E20. FASB Technical Bulletin 84-1, *Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement,* is amended as follows:

a. Paragraph 6, as amended:

> When an enterprise that is or was a party to a research and development arrangement acquires the results of the research and development arrangement in exchange for cash, common stock of the enterprise, or other consideration, the transaction is a purchase of tangible or intangible assets resulting from the activities of the research and development arrangement. Although such a transaction is not a business combination or acquisition of a business or nonprofit activity by a not-for-profit organization, paragraphs D2–D7 of FASB Statement No. 141 (revised 2007), *Business Combinations,* and paragraphs A135–A140 of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* describe the general principles that apply in recording the purchase of such an asset.

E21. FASB Staff Position FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13,* is amended as follows:

a. Paragraph 1:

> This FASB Staff Position (FSP) amends FASB Statement No. 157, *Fair Value Measurements,* to exclude FASB Statement No. 13, *Accounting for Leases,* and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement

under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, *Business Combinations,* or No. 141 (revised 2007), *Business Combinations,* regardless of whether those assets and liabilities are related to leases. This scope exception also does not apply to assets acquired and liabilities assumed in an acquisition of a business or nonprofit activity by a not-for-profit entity that are required to be measured at fair value under FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* regardless of whether those assets and liabilities are related to leases.

E22. EITF Issue No. 02-7, "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets," is amended as follows:

a. Paragraph 5(b):

> The unit of accounting cannot represent a group of indefinite-lived intangible assets that collectively constitute a business (or nonprofit activity of a not-for-profit entity).

E23. EITF Issue No. 02-13, "Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB Statement No. 142," is amended as follows:

a. Paragraph 1:

> Statement 142 requires goodwill to be tested for impairment at the reporting unit level at least annually using a two-step impairment test. Step 1 of the test is a screen used to identify whether a goodwill impairment may exist. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount. If a reporting unit's carrying amount exceeds its fair value, a goodwill impairment may exist. Step 2 of the test must then be performed to measure the amount of impairment, if any. In Step 2, an entity compares the implied fair value of goodwill with its carrying amount. An impairment loss is measured by the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill should be determined in the same manner that goodwill is measured in a business combination under Statement 141(R) or in an acquisition of a business or nonprofit activity by a not-for-profit entity under Statement 164. That is, an entity must allocate the fair value of a reporting unit to 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 in an acquisition of a business or nonprofit activity by a not-for-profit entity and the fair value of the reporting unit was the price paid to acquire the reporting unit.

b. Paragraph 2:

> Pursuant to Statement 142, *all* goodwill acquired in a business combination or in a combination of not-for-profit entities—that is, in an acquisition of a business or nonprofit activity by a not-for-profit entity or a merger of not-for-profit entities—must be assigned to one or more reporting units. In addition, an entity's assets (excluding goodwill) and liabilities, including corporate assets and liabilities, should be assigned (or allocated) to one or more reporting units if both of the following two criteria are met:
>
> a. The asset will be employed in or the liability relates to the operations of a reporting unit.
> b. The asset or liability will be considered in determining the fair value of the reporting unit.
>
> In the context of recognizing and measuring impairment of goodwill, questions have arisen regarding how an entity should account for differences between the book and tax bases of assets and liabilities (that is, deferred tax balances) in determining (a) a reporting unit's fair value, (b) a reporting unit's carrying amount, and (c) the implied fair value of goodwill.

c. Paragraph 8:

> The Task Force observed that in performing Step 2 of the goodwill impairment test, the implied fair value of a reporting unit's goodwill is determined in the same manner that the amount of goodwill recognized in a business combination accounted for in accordance with Statement 141(R) is determined. (This also is the method by which the amount of goodwill recognized in an acquisition of a business or nonprofit activity by a not-for-profit entity is determined in accordance with Statement 164.) Paragraph ~~38~~26 of Statement 141(R) indicates that a

deferred tax liability or asset shall be recognized for differences between the assigned values and the income tax bases of the recognized assets acquired and liabilities assumed in a business combination in accordance with paragraph 30 of Statement 109. [Note: See STATUS section. (Paragraph 43 of Statement 164 provides similar guidance.) To the extent present, tax attributes that will be transferred in the assumed tax structure, such as operating loss or tax credit carryforwards, should be valued consistent with the guidance contained in paragraph 135 of Statement 109.

E24. EITF Topic No. D-101, "Clarification of Reporting Unit Guidance in Paragraph 30 of FASB Statement No. 142," is amended as follows:

a. References to *business* and *businesses* are amended also to refer to *nonprofit activity* and *nonprofit activities*, respectively.

E25. AICPA Audit and Accounting Guide, *Health Care Organizations,* is amended as follows:

a. Footnote || to the heading **APB Opinion No. 16, *Business Combinations*** preceding paragraph 1.50:

~~In June 2001, the FASB issued FASB Statement No. 141, *Business Combinations,* which supersedes several pronouncements including APB Opinion No. 16, *Business Combinations*. However, FASB Statement No. 141 does not apply to certain combinations, including a combination involving two or more not-for-profit organizations or the acquisition of a for-profit business entity by a not-for-profit organization. For those combinations, the guidance in APB Opinion No. 16 still applies. Thus, GAAP does not change for those types of combinations. Not-for-profit health care organizations should continue to follow the guidance in this guide and in APB Opinion No. 16, as amended by pronouncements prior to the issuance of FASB Statement No. 141. Pronouncements that were amended by FASB Statement No. 141 should be applied by those entities as though that statement had not amended them. In addition, in applying the guidance included in APB Opinion No. 16, not-for-profit health care organizations should continue to apply the amendments to that opinion that were included in FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* even though FASB Statement No. 121 was superseded by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. (FASB Statement No. 144 did not carry forward those amendments to APB Opinion No. 16 because APB Opinion No. 16 had been superseded.)~~

~~In December 2007, FASB issued Statement No. 141 (revised 2007), *Business Combinations*. The objective of FASB Statement No. 141(R) is to improve the relevance and representative faithfulness of an entity's financial statements when reporting a business combination. FASB Statement No. 141(R) establishes the following requirements:~~

1. ~~Use the acquisition method of accounting for all business combinations.~~
2. ~~Recognize and measure goodwill acquired in a business combination, or from a bargain purchase.~~
3. ~~Determine what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the combination.~~

~~FASB Statement No. 141(R) defines the key terms associated with a business combination, for example, *acquiree*. The statement also requires entities to record assets acquired and liabilities assumed as a result of a business combination at fair value, as defined by FASB Statement No. 157, *Fair Value Measurements*. The effective date of FASB Statement No. 141(R) is for fiscal years beginning on or after December 15, 2008, with early adoption prohibited.~~

~~Also, FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is not applicable to goodwill and other intangible assets arising from combinations between not-for-profit organizations or arising from the acquisition of a for-profit business entity by a not-for-profit organization until the FASB completes its deliberation with respect to application of the purchase method by those entities.~~

In May 2009, FASB issued FASB Statement No. 164 which supersedes APB Opinion No. 16, *Business Combinations,* and provides guidance on an acquisition of a business or nonprofit activity by a not-for-profit entity. The guidance in

FASB Statement No. 164 relating to combinations of not-for-profit entity combinations shall be applied prospectively to:

a. Mergers for which the merger date is on or after the beginning of an *initial* reporting period beginning on or after December 15, 2009
b. Acquisitions for which the acquisition date is on or after the beginning of the first *annual* reporting period beginning on or after December 15, 2009.

In addition, the guidance makes effective for not-for-profit entities:

a. FASB Statement No. 142's requirements on subsequent accounting for goodwill and other intangible assets acquired in an acquisition
b. The amendments FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* made to ARB No. 51, *Consolidated Financial Statements,* and to other existing pronouncements
c. The amendments Appendix D of FASB Statement No. 164 made to ARB No. 51 on disclosure and presentation of noncontrolling interests
d. The amendments FASB Statement No. 141 (revised 2007), *Business Combinations,* made to existing pronouncements.

Those provisions are effective for reporting periods beginning on or after December 15, 2009.

Until the effective date of the provisions of FASB Statement No. 164, not-for-profit entities shall continue to apply the provisions of APB Opinion No. 16 as well as the guidance in this guide and the guidance in other pronouncements superseded by FASB Statement No. 141(R). Pronouncements that were amended by FASB Statement Nos. 141, *Business Combinations,* and 141(R) should be applied as though FASB Statement Nos. 141 and 141(R) had not amended them. In addition, in applying the guidance included in APB Opinion No. 16, not-for-profit organizations should continue to apply the amendments to that Opinion that were included in FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* even though FASB Statement No. 121 was superseded by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

b. Paragraph 1.50:

~~Because the conditions for applying the pooling of interests method of accounting for a business combination generally include an exchange of common stock of the combining entities, not-for-profit organizations generally would not meet the conditions for applying that method. The AICPA Accounting Standards Executive Committee (AcSEC) believes that circumstances exist under which reporting on the combination of two or more not-for-profit organizations (or that of a not-for-profit organization with a formerly for-profit entity) by the pooling of interests method better reflects the substance of the transaction than reporting by the purchase method. Therefore, not-for-profit organizations are, under certain circumstances, permitted to report by the pooling of interests method, even though they generally do not issue common stock. Such circumstances include the combination of two or more entities to form a new entity without the exchange of consideration. See paragraph 11.38 for further guidance.~~Not-for-profit entities shall apply the guidance in FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* to account for an acquisition of a business or nonprofit activity or a merger of not-for-profit entities.

c. Paragraph 1.51:

~~An example of acceptable practice, in some circumstances, for reporting business combinations by not-for-profit organizations if there has been no exchange of consideration is to report the *(a)* assets, *(b)* liabilities, and *(c)* net asset balances of the combined entities as of the beginning of the year and disclose the information that would be required to be disclosed for a pooling of interests under APB Opinion No. 16.~~

d. Paragraph 10.21(f), as amended:

Items that are required to be reported separately under specialized not-for-profit standards. These include extraordinary items and the effect of discontinued operations, pursuant to the provisions of FASB Statement No. 117; a recognized inherent contribution received that is temporarily or permanently restricted pursuant to the provisions of FASB Statement No. 164; and unrealized gains and losses on investments not restricted by donors or by law (except for those investments classified as trading securities) and investment returns restricted by donors or by law, as discussed in paragraphs 4.07–.10 of this guide. FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3,* changed the accounting and reporting requirements for changes in accounting principle. Voluntary changes in accounting principle are not reported as a cumulative-effect adjustment through the income statement of the period of change. Generally, FASB Statement No. 154 requires retrospective application to prior periods' financial statements or to the beginning of the earliest period for which retrospective application is practicable. Offsetting adjustments, if any, are made to the opening balance for net assets.

e. Footnote * to the heading **Business Combinations** preceding paragraph 11.38:

See footnote ‖.~~In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 141 (revised 2007), *Business Combinations*. The objective of FASB Statement No. 141(R) is to improve the relevance and representative faithfulness of an entity's financial statements when reporting a business combination. FASB Statement No. 141(R) establishes the following requirements:~~

1. ~~Use the acquisition method of accounting for all business combinations.~~
2. ~~Recognize and measure goodwill acquired in a business combination, or from a bargain purchase.~~
3. ~~Determine what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the combination.~~

~~FASB Statement No. 141(R) defines the key terms associated with a business combination (for example, *acquiree*). The statement also requires entities to record assets acquired and liabilities assumed as a result of a business combination at fair value, as defined by FASB Statement No. 157, *Fair Value Measurements*.~~

~~The effective date of FASB Statement No. 141(R) is for fiscal years beginning on or after December 15, 2008, with early adoption prohibited.~~

~~In December 2007, FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. The objective of FASB Statement No. 160 is to improve comparability and transparency of consolidated financial statements by establishing accounting and reporting standards that require~~

1. ~~reporting of ownership interest in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet within equity but separate from the parent's equity.~~
2. ~~consolidated net income should clearly identify the portion of income attributable to the parent and the noncontrolling interest on the face of the income statement.~~
3. ~~changes in ownership interest should be accounted for consistently.~~
4. ~~when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be measured at fair value.~~
5. ~~entities should provide all appropriate disclosures to distinguish between interest of the parent and the interests of the noncontrolling owners.~~

~~FASB Statement No. 160 is effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. FASB Statement No. 160 should be applied prospectively as of the beginning of the fiscal year in which the statement is initially adopted. Presentation and disclosure requirements shall be applied retrospectively for all periods presented.~~

f. Paragraph 11.38 and its related footnotes:

As discussed in paragraph 11.01, the dynamics of change in the health care industry have resulted in increased business combinations as new organizational structures are being formed. Not-for-profit entities shall apply the guidance in FASB Statement No. 164 to account for an acquisition of a business or nonprofit activity or a merger of not-for-profit entities.~~FASB Statement No. 141 addresses financial accounting and reporting for business combinations. FASB Statement No. 141 prescribes the use of the purchase method for those business combinations. FASB Statement No. 141, however, does not apply to certain combinations, including a combination involving 2 or more not-for-profit organizations, or the acquisition of a for-profit business by a not-for-profit organization. For those combinations, the guidance in APB Opinions Nos. 16 and 17, *Intangible Assets,* still apply and provides a useful framework when evaluating similar transactions entered into by not-for-profit health care business organizations.[fn#] A list of possible factors to be considered when evaluating these transactions in relation to APB Opinion No. 16 is summarized as follows:~~

~~Circumstances~~	~~Accounting and Disclosure Guidance~~
~~Monetary consideration received or paid, change in legal title to assets or assumption of liabilities, or both.~~	~~This is similar to a purchase under APB Opinion No. 16.[fn 27]~~
~~Change in control (for example, change in sole corporate member).~~	~~This is similar to a pooling of interests transaction under APB Opinion No. 16. No step-up in basis.~~

~~See paragraphs 1.50–.51 for additional guidance regarding the application of APB Opinion No. 16 to not-for-profit organizations. Also see footnote † in the section "APB Opinion No. 16, *Business Combinations*" in chapter 1 in this guide regarding pronouncements that were superseded by FASB Statement No. 141, including APB Opinion No. 16.~~

[#]~~On October 9, 2006, the FASB issued an exposure draft of a proposed FASB statement, *Not-for-Profit Organizations: Mergers and Acquisitions,* which would eliminate the use of the pooling-of-interests method of accounting by not-for-profit organizations and would require that they apply the acquisition method to any merger or acquisition. The acquisition method would require a not-for-profit organization to identify the acquirer, recognize the identifiable assets acquired and liabilities assumed that compose the business or nonprofit activity acquired at their fair values as of the acquisition date (with certain exceptions), and recognize either goodwill or the contribution inherent in the transaction. The proposed FASB Statement would amend APB Opinion Nos. 16 and 29, *Accounting for Nonmonetary Transactions,* and FASB Statement Nos. 116, *Accounting for Contributions Received and Contributions Made,* and 117, *Financial Statements of Not-for-Profit Organizations.* Concurrently, the FASB also issued an exposure draft of a proposed FASB statement, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition,* which would amend FASB Statement No. 142, *Goodwill and Other Intangible Assets,* to provide guidance to not-for-profit organizations for testing goodwill for impairment and applying FASB Statement No. 142's provisions (as amended) to identified intangible assets recognized as the result of a merger or acquisition. Readers should be alert to the issuance of final standards.~~

[27]~~FASB Statement No. 141 supersedes AICPA Accounting Interpretation No. 39 of APB Opinion No. 16. Appendix D of FASB Statement No. 141 carries forward without reconsideration guidance in APB Opinion No. 16 and an interpretation that has been used in past practice to account for transfers of net assets or exchanges of shares between entities under common control. Paragraph D12 of FASB Statement No. 141 discusses the accounting for a transfer of assets or exchange of shares between entities under common control.~~

E26. AICPA Audit and Accounting Guide, *Not-for-Profit Organizations,* is amended as follows:

a. Footnotes NIS and BCR to paragraph 1.11:

NIS ~~In December 2007, FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,* which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (sometimes called minority interests) and for the deconsolidation of a subsidiary. Neither FASB Statement No. 160 nor its amendments to ARB No. 51, *Consolidated Financial Statements,* APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* and No. 29, *Accounting for Nonmonetary Transactions,* FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises,* No. 89, *Financial Reporting and Changing Prices,* No. 128, *Earnings per Share,* No. 130, *Reporting Comprehensive Income,* and No. 142, *Goodwill and Other Intangible Assets,* FASB Interpretation No. 37, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity—an interpretation of FASB Statement No. 52,* and No. 46(R), *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51,* AICPA Accounting Interpretation No. 1, AICPA SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions* (AICPA, *Technical Practice Aids,* ACC sec. 10,910), and to several EITF issues, apply to not-for-profit organizations.~~ In May 2009, FASB issued FASB Statement No. 164, *Not-for-Profit Entities: Mergers and*

Acquisitions. That Statement makes the provisions of FASB Statement No. 160 and its amendments to ARB No. 51, *Consolidated Financial Statements,* and other authoritative guidance applicable to not-for-profit entities for reporting periods beginning after December 15, 2009. Until the effective date of FASB Statement No. 164, ~~N~~not-for-profit organizations should continue to apply the guidance in ~~Accounting Research Bulletin (~~ARB~~)~~ No. 51~~,~~ ~~*Consolidated Financial Statements,*~~ before the amendments made by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,* SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* (AICPA, *Technical Practice Aids,* ACC sec. 10,610), and other applicable standards~~, until FASB issues interpretative guidance~~. ~~FASB Statement No. 160 is effective for fiscal years beginning on or after December 15, 2006. Earlier adoption is prohibited.~~

~~BCR In December 2007, FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations,* which replaces FASB Statement No. 141, *Business Combinations.* Like its predecessor, FASB Statement No. 141(R) is not applicable to combinations between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. The nullifications or amendments to other standards made by FASB Statement No. 141(R) also are not applicable to not-for-profit organizations. Thus, not-for-profit organizations should continue to apply FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions—an amendment of APB Opinion No. 17, an interpretation of APB Opinions 16 and 17, and an amendment of FASB Interpretation No. 9,* and No. 147, *Acquisitions of Certain Financial Institutions—an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9,* and FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method—an interpretation of FASB Statement No. 2,* and No. 9, *Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method—an interpretation of APB Opinions No. 16 and 17,* as indicated in paragraphs 1.24–.28 of this guide. Not-for-profit organizations also should continue to apply the following standards as indicated in paragraphs 1.24–.28 of this guide without regard to the amendments made by FASB Statement No. 141(R): ARB No. 43, *Restatement and Revision of Accounting Research Bulletins,* APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants,* No. 18, *The Equity Method of Accounting for Investments in Common Stock,* No. 28, *Interim Financial Reporting,* No. 29, *Accounting for Nonmonetary Transactions,* and No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* FASB Statement No. 2, *Accounting for Research and Development Costs,* No. 5, *Accounting for Contingencies,* No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings,* No. 45, *Accounting for Franchise Fee Revenue,* No. 52, *Foreign Currency Translation,* No. 60, No. 68, *Research and Development Arrangements,* No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed,* No. 87, *Employers' Accounting for Pensions,* No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments,* No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* No. 109, *Accounting for Income Taxes,* No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts,* No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts—an amendment of FASB Statements 60, 97, and 113 and Interpretation No. 40,* No. 123(R), *Share-Based Payment,* No. 133, *Accounting for Derivative Instruments and Hedging Activities,* No. 142, No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* and No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3,* and FASB Interpretation No. 21, *Accounting for Leases in a Business*~~

~~*Combination—an interpretation of FASB Statement No. 13,* No. 26, *Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease—an interpretation of FASB Statement No. 13,* No. 46(R), and No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.* In addition, the amendments made by FASB Statement No. 141(R) to FASB Technical Bulletin 84-1, *Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement,* SOP 78-9, *Accounting for Investments in Real Estate Ventures* (AICPA, *Technical Practice Aids,* ACC sec. 10,240), SOP 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (AICPA, *Technical Practice Aids,* ACC sec. 10,460), SOP 93-6, *Employers' Accounting for Employee Stock Ownership Plans* (AICPA, *Technical Practice Aids,* ACC sec. 10,580), SOP 96-1, *Environmental Remediation Liabilities* (AICPA, *Technical Practice Aids,* ACC sec. 10,680), SOP 00-3, *Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts* (AICPA, *Technical Practice Aids,* ACC sec. 10,810), SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others* (AICPA, *Technical Practice Aids,* ACC sec. 10,850), SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (AICPA, *Technical Practice Aids,* ACC sec. 10,880), and SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts* (AICPA, *Technical Practice Aids,* ACC sec. 10,920), and AICPA Practice Bulletin No. 4, *Accounting for Foreign Debt/Equity Swaps* (AICPA, *Technical Practice Aids,* PB sec. 12,040), Practice Bulletin No. 6, *Amortization of Discounts on Certain Acquired Loans* (AICPA, *Technical Practice Aids,* PB sec. 12,060), and Practice Bulletin No. 14, *Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships* (AICPA, *Technical Practice Aids,* PB sec. 12,140), do not apply to not-for-profit organizations, nor do the changes made by Statement No. 141(R) to FASB Technical Bulletin 85-5, *Issues Relating to Accounting for Business Combinations,* FSP FAS No. 141-1 and 142-1, *Interaction of FASB Statements No. 141 and No. 142 and EITF Issue No. 04-2,* and Practice Bulletin No. 11, *Accounting for Preconfirmation Contingencies in Fresh-Start Reporting* (AICPA, *Technical Practice Aids,* PB sec. 12,110), many EITF Issue consensuses, and several responses in the FASB Staff Q&A on FASB Statement No. 109.~~

b. Footnotes * and MAA to the heading **APB Opinion No. 16, *Business Combinations*** preceding paragraph 1.15:

*~~In June 2001, FASB issued FASB Statement No. 141 which supersedes several pronouncements including APB Opinion No. 16. In December 2007, FASB issued FASB Statement No. 141(R), which replaces FASB Statement No. 141. However, neither FASB Statement No. 141 nor its replacement, FASB Statement No. 141(R), applies to combinations of two or more not-for-profit organizations or the acquisition of a for-profit business entity by a not-for-profit organization. Thus, GAAP does not change for those types of combinations. Not-for-profit organizations should continue to follow the guidance in this guide and in APB Opinion No. 16 as amended by pronouncements prior to the issuance of FASB Statement No. 141, as well as the guidance in the other pronouncements superseded by FASB Statement Nos. 141 and 141(R). Pronouncements that were amended by FASB Statement Nos. 141 and 141(R) should be applied as though Statement Nos. 141 and 141(R) had not amended them. In addition, in applying the guidance included in APB Opinion No. 16, not-for-profit organizations should continue to apply the amendments to that Opinion that were included in FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* even though FASB Statement No. 121 was superseded by FASB Statement No. 144. (FASB Statement No. 144 did not carry forward the amendments to APB Opinion No. 16 because APB Opinion No. 16 had been superseded.) For additional guidance, refer to footnotes BCR and NIS in this chapter.~~

In May 2009, FASB issued FASB Statement No. 164 which supersedes APB Opinion No. 16 and provides guidance on an acquisition of a business or nonprofit activity by a not-for-profit entity. The guidance in the Statement relating to combinations of not-for-profit entity combinations shall be applied prospectively to:

a. Mergers for which the merger date is on or after the beginning of an *initial* reporting period beginning on or after December 15, 2009
b. Acquisitions for which the acquisition date is on or after the beginning of the first *annual* reporting period beginning on or after December 15, 2009.

In addition, the guidance makes effective for not-for-profit entities:

a. The requirements of FASB Statement No. 142, *Goodwill and Other Intangible Assets,* on subsequent accounting for goodwill and other intangible assets acquired in an acquisition
b. The amendments FASB Statement No. 160 made to ARB No. 51 and to other existing pronouncements
c. The amendments Appendix D of FASB Statement No. 164 made to ARB No. 51 on disclosure and presentation of noncontrolling interests
d. The amendments FASB Statement No. 141 (revised 2007), *Business Combinations,* made to existing pronouncements.

Those provisions are effective for reporting periods beginning on or after December 15, 2009.

Until the effective date of the provisions of FASB Statement No. 164, not-for-profit entities shall continue to apply the provisions of APB Opinion No. 16 as well as the guidance in this guide and the guidance in other pronouncements superseded by FASB Statement No. 141(R). Pronouncements that were amended by FASB Statement Nos. 141, *Business Combinations,* and 141(R) should be applied as though FASB Statement Nos. 141 and 141(R) had not amended them. In addition, in applying the guidance included in APB Opinion No. 16, not-for-profit organizations should continue to apply the amendments to that Opinion that were included in FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* even though FASB Statement No. 121 was superseded by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

~~MAA On October 9, 2006, FASB issued an exposure draft of a proposed FASB statement, *Not-for-Profit Organizations: Mergers and Acquisitions,* which would eliminate the use of the pooling-of-interests method of accounting by not-for-profit organizations and would require that they apply the acquisition method to any merger or acquisition. The acquisition method would require a not-for-profit organization to identify the acquirer, recognize the identifiable assets acquired and liabilities assumed that compose the business or nonprofit activity acquired at their fair values as of the acquisition date (with certain exceptions), and recognize either goodwill or the contribution inherent in the transaction. The proposed FASB statement would amend APB Opinion No. 16, *Business Combinations,* and No. 29 and FASB Statement Nos. 116 and 117. Concurrently, FASB also issued an exposure draft of a proposed FASB statement, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition,* which would amend FASB Statement No. 142 to provide guidance to not-for-profit organizations for testing goodwill for impairment and applying FASB Statement No. 142's provisions (as amended) to identified intangible assets recognized as the result of a merger or acquisition. Readers should be alert to the issuance of final standards.~~

c. Paragraph 1.15:

~~Because the conditions for applying the pooling of interests method of accounting for a business combination generally include an exchange of common stock of the combining entities, not-for-profit organizations generally would not meet the conditions for applying that method. The AICPA Accounting Standards Executive Committee (AcSEC) believes that circumstances exist under which reporting on the combination of two or more not-for-profit organizations (or that of a not-for-profit organization with a formerly for-profit entity) by the pooling of interests method better reflects the substance of the transaction than reporting by the purchase~~

~~method. Therefore, not-for-profit organizations are, under certain circumstances, permitted to report by the pooling of interests method, even though they generally do not issue common stock. Such circumstances include the combination of two or more entities to form a new entity without the exchange of consideration.~~Not-for-profit entities shall apply the guidance in FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* to account for an acquisition of a business or nonprofit activity or a merger of not-for-profit entities.

d. Paragraph 1.16:

~~An example of acceptable practice, in some circumstances, for reporting business combinations by not-for-profit organizations if there has been no exchange of consideration is to report the *(a)* assets, *(b)* liabilities, and *(c)* net asset balances of the combined entities as of the beginning of the year and disclose the information that would be required to be disclosed for a pooling of interests under APB Opinion No. 16, *Business Combinations*.~~