

Summary of Tentative Decisions Combinations of Not-for-Profit Organizations

The decisions reached by the Board to date (through December 20, 2005) in its project on combinations of not-for-profit organizations are listed below.

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SECTION 1: COMBINATIONS OF NOT-FOR-PROFIT ORGANIZATIONS

Approach

1. The project will be conducted following an approach that presumes that FASB Statement No. 141, *Business Combinations* (including revisions that are in the proposed FASB Statement on business combinations) should apply to combinations of not-for-profit (NFP) organizations unless a circumstance unique to those combinations is identified that would justify a different accounting treatment. That approach is referred to as the differences-based approach.

Scope

2. The definition of an NFP organization in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, will be used for this project.
3. The scope of this project will include (a) combinations between two or more NFP organizations and (b) the acquisition of a for-profit business enterprise by an NFP organization. The acquisition of an NFP organization by a business enterprise is within the scope of Statement 141.
4. The scope of the proposed NFP Statement will include combinations in which no combining entity dominates the process of selecting a voting majority of the combined entity's governing board (transactions that are sometimes referred to as mergers of equals).
5. The scope of the proposed NFP Statement will exclude the following transactions:
 - a. The formation of a joint venture under joint control.
 - b. A transfer of net assets or exchange of equity interests between entities under common control.
6. The proposed NFP Statement will provide general guidance to describe the accounting for an acquisition of assets subject to certain liabilities.

Definition of a Combination

7. An NFP combination would be defined as any event that results in the initial inclusion of a business or nonprofit activity (as defined) in an NFP organization's consolidated financial statements. The following events would be excluded from the scope of this project:
 - a. The formation of a joint venture under joint control
 - b. A transfer of net assets or exchange of equity interests between entities under common control.
8. The definition of an NFP combination would encompass acquisitions of net assets that are not separate entities and all initial consolidation events, but would not describe those events as transactions or other events in which an acquiring entity obtains control over one or more businesses or nonprofit activities. Therefore, the scope of the NFP combinations project would be consistent with the proposed FASB Statement on business combinations, but would be described in a manner that clarifies that the guidance on combinations accounting would not change existing consolidation policy for NFP organizations provided by other accounting standards.

9. *Control* would not be defined in the standards section of the proposed NFP Statement; however, the basis for conclusions would provide existing GAAP definitions of control.

10. The term *business or nonprofit activity* would differentiate acquisitions of a group of assets from combinations of an integrated set of assets and activities that are within the scope of this project. A business or nonprofit activity would be defined in a manner that conforms to the revised definition of a business in the proposed FASB Statement on business combinations, except for differences applicable to NFP organizations. Thus, a business or nonprofit activity would be defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing:

- a. A return to investors;
- b. Lower costs or other economic benefits directly and proportionately to owners, members, or participants; or
- c. Goods or services to beneficiaries, customers, or members that fulfill the purpose or mission for which an NFP organization exists.

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

Method of Accounting

Background

11. Combinations in which the acquiring entity is an NFP organization, unlike combinations in which the acquiring entity is a business enterprise, cannot be assumed to be an exchange of commensurate value. Acquired NFP organizations lack owners who are focused on receiving a return on and return of their investment. Moreover, the parent or governing body of an acquired NFP organization may place its mission effectiveness ahead of achieving maximum price when negotiating a combination agreement, and it may approve a combination at a price less than fair value if that action would maximize the resources available to further its mission going forward. Similarly, but much rarer in occurrence, an owner (or owners) of a business enterprise may be motivated by donative intent to make a contribution to an NFP organization by transferring ownership interests for less than a fair price.

Accounting and Reporting

12. All mergers and acquisitions by NFP organizations would be accounted for using the purchase method (the FASB proposed Statement on business combinations would rename the purchase method to the

acquisition method). An NFP organization that acquires a business or nonprofit activity through a merger or acquisition would account for:

- a. Identifiable assets acquired and liabilities assumed at their acquisition-date fair values, with limited exceptions. Exceptions would be for certain collection items, assets held for sale, deferred taxes, operating leases, and certain employee benefits.

The requirements of Statement 116 would continue to be used to account for collection items that are contributed to, or purchased by, an NFP organization and added to its inexhaustible collection. When collection items are acquired in connection with a combination of NFP organizations, the acquirer would follow the guidance in Statement 116 to account for items acquired to be added to its inexhaustible collection.

An acquiring NFP organization would: (1) apply the criteria in paragraph 39 of Statement 141 for recognizing identifiable intangible assets in the recording of combinations of NFP organizations and (2) account for donor-related intangible assets consistent with guidance for customer-related intangible assets that is in the proposed Statement on business combinations.

- b. Goodwill and inherent contributions received using a single approach. Under the approach, an acquirer would recognize either (1) goodwill, to the extent that the consideration transferred is *more than* the identifiable net assets acquired, or (2) a contribution received, to the extent that the consideration transferred is *less than* the identifiable net assets acquired.

If an acquirer recognizes an inherent contribution in a merger or acquisition, that contribution would be reported in accordance with Statement 116.

13. Consistent with the proposed Statement on business combinations, an acquiring NFP organization would apply the guidance for the measurement period and determine what is part of the exchange.

Identifying the Acquiring Organization

14. In determining which organization is the acquiring organization in a combination of NFP organizations involving two or more organizations, all pertinent facts and circumstances would be considered.

15. In an NFP combination effected solely through the distribution of cash or other assets or by incurring liabilities, the organization that distributes cash or other assets or incurs liabilities generally would be the

acquiring organization. In an NFP combination in which no consideration is exchanged, the NFP organization that is able to dominate the process of selecting a voting majority of the combined organization's initial governing body would be the acquiring organization.

16. In determining whether one of the combining organizations has the ability to dominate the selection process, consideration would be given to (a) the existence of rights provided by the combined organization's articles of incorporation, its by-laws, or by provisions in the combination agreement to elect or appoint members to the combined organization's governing body and (b) the ability to dominate the selection process through other means.

17. The proposed NFP Statement would include guidance that lists the following factors to consider in identifying the acquiring organization:

- a. If the combined organization's articles of incorporation or by-laws state that the members of the governing body are appointed, whether one of the combining organizations has the right to appoint a voting majority of the governing body
- b. If the combined organization governing body is self-perpetuating:
 - (1) Whether one of the combining organizations negotiated the right to select a voting majority of the combined initial governing body as part of the combination agreement
 - (2) Whether one of the combining organizations has the ability to dominate the selection of a voting majority of the initial governing body 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 is elected by the combining organizations' members, whether one organization's members have the majority of the voting rights
- d. Any other rights to appoint or designate members of the combined organization's governing body either as of the combination 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 governing body are designated positions, the effect of those designated positions on the ability of a combining organization to appoint a voting majority of the combined organization's governing body
- f. The powers of any sponsoring organizations or corporate members 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 combining organizations to control the combined organization

- g. If the governing body delegates corporate 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 organization to appoint or dominate the selection of a supermajority of the governing body
 - i. The composition of senior management, in particular the factors considered by the combining organizations in selecting that management team.
18. The proposed NFP Statement would include the names and size of the parties to the combination as possible indicators for identifying the acquiring organization but would not require that those indicators be considered in all combinations.
19. Communities neither own nor control NFP organizations and, therefore, a community's relationship with an NFP organization would have no effect on the accounting for a combination of NFP organizations.

Consideration Exchanged

20. In general, assets transferred (or liabilities incurred) by the acquiring organization as a requirement of a combination would be accounted for as consideration paid for the acquired entity unless the acquiring organization retains control over the future economic benefits of the transferred assets. If control over the future economic benefits of the transferred assets is retained by the acquiring organization, the asset transfer would be reported as an asset-for-asset exchange.

21. Examples of conditions that would result in the acquiring organization retaining control over the future economic benefit or the transferred assets include:

- a. The asset transfer is repayable or refundable.
 - b. The assets are transferred to a recipient that is controlled by the acquiring organization.
 - c. The assets are transferred with the stipulation that they be used on behalf of, or for the benefit of, the acquired organization, the acquiring organization, the resulting combined organization, or their affiliates.
22. An acquiring organization would exclude transaction costs incurred in connection with a merger or acquisition from the measure of the fair value of the consideration transferred for the business or nonprofit activity. Those costs would be accounted for separately from the acquisition in accordance with applicable generally accepted accounting principles.

23. An acquiring NFP organization would account for a regulatory-required asset transfer as consideration paid for the acquired organization.

24. Contingent consideration in a combination would be accounted for consistent with the guidance in the proposed FASB Statement on business combinations.

Acquisition of Partially Owned Subsidiaries

25. The accounting for the initial consolidation of a partially owned subsidiary developed in the Board's project on business combinations would apply to NFP organizations, with certain modifications. That is, if the NFP parent acquires less than 100 percent of a for-profit business or NFP organization:

- a. In the consolidated financial statements of the NFP parent, the partially owned subsidiary would initially be consolidated at the fair value of the identifiable net assets acquired (that is, those assets and liabilities that meet the recognition requirements of the proposed NFP Statement) plus the amount of goodwill purchased by the NFP parent. If the NFP parent owned a noncontrolling equity investment in the subsidiary immediately before the combination transaction, that investment would be remeasured to an amount equal to the interest's ownership share of the acquisition date fair value of the net identifiable assets acquired with a gain or loss recognized in the statement of activities.
- b. Any purchased goodwill would be allocated to the controlling interest, except in those cases in which the fair value of the liabilities assumed in the combination exceeds the fair value of the recognized assets acquired (a net deficit combination). The goodwill recognized in a net deficit combination would be allocated between the controlling and noncontrolling interests based on their ownership percentages.

Presentation in Financial Statements

26. Acquisition transactions would be shown as follows in the statement of activities:

- a. The inherent contributions resulting from a combination transaction would be reported in the statement of activities as a line item separate from other contributions. The contributions would be reported (consistent with Statement 116 and FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*) as an increase in permanently restricted net assets, temporarily restricted net assets, and/or unrestricted net assets, depending on the type of

donor-imposed restrictions assumed by the acquiring organization.

- b. Limitations placed on net assets by the governing board of an entity acquired in a combination with an inherent contribution would be reported as donor-imposed restrictions only if those limitations are (a) imposed as conditions of the combination transaction, (b) are irrevocable, and (c) are not self-imposed. Generally, limitations imposed by the governing board of an acquired entity as a condition of the combination would be deemed self-imposed if members of the governing board of the acquired entity make up a significant portion of the governing board of the combined organization. Limitations placed by the governing board of an acquired entity as a condition of the combination would be deemed not self-imposed if the acquired entity was only a portion of another entity and that other entity continues to survive as an unaffiliated entity. Limitations on the acquired net assets that are placed by the governing board of the acquiring entity would not be reported as donor-imposed restrictions.
- c. An acquiring organization would not apply the reporting exception in paragraph 14 of Statement 116. Instead, an acquiring organization would report its assumption of fiduciary responsibilities for the restricted net assets of the acquired entity separately from any expiration of those restrictions that occurs after the date of acquisition and before the end of the reporting period.
- d. An acquiring organization would report changes in net assets that result from its assumption of fiduciary responsibilities for the restricted net assets of the acquired entity in the statement of activities as a reclassification in a line item separate from other reclassifications.
- e. Consolidated financial statements of an NFP parent would present the donor-imposed restrictions on a partially owned subsidiary's net assets in accordance with Statement 117 and FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Noncontrolling ownership interests in consolidated subsidiaries would be presented as a separate component of the appropriate class of equity or net assets in the consolidated financial statements.
- f. If the acquiring entity reports a performance indicator in accordance with the requirements of the AICPA Audit and Accounting Guide, *Health Care Organizations*, it would present any contribution inherent in a merger or acquisition

separately from the performance indicator, unless the acquired business or nonprofit activity meets the criteria to be classified as held for sale in paragraph 32 of FASB Statement No. 144, *Impairment or Disposal of Long-Lived Assets*.

27. Acquisition transactions would be shown as follows in the statement of cash flows:

- a. A combination in which no consideration is exchanged would be reported as a noncash activity in accordance with paragraph 32 of FASB Statement No. 95, *Statement of Cash Flows*. If cash is received as one of the assets acquired in the combination, it would be reported as an investing activity inflow.
- b. The net cash outflow for consideration exchanged in a combination would be reported as an investing activity outflow.

Disclosures

Disclosures Required in FASB Proposed Statement on Business Combinations

28. The disclosures currently required by Statement 141, as modified to apply to the NFP sector, generally would be required for acquiring NFP organizations. The proposed changes to Statement 141 disclosure requirements as a result of the proposed FASB Statement on business combinations would also be applied to NFP organizations.

29. Specifically, paragraphs 71–73 and 75–81 of the proposed FASB Statement, would be applicable to acquisitions by NFP, *to the extent that they apply*. Those disclosure requirements include disclosure objectives and disclosures that are included in the proposed Statement on business combinations but not by Statement 141, such as the maximum potential amount of future payments for contingent consideration, the nature of any preexisting relationship, and a reconciliation of the beginning and ending balance of liabilities for contingent consideration and contingencies that are required to be measured at fair value. Paragraphs 71–73 and 75–81 of the proposed FASB Statement on business combinations are provided below:

71. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occur:

- a. During the reporting period
- b. After the balance sheet date but before the financial statements are issued.]

72. To meet the objective in paragraph 71, the acquirer shall disclose the following information for each material business combination that occurs during the reporting period:

- a. The name and a description of the acquiree.
- b. The acquisition date.
- c. The percentage of voting equity instruments acquired.
- d. The primary reasons for the business combination, including a description of the factors that contributed to the recognition of goodwill.
- e. The acquisition-date fair value of the acquiree and the basis for measuring that value.
- f. The acquisition-date fair value of the consideration transferred [or if no consideration was paid, that fact], including the 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) Contingent consideration
 - (4) Debt instruments
 - (5) Equity or member interests of the acquirer, including the number of instruments or interests issued or issuable, and the method of determining the fair value of those instruments or interests
 - (6) The acquirer's previously acquired noncontrolling equity investment in the acquiree in a business combination achieved in stages.
- g. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed in the form of a condensed balance sheet (see paragraph A110).
- h. The maximum potential amount of future payments (undiscounted) the acquirer could be required to make under the terms of the acquisition agreement. If there is no limitation on the maximum potential amount of future payments, that fact shall be disclosed.
- i. In a business combination in which the consideration transferred for the acquiree is less than fair value, the amount of any gain recognized in accordance with paragraph 61, the line item in the income statement in

which the gain is recognized, and a description of the reasons why the acquirer was able to achieve a gain.

- j. In a business combination achieved in stages, the amount of any gain or loss recognized in accordance with paragraph 56 and the line item in the income statement in which that gain or loss is recognized.
- k. In a business combination in which the acquirer and acquiree have a preexisting relationship:
 - (1) The nature of the preexisting relationship
 - (2) The measurement of the settlement amount of the preexisting relationship, if any, and the valuation method used to determine the settlement amount
 - (3) The amount of any settlement gain or loss recognized and the line item in the income statement in which that gain or loss is recognized.
- l. The amount of costs incurred in connection with the business combination, the amount recognized as an expense and the line item or items in the income statement in which those expenses are recognized.

73. The acquirer also shall disclose the information required by:

- a. Paragraphs 72(e)–(l) in aggregate for individually immaterial business combinations that are material collectively.
- b. Paragraph 72 if a material business combination is completed after the balance sheet date but before the financial statements are issued unless disclosure of any of the information is impracticable. If disclosure of any of the information required by paragraph 72 is impracticable, that fact and the reasons shall be disclosed.

75. 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 relating to business combinations that were effected in the current or previous reporting periods.

76. To meet the objective in paragraph 75, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

- a. If the amounts recognized in the financial statements for the business combination have been determined only provisionally:
 - (1) The reasons why the initial accounting for the business combination is not complete.
 - (2) The assets acquired or the liabilities assumed for which the measurement period is still open.
 - (3) The nature and amount of any measurement period adjustments recognized during the reporting period.
- b. A reconciliation of the beginning and ending balances of liabilities for contingent consideration and contingencies that are required to be remeasured to fair value after initial recognition in accordance with paragraphs 26(b)(2) and 36, showing separately the changes in fair value during the reporting period and amounts paid or otherwise settled.
- c. A description of the discrete event or circumstance that occurred after the acquisition date that resulted in deferred tax assets acquired as part of the business combination being recognized as income within 12 months after the acquisition date (see paragraph 86).

77. The acquirer shall disclose information that enables users of its financial statements to evaluate changes in the carrying amount of goodwill during the reporting period.

78. To meet the objective in paragraph 77, if the total amount of goodwill is significant in relation to the fair value of the acquiree, the acquirer shall disclose the following information for each material business combination that occurs during the reporting period:

- a. The total amount of goodwill and the amount that is expected to be deductible for tax purposes
- b. The amount of goodwill by reportable segment, if the combined entity is required to disclose segment information in accordance with Statement 131, unless such disclosure is impracticable. For example, if the assignment of goodwill to reporting units as required by Statement 142 has not been completed as of the date the financial statements are issued, disclosure of this information would be impracticable.

79. The acquirer also shall disclose the information required by paragraph 78:

- a. In aggregate for individually immaterial business combinations that are material collectively.

If a material business combination is completed after the balance sheet date but before the financial statements are issued unless such disclosure is impracticable. If disclosure of any of the information required by paragraph 78 is impracticable, that fact and the reasons shall be disclosed.]

80. The acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period as required by Statement 142, as amended.

81. If the specific disclosures required by this and other Statements do not meet the objectives set out in paragraphs 71, 75, or 77, the acquirer shall disclose any additional information necessary to meet those objectives.

30. In addition, the acquiring NFP organization would disclose the information required by paragraph 74 of the proposed FASB Statement on business combinations, if the acquirer is a *public NFP organization* (including those organizations that have public debt obligations outstanding). Those disclosures are (a) the amounts of revenue and results of operations of the acquiree since the acquisition date, if practicable, and (b) the results of operations of the combined entity as if the acquisition had occurred at the beginning of the period, if practicable.

Disclosures Unique to Not-for-Profit Organizations

31. In addition to the disclosures required of business enterprises by Statement 141, NFP organizations would be required to disclose:

- a. The fair value of collection items acquired in a combination that is achieved by purchase (not a contribution) and then written off under the permitted noncapitalization policy of Statement 116 in the same period
- b. The reasons goodwill arose in an acquisition transaction and the triggering events that would result in a write-off of goodwill if the reporting unit(s) acquired are primarily supported by contributions and returns on investments (and thus goodwill is accounted for postacquisition using a trigger-based write-off method).

Effective Date and Transition

32. The proposed NFP Statement would be effective about six months after issuance and would apply prospectively to all combinations for which the acquisition date is on or after the effective date. The provisions would be applied in fiscal years beginning after the effective date.

33. The transition would be linked for all of the Board's decisions on this project. That is, the proposed amendments to Statement 142 and application guidance for noncontrolling interests would be effective in the same period as the mergers and acquisitions portion of the proposal.

34. Early adoption of the provisions would be encouraged, as long as the provisions of all of the documents (mergers and acquisitions, amendments to Statement 142, and accounting for noncontrolling interests, if applicable) are applied at the same time.

35. The proposed NFP Statement would preclude adjustments of amounts recognized in combinations occurring before the issuance date regardless of whether the combination was originally accounted for by the purchase or pooling-of-interests methods.

36. The proposed NFP Statement would include transition provisions for intangible assets and negative goodwill consistent with the transition provisions for business enterprises in paragraphs 61 and 62 of Statement 141.

SECTION 2: ACCOUNTING FOR GOODWILL SUBSEQUENT TO ACQUISITION BY NOT-FOR-PROFIT ORGANIZATIONS

Accounting and Reporting

37. The following two-path method of accounting for goodwill recognized by an NFP organization subsequent to acquisition would be followed:

- a. Reporting units not primarily supported by contributions and returns on investments would test goodwill for impairment using the fair value method required by Statement 142.
- b. Reporting units primarily supported by contributions and returns on investments would test goodwill for impairment using a trigger-based approach that writes off goodwill in its entirety if certain triggering events occur. At the date of acquisition, the acquiring organization would identify the reasons goodwill arose in the transaction and determine triggering events related to those reasons that would indicate that goodwill is significantly impaired. Examples would be provided in the proposed NFP Statement to help acquiring organizations identify appropriate triggering events.

38. An NFP organization would consider all relevant qualitative and quantitative factors in determining whether a reporting unit is primarily supported by contributions and returns on investments. In addition, all forms of contributed support, including contributions that are not recognized in the financial statements (such as contributed services), would be considered in the application of the support criterion. However, an NFP organization would not be required to determine the fair value of

contributed support solely for the purposes of applying the support criterion of the goodwill impairment test.

39. For a combination in which an NFP organization acquires a business enterprise that will continue to be operated as a business enterprise, goodwill would be recognized subsequent to acquisition in accordance with Statement 142.

40. Change in the nature of a reporting unit's primary support—An NFP organization would account for changes in the nature of a reporting unit's primary support as follows:

- a. If a reporting unit becomes supported primarily by contributions and returns on investments, the NFP organization would consider whether the change in the nature of support indicates that the goodwill has been significantly impaired, based on the facts and circumstances existing at the date of change. If, in the organization's judgment, the goodwill has been significantly impaired, it would be written off at that date. Otherwise, as of the date of the change, the organization would identify impairment events for the prospective application of the trigger-based write-off impairment test.
- b. If the nature of a reporting unit's support changes such that it is no longer primarily supported by contributions and returns on investments, the goodwill assigned to that reporting unit would be tested for impairment using the Statement 142-type test as of the date of change.
- c. Determining the date of change—An NFP parent would evaluate the continued appropriateness of the goodwill impairment testing method each reporting period. If the reporting unit experienced a change in the nature of its support as a result of an identifiable event, the date of the event is the date the method of impairment testing would be changed. If the change in support happened gradually over time rather than upon an identifiable event, then the method of impairment testing would be changed as of the date the change is determined to be of a continuing nature. In evaluating whether the source of primary support has changed, all relevant facts and circumstances would be considered, including (but not limited to):
 - (1) Duration and amount of decline or increase in percentage of contribution and investment return support
 - (2) Underlying reasons for the change in support
 - (3) Management's plans, reactions to the change, and expectations for the future operation of the reporting unit.

41. Assigning assets and liabilities to reporting units—The criteria in paragraph 32 of Statement 142 for assigning assets and liabilities to reporting units is not intended to require an NFP organization to determine the fair value of a reporting unit if it is supported primarily by contributions and returns on investments.

42. Assigning goodwill to reporting units—Any guidance in paragraphs 34 and 35 of Statement 142 that requires the determination of the fair value of a reporting unit would not apply to an NFP organization's assignment of goodwill to a reporting unit that is primarily supported by contributions and returns on investments.

43. Disposal of a part of a reporting unit—For a disposal of a part (that is, a business or nonprofit activity) of a reporting unit that is supported primarily by contributions and returns on investments, the carrying amount of goodwill would be allocated based on specific identification of goodwill with the parts disposed of and retained, if possible. If (a) specific identification is not possible and (b) either the disposed of or retained parts of the reporting unit, or both, are primarily contribution supported on the disposal date, then the carrying amount of goodwill would be allocated to the part of the reporting unit disposed of and the part retained based on the relative carrying amounts of the identifiable net assets of each part, instead of using the relative fair value method described in paragraph 39 of Statement 142.

44. If the retained portion of the reporting unit is supported primarily by contributions and returns on investments and the partial disposal had been identified as an impairment event when the goodwill was initially acquired, then the remaining goodwill would be written off when the disposal occurs. However, if a previously identified triggering event does not occur upon disposal, the NFP organization would review and update, based on current facts and circumstances, the events identified that would indicate significant impairment of the retained goodwill. There would be no other impairment test on the retained goodwill immediately after the disposal for this type of reporting unit.

45. Reorganization of reporting structure—When all or part of a reporting unit that is supported primarily by contributions and returns on investments is to be integrated into one or more other reporting units, at least one of which is supported primarily by contributions and investment returns, the goodwill would be reassigned based on specific identification, if possible. Otherwise, the goodwill reassignment in the circumstances described would be based on the relative carrying amounts of the identifiable net assets reassigned.

Disclosures

46. For each period for which a statement of financial position is presented, NFP organizations would disclose separately the changes in

carrying amounts of goodwill for goodwill subject to the Statement 142-type fair value impairment test and for goodwill subject to the trigger-based write-off impairment test. The disclosure of changes in the carrying amount of goodwill by the impairment testing method would include disclosure of any amounts that changed from one method to the other as a result of changes in the nature of the reporting units to which the goodwill is assigned. Goodwill impairment loss disclosures required by paragraph 47 of Statement 142 made by an NFP organization also would include which method of impairment testing was used to determine the loss.

47. In the period in which a material business combination is completed (or a series of individually immaterial business combinations are completed that are material in the aggregate), if the amounts assigned to goodwill or to other intangible assets acquired are significant in relation to the aggregate fair value of the assets of the acquired entity, the acquirer would disclose:

- 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. For goodwill, the total amount of goodwill and, if reporting units to which goodwill is allocated are subject to taxes, the amount that is expected to be deductible for tax purposes.

Transition

48. For previously acquired goodwill assigned to an NFP organization's reporting units that are supported primarily by contributions and investment returns, there would be no transitional impairment test as of the beginning of the fiscal year in which the new standard is initially applied in its entirety. The impairment events that would trigger the write-off of goodwill after the adoption of the final Statement would be identified based on the facts and circumstances existing at the initial application date, with consideration given to factors that led to the original recognition of the goodwill.

49. The proposed NFP amendments to Statement 142 would be effective about six months after issuance. The provisions would be applied in fiscal years beginning after the effective date.

50. The transition would be linked for all of the Board's decisions on this project. That is, the proposed amendments to Statement 142 and application guidance for noncontrolling interests would be effective in the same period as the mergers and acquisitions portion of the proposal.

51. Early adoption of the provisions would be encouraged, as long as the provisions of all of the documents (mergers and acquisitions, amendments to Statement 142, and accounting for noncontrolling interests, if applicable) are applied at the same time.

SECTION 3: ACCOUNTING FOR NONCONTROLLING INTERESTS BY NOT-FOR-PROFIT ORGANIZATIONS

Accounting and Reporting

52. NFP organizations would be included in the scope of the proposed Statement that will replace Accounting Research Bulletin No. 51, Consolidated Financial Statements. However, the application of the noncontrolling interest provisions of that proposed Statement by NFP organizations would be deferred until the Board finalizes supplemental guidance clarifying its application by NFP organizations. The Board expects to issue an Exposure Draft of that supplemental guidance at the same time that it issues an Exposure Draft on the accounting for combinations by NFP organizations.

53. The Board reached the following decisions on the nature and extent of that supplemental guidance:

- a. Consolidated financial statements of an NFP parent would present the donor-imposed restrictions on a partially owned subsidiary's net assets in accordance with Statements 117 and 124. Noncontrolling ownership interests in consolidated subsidiaries would be presented as a separate component of the appropriate class of equity or net assets in the consolidated financial statements.
- b. Losses that exceed the noncontrolling ownership interests in a subsidiary's unrestricted equity or net assets, as defined by Statement 117, would be attributed to those interests, reducing the carrying amount of those interests below zero.
- c. A change in the ownership interest in a consolidated subsidiary that does not result in deconsolidation is an equity transaction that would be reported as a separate line item in the consolidated statement of activities. After such a change in ownership interests, goodwill would be reallocated between

controlling and noncontrolling interests based on relative carrying amounts.

- d. If there is a change in the ownership interest in a consolidated subsidiary that results in deconsolidation of that subsidiary, but the NFP parent retains an ownership interest in that subsidiary, the retained interest would be remeasured to fair value upon deconsolidation, except as follows:
 - (1) If the subsidiary is an NFP organization, any retained ownership interest would be remeasured to an amount that equals the sum of (a) the interest's ownership share in the deconsolidation date fair value of the subsidiary's net identifiable recognizable assets and (b) the carrying amount of any goodwill allocated to the retained interest in accordance with the guidance for allocating goodwill upon the disposal of a portion of a reporting unit.

Disclosures

- 54. The following disclosures would be required:
 - a. A schedule of changes in consolidated net assets attributable to the controlling and noncontrolling ownership interests in subsidiaries, either as a separate financial statement or in the notes to the consolidated financial statements. The schedule would reconcile beginning and ending balances of the controlling and noncontrolling ownership interests in subsidiaries for each class of net assets for which a noncontrolling ownership interest exists at any time during the reporting period. At a minimum, such a schedule would include:
 - (1) A performance indicator, if the organization is required to report a performance indicator by GAAP
 - (2) Discontinued operations
 - (3) Extraordinary items
 - (4) A cumulative effect of a change in accounting principle
 - (5) Changes in ownership interests in a subsidiary, including investments by and distributions to noncontrolling interests acting in their capacity as owners
 - (6) All other changes in unrestricted net assets for the period.
 - b. Upon loss of control of a subsidiary, the NFP parent would disclose the amount of any gain or loss recognized on deconsolidation and the caption in the statement of activities that includes that gain or loss. If an entity loses control of a subsidiary but retains a noncontrolling equity investment in that entity, the NFP parent also would separately disclose the

amount of any gain or loss recognized at the date of deconsolidation.

SECTION 4: COMMENT PERIOD AND PUBLIC ROUNDTABLES

55. The comment period for this project's Exposure Drafts will be 120 days.

56. The Board will conduct a public roundtable following the issuance of the Exposure Drafts.