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New Developments Summary

Not-for-profit merger and acquisition disclosures

Summary

The FASB recently issued Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions,* to codify the guidance originally issued in May 2009 as FASB Statement 164, *Not-for Profit Entities: Mergers and Acquisitions, Including an amendment of FASB Statement No. 142*, on accounting and reporting by a not-for-profit entity for

- The acquisition of a business or nonprofit activity
- The merger of two or more not-for-profit entities
- Goodwill and other intangible assets acquired in the acquisition of a business or nonprofit activity by a not-for-profit entity
- Noncontrolling equity interests in consolidated subsidiaries

The guidance in ASU 2010-07 is effective for mergers on or after December 15, 2009 (December 15, 2009 for a calendar-year entity) and for acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2009 (January 1, 2010 for a calendar-year entity).

Also, in accordance with ASU 2010-07, not-for-profit entities must apply the following guidance prospectively in the first set of initial (for mergers) or annual (for acquisitions) financial statements for a reporting period beginning on or after December 15, 2009:

- ASU 2010-07 amendments to *FASB Accounting Standards Codification*™ (ASC) 350, *Intangible – Goodwill and Other* (formerly Statement 142, *Goodwill and Other Intangible Assets*), on the subsequent accounting for goodwill and intangible assets recognized in the acquisition of a business or nonprofit activity by a not-for-profit acquirer
- The guidance in ASC 810-10, *Consolidation,* that was originally issued as FASB Statement 160, *Noncontrolling Interests in Consolidated Financial Statements*, with additional guidance in ASC 958, *Not-for-Profit Entities*, 810, “Consolidation,” on presentation and disclosure of noncontrolling interests
- Amendments that FASB Statement 141 (revised 2007), *Business Combinations*, and Statement 160 made to other pronouncements.

This bulletin provides a brief overview of the guidance in ASU 2010-07 and summarizes the presentation and disclosure requirements for a not-for-profit reporting entity under the new guidance. The bulletin also provides illustrative examples of some of the disclosures required when a not-for-profit entity adopts the new accounting guidance. These illustrations are not indicative of the expected results of adopting the

new guidance and are not considered to be all inclusive of the disclosure requirements. The specific facts and circumstances for each reporting entity and each transaction must be carefully assessed by management to determine and disclose the effect of new accounting guidance on the reporting entity's financial statements.

Management is responsible for the preparation of the organization's financial statements and related disclosures. The auditor is responsible for reviewing the financial statements and related disclosures to determine whether they have been prepared in accordance with generally accepted accounting principles. The purpose of this bulletin is to assist management in preparing appropriate disclosures and assist audit teams in evaluating the appropriateness of the disclosures prepared by management.

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A. Overview

FASB Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, was issued to codify the guidance originally issued in May 2009 as FASB Statement 164, *Not-for Profit Entities: Mergers and Acquisitions, Including an amendment of FASB Statement No. 142*, to provide guidance on accounting and reporting by a not-for-profit entity for

- The acquisition of a business or nonprofit activity
- The merger of two or more not-for-profit entities
- Goodwill and other intangible assets acquired in the acquisition of a business or nonprofit activity by a not-for-profit entity
- Noncontrolling equity interests in consolidated subsidiaries

The guidance in ASU 2010-07 also requires not-for-profit entities to apply the amendments that FASB Statement 141 (revised 2007), *Business Combinations*, and FASB Statement 160, *Noncontrolling Interests in Consolidated Financial Statements,* made to other existing pronouncements, prospectively in the first set of initial (for mergers) or annual (for acquisitions) financial statements for a reporting period beginning on or after December 15, 2009.

ASU 2010-07 guidance on not-for-profit entity mergers and acquisitions does not apply to the following:

- Joint venture formation

- Acquisitions of assets that do not constitute a business or a nonprofit activity
- Combinations between not-for-profit entities, businesses, or nonprofit activities under common control
- Transactions or other events in which a not-for-profit entity obtains control of another entity, but does not consolidate that entity, as permitted or required by *FASB Accounting Standards Codification*™ (ASC or Codification) 958, *Not-for-Profit Entities*, 810, "Consolidation," 25

B. Mergers of two or more not-for-profit entities

Under the guidance in ASU 2010-07, a *merger of not-for-profit entities* is defined as follows:

> 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. The new combined entity must have a newly formed governing body but need not be a new legal entity. The new entity must account for a merger using the carryover method, which generally requires measuring and recognizing the assets and liabilities in its financial statement as of the merger date at amounts reported in the merging entities' financial statements as of that date, prepared in accordance with generally accepted accounting principles (U.S. GAAP). The combined entity's initial reporting period begins as of the merger date, and the merger itself is not reported as an activity of that period.

Presentation requirements

The initial reporting period of the not-for-profit entity resulting from the merger of two or more not-for-profit entities begins with the merger date. Accordingly, the resulting entity's initial financial statements

- Do not include the merger activity in the resulting entity's initial reporting period
- Report activity from the merger date to the end of the reporting period
- Include the combined amounts of the merging entities' assets, liabilities, and net assets as of the merger date. Opening amounts should reflect accounting changes necessary
  - To adjust merging entities' financial statements to U.S. GAAP
  - To conform accounting policies of the merging entities
  - To eliminate intra-entity balances

Disclosure requirements

Disclosure objective for mergers (ASC 958-805-50-1)

The new not-for-profit entity resulting from the merger of two or more not-for-profit entities must disclose information that enables financial statement users to evaluate the nature and financial effect of the merger that resulted in its formation. In addition to the following list of specific disclosures required, the new entity must disclose whatever information is necessary to meet the disclosure objective (ASC 958-805, "Business Combinations," 50-6).

Specific disclosures required to meet the objective

Specific disclosures required to meet that objective include, but are not limited to, the following for each merger that resulted in the new entity's formation (ASC 958-805-50-2 through 50-5, except as indicated):

- The names and descriptions of the merging entities
- The merger date
- The primary reasons for the merger
- For each of the merging entities:
  - The amounts recognized for each major class of assets and liabilities and each class of net assets as of the merger date
  - If applicable, the nature and amounts of significant assets or liabilities that U.S. GAAP does not require to be recognized
- The nature and amount of significant adjustments made to conform the accounting policies of each merging entity or to eliminate intra-entity balances
- If the new entity is a public entity, then it must disclose the following supplemental pro forma information:
  - If the merger occurs at a time other than the beginning of an annual reporting period, the following information for the current period as if the merger had occurred at the beginning of the annual reporting period:
    - Revenue
    - If the new entity is a business-oriented health care entity subject to ASC 954, *Health Care Entities*, the performance indicator (ASC 954-805-50-1)
    - Changes in unrestricted, temporarily restricted, and permanently restricted net assets
  - If comparative information is disclosed in the year following the merger, the new entity must disclose the supplemental pro forma information for the comparable prior period as if the merger had occurred at the beginning of that prior period
- If it is impracticable to provide any of the specific disclosures required of the new entity resulting from the merger, that fact and an explanation of why it is impracticable to make the disclosures (ASC 958-805-50-5)

Illustration of presentation and disclosure for a merger

Codification paragraphs ASC 958-805-55-32 through 55-38 illustrate the following disclosures required for a merger of not-for-profit entities:

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

C. Acquisition of a business or nonprofit activity by a not-for-profit entity

An *acquisition by a not-for-profit entity* is defined as follows:

> 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. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term *business combination* has the same meaning as [acquisition by a not-for-profit entity].

Under the guidance in ASU 2010-07, a not-for-profit entity must account for the acquisition of a business or nonprofit activity using the acquisition method described in ASC 805, *Business Combinations*, with additional guidance unique to not-for-profit entities in ASC 958-805. The acquisition method requires the acquirer to measure and recognize the identifiable assets acquired, liabilities assumed, and any noncontrolling ownership interests in the acquiree at acquisition-date fair values, with some exceptions. The acquisition method also requires the not-for-profit acquirer to recognize either goodwill or an inherent contribution received in the acquisition. However, if the acquirer expects the operations of the acquiree to be predominately supported by contributions and returns on investments, then the acquirer recognizes an immediate charge in its statement of activities instead of a goodwill asset.

Presentation requirements

Statement of activities

The not-for-profit acquirer recognizes the difference between (a) the sum of the acquisition-date fair values of (1) consideration transferred, (2) any noncontrolling interest in the acquiree, and (3) the acquirer's previously held equity interest in the acquiree, and (b) the net acquisition-date amounts of identifiable assets acquired and liabilities assumed as follows:

- The excess of (a) over (b) is recognized as
  - Goodwill, if the acquirer expects the operations of the acquiree to be predominately supported by contributions and returns on investments
  - A separate charge in its statement of activities as of the acquisition date, if the acquirer does not expect the operations of the acquiree to be predominately supported by contributions and returns on investments. Business-oriented not-for-profit health care entities in the scope of ASC 954 must present the separate charge within the performance indicator.
- The excess of (b) over (a) is recognized as a separate credit (inherent contribution) in the statement of activities and:
  - The acquirer classifies an inherent contribution received as unrestricted, temporarily restricted, or permanently restricted based on the types of donor-imposed restrictions on the related net assets acquired.
  - The acquirer reports donor-restricted contributions as restricted support even if the restrictions are met in the same reporting period.
  - Business-oriented not-for-profit health care entities in the scope of ASC 954 must present an unrestricted inherent contribution within the performance indicator and a restricted inherent contribution outside of the performance indicator.

The satisfaction of donor-restrictions that results from transferring consideration in an acquisition may be reported either separately, or together with other similar expirations of donor-imposed restrictions during the period. However, all other changes in net asset classifications resulting from the acquisition must be reported separately from other reclassifications and restriction expirations during the period the acquisition occurs.

Statement of cash flows

The not-for-profit acquirer reports, as an investing activity, the entire amount of any net cash flow related to the acquisition of a business or nonprofit activity. A not-for-profit acquirer must also disclose any noncash contributions received and any other noncash amounts received or transferred in relation to an acquisition as noncash activities in the supplemental schedule of the entity's noncash investing and financing activities required by ASC 230, *Statement of Cash Flows*, 10-50-3.

Example – Acquisition cash flows

Codification paragraphs ASC 958-805-55-68 through 55-70 illustrate the cash flow statement presentation of an acquisition and supplemental disclosure of the contribution inherent in this acquisition as noncash activity.

Disclosure requirements

ASU 2010-07 provides two broad disclosure objectives for the acquisitions of businesses or nonprofit activities by a not-for profit entity, and a list of specific disclosure requirements to meet those objectives. In addition to the specific disclosure requirements listed, the acquirer must disclose whatever information is necessary to meet the disclosure objectives (ASC 805-10-50-7).

The specific disclosure requirements in Paragraphs 67 through 73 of Statement 164 that are necessary for a not-for-profit entity to meet the disclosure objectives in ASC 805-10-50 have not been codified in a single location but are included in the following topics and subtopics:

- ASC 805, *Business Combinations*, 10, "Overall"
- ASC 805, *Business Combinations*, 20, "Identifiable Assets and Liabilities, and Any Noncontrolling Interest"
- ASC 958, *Not-for-Profit Entities,* 805, "Business Combinations"
- ASC 954, *Health Care Entities,* 805, "Business Combinations"

Therefore, the following list of disclosure requirements for acquisitions by not-for-profit entities includes Codification paragraph references to facilitate identification of the applicable authoritative guidance.

Disclosure objective (ASC 805-10-50-1)

The acquirer must disclose information that enables financial statement users to evaluate the nature and financial effect of an acquisition that occurs during the current reporting period or after the reporting date, but before the financial statements are issued or available to be issued. Specific disclosures required to meet that objective include, but are not limited to, those in the following list.

Specific disclosures required to meet the objective

The following specific disclosures are required for each acquisition that occurs during the reporting period, or after the reporting date but before the financial statement are issued or are available to be issued:

- The name and description of the acquiree (ASC 805-10-50-2(a))
- The acquisition date (ASC 805-10-50-2(b))
- The percentage of ownership interests acquired, if applicable (ASC 805-10-50-2(c))
- The primary reasons for the acquisition and a description of how the acquirer obtained control (ASC 805-10-50-2(d))

The following specific disclosures are required for each acquisition, or in aggregate for immaterial acquisitions that are collectively material, that occurs during the reporting period, or after the reporting date but before the financial statements are issued or are available to be issued:

- A qualitative description of factors that make up either (1) the goodwill recognized or (2) the separate charge recognized in the statement of activities (ASC 958-805-50-11(a))
- The acquisition-date fair value of the consideration transferred in total and by class or the fact that no consideration was transferred (ASC 958-805-50-11(b))
- For contingent consideration arrangements (ASC 958-805-50-11(c)):
  - The amount recognized at the acquisition date
  - A description of the arrangement and the basis for the amount of the payment
  - An estimate of the undiscounted range of outcomes, or if a range cannot be estimated, that fact and the reasons why it cannot be estimated
  - The maximum amount of the payment if it is unlimited
- For indemnification assets (ASC 805-20-50-1(a)):
  - The amount recognized at the acquisition date
  - A description of the arrangement and the basis for the amount of the payment
  - An estimate of the undiscounted range of outcomes, or if a range cannot be estimated, that fact and the reasons why it cannot be estimated
  - The maximum amount of the payment if it is unlimited
- For acquired receivables not subject to ASC 310, *Receivables*, 30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (formerly AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*), by major class (ASC 805-20-50-1(b)):
  - The fair value of the receivables
  - The gross contractual amounts receivable
  - The best estimate, as of the acquisition date, of the contractual cash flows not expected to be collected

- The amounts recognized as of the acquisition date for each major class of assets and liabilities (ASC 805-20-50-1(c))
- For assets and liabilities arising from contingencies (disclosures may be aggregated for contingencies of a similar nature) (ASC 805-20-50-1(d))
  - The amounts recognized at the acquisition date and the measurement basis applied
  - The nature of the contingencies
- For assets and liabilities arising from contingencies that have not been recognized, the disclosures required by ASC 450, *Contingencies* (formerly FASB Statement 5, *Accounting for Contingencies*), in the note describing the acquisition. Disclosures may be aggregated for contingencies of a similar nature (ASC 805-20-50-1(d)).
- The total amount of goodwill expected to be deductible for tax purposes (ASC 958-805-50-11(d))
- The amount of acquired collection items that are recognized in the statement of activities as a decrease in the acquirer's net assets (ASC 958-805-50-12(a)
- The undiscounted amount of conditional promises to give that was acquired or assumed and the description and amount of each group of promises having similar characteristics (ASC 958-805-50-12(b))
- For transactions recognized separately from the acquisition of assets or assumption of liabilities in the acquisition (ASC 805-10-50-2(e)):
  - A description of each transaction
  - How the acquirer accounted for each transaction
  - The amounts recognized and line item for each transaction in the financial statements
  - If the transaction is the effective settlement of a preexisting relationship, the method by which the settlement amount was determined
- The amount of acquisition-related costs; the amount recognized as expense; the line items in the statement of activities in which those expenses are recognized; and the amount of issuance costs not recognized as expenses and how they were recognized, if disclosure of separately recognized transactions is required (ASC 805-10-50-2(f))
- A description of the reasons that a transaction resulted in an inherent contribution received, if applicable (ASC 958-805-50-11(e))
- For each transaction in which the acquirer holds less than 100 percent of the equity interests in the acquiree at the acquisition date (ASC 805-20-50-1(e)):
  - The fair value of the noncontrolling interest at the acquisition date
  - The valuation technique(s) and significant inputs used in the fair value measurement of the noncontrolling interest
- If the acquisition was achieved in stages (ASC 805-10-50-2(g)):
  - The acquisition-date fair value of the equity interest held by the acquirer immediately prior to the acquisition date

  - The amount of gain or loss recognized as a result of remeasuring the equity interest held immediately prior to the acquisition

- If the acquirer is a public entity, such as a not-for-profit conduit bond obligor for publicly traded conduit debt securities (ASC 958-805-50-8, except as indicated):

  - The following amounts, attributable to the acquiree since the acquisition date, included in the statement of activities for the reporting period:

    - Revenue

    - Changes in unrestricted, temporarily restricted, and permanently restricted net assets

    - If the not-for-profit entity is a business-oriented heath care entity subject to ASC 954, the performance indicator (ASC 954-805-50-2(a))

  - The following supplemental pro forma information for the current reporting period as if the acquisition had occurred at the beginning of the reporting period:

    - Revenue of the combined entity

    - Changes in unrestricted, temporarily restricted, and permanently restricted net assets

    - If the not-for-profit entity is a business-oriented health care entity subject to ASC 954, the performance indicator (ASC 954-805-50-2(b))

  - If comparative information is disclosed, the supplemental pro forma information for the comparable prior period as if the acquisition had occurred at the beginning of that prior period (ASC 958-805-50-9)

  - If it is impracticable to provide any of these public entity disclosures, that fact and an explanation of why it is impracticable to make the disclosures (ASC 958-805-50-10)

- If the initial accounting for an acquisition occurring after the reporting date, but before the financial statements are issued or available to be issued, is incomplete at the time the financial statements are issued or available to be issued, and any of the disclosures above cannot be made, a description of the disclosures that could not be made and the reason why (ASC 958-805-50-14)

Disclosure objective (ASC 805-10-50-5)

The acquirer must disclose information that enables financial statement users to evaluate the financial effects of adjustments recognized in the current period that relate to acquisitions occurring in the current or prior periods.

Specific disclosures required to meet the objective

Specific disclosures required, for each acquisition, or in aggregate for immaterial acquisitions that are collectively material, to meet that objective include, but are not limited to, the following:

- If the initial accounting for particular assets, liabilities, noncontrolling interests, or items of consideration in an acquisition is incomplete and the financial statements for the acquisition have been determined only provisionally (ASC 805-10-50-6):
  - The reasons why the accounting is incomplete
  - The items for which the accounting is complete
  - The nature and amount of measurement period adjustments recognized during the reporting period
- For each period after the acquisition date until the acquirer loses the right to a contingent consideration asset or a contingent consideration liability is settled, cancelled, or expires (ASC 958-805-50-16):
  - Changes in recognized amounts, including differences arising upon settlement
  - Changes in the ranges of undiscounted outcomes and the reasons for those changes
  - The disclosures required under ASC 820, *Fair Value Measurements and Disclosures*, 10-50-1 through 50-3
- A reconciliation of the beginning and ending balances of goodwill as required by ASC 350, *Intangibles – Goodwill and Other,* 20-50-1 (formerly FASB Statement 142, *Goodwill and Other Intangible Assets*), for each material acquisition or in the aggregate for individually immaterial acquisitions that are collectively material (ASC 958-805-50-17)

D. Goodwill and other intangible assets

The guidance in ASU 2010-07 requires a not-for-profit acquirer of a business or nonprofit activity to initially measure and recognize goodwill as an asset or as an immediate charge to the statement of activities in accordance with ASC 958-805-25.

Subsequent accounting

ASU 2010-07 also amends ASC 350 to make its guidance on subsequent accounting applicable to goodwill and other intangible assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity. Under that guidance, goodwill recognized as an asset is not amortized. Such goodwill is assigned to a reporting unit and tested for impairment at the reporting unit level annually and whenever an event occurs or circumstances change that would more likely than not reduce the fair value of reporting unit below its carrying amount.

Transition for existing amounts of goodwill and intangible assets previously recognized

Under the transition guidance in ASC 350-10-65-1, on adoption of the guidance in ASU 2010-07 a not-for-profit reporting entity must

- Write off previously recognized goodwill as a separate charge in the statement of activities for the effect of the accounting change, if the not-for-profit reporting entity is predominately supported by contributions and returns on investments
- Cease amortizing previously recognized goodwill and perform a transitional impairment test in accordance with ASC 350-20, “Goodwill,” as of the adoption date, if the not-for-profit entity is not predominately supported by contributions and returns on investments. Thus, as of the date the

guidance in ASU 2010-07 is adopted, the not-for-profit entity would need to establish its reporting units and assign assets, liabilities, and all recognized goodwill to a reporting unit for impairment testing. The first step of the goodwill impairment test, which is the comparison of a reporting unit's fair value to its carrying amount, must be completed within six months of the adoption date. If a reporting unit's carrying amount (including goodwill) exceeds its fair value as of the adoption date, then the second step of the impairment test, the calculation of the impairment loss amount, if any, must be completed within one year following the adoption date. Any impairment loss recognized as a result of the transitional test must be reported as of the adoption date as the effect of a change in accounting principle, presented outside of a performance indicator or any intermediate measure of operations and between the captions "extraordinary items" and "change in net assets."

- Reassess in accordance with ASC 350-30, "General Intangibles Other than Goodwill," the useful lives of intangible assets recognized in previous acquisitions of a business or not-for-profit entity and adjust the remaining amortization periods as necessary. Any intangible asset deemed to have an indefinite life must be tested for impairment as of the adoption date. Any impairment loss recognized as a result of the transitional test must be reported as the effect of a change in accounting principle, presented outside of a performance indicator or any intermediate measure of operations. That reassessment and transitional impairment test must be completed before the end of the first interim reporting period, if any, in the first year ASU 2010-07 guidance is applied.

E. Noncontrolling interests in consolidated financial statements

ASU 2010-07 requires a not-for-profit reporting entity to apply the guidance in ASC 810-10, *Consolidation*, which was originally issued as FASB Statement 160, *Noncontrolling Interests in Consolidated Financial Statements*, with additional guidance in ASC 958- 810, "Consolidation," on presentation and disclosure of noncontrolling interests.

Under that guidance, a not-for-profit reporting entity must report the following:

- In the consolidated statement of financial position: noncontrolling ownership interests in the equity (net assets) of consolidated subsidiaries as a separate component of the appropriate class of net assets
- Either in notes to the consolidated financial statements or on the face of financial statements: a schedule of changes in consolidated net assets attributable to the parent and the noncontrolling interest, if practicable. That schedule must 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, and include amounts for any of the following, at a minimum:
  - A performance indicator, if the entity is a not-for-profit, business-oriented health care entity
  - Discontinued operations
  - Extraordinary items
  - 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
  - An aggregate amount of all other changes in the net asset class for the period

F. Illustrative examples

The following examples include illustrative "plain English" disclosures of (1) an entity's accounting policy disclosure for the adoption of the guidance in ASU 2010-07 and (2) the disclosures prescribed by the guidance in ASU 2010-07 for a hypothetical acquisition of an organization. These illustrations are not indicative of the expected results of adopting the new guidance and are not considered to be all inclusive of the disclosure requirements. The specific facts and circumstances for each reporting entity and each transaction must be carefully assessed by management to determine and disclose the effect of new accounting guidance on the reporting entity's financial statements.

Example disclosures – Adoption of new accounting guidance and an acquisition

The following example illustrates disclosures in a not-for-profit entity's consolidated financial statements for the three months ended March 31, 2010. Assumptions for the example include the following:

- The reporting entity's fiscal year end is December 31.
- The December 31, 2009 consolidated financial statements reported previously recognized goodwill and a minority interest in a consolidated subsidiary.
- The reporting entity is predominately supported by contributions and returns on investments.
- The reporting entity acquired another not-for-profit entity on January 1, 2010. The transaction results in the recognition of an inherent contribution received.
- The reporting entity is not considered a public entity under GAAP.

Different disclosures might be required for different facts and circumstances.

Note 1: Significant accounting policies

Adoption of new accounting guidance

On January 1, 2010, the Organization adopted authoritative guidance issued by the FASB in April 2009 on a not-for-profit entity's accounting and reporting for

- The acquisition of a business or nonprofit activity by a not-for-profit entity
- The merger of two or more not-for-profit entities
- Goodwill and intangible assets acquired in the acquisition of a business or nonprofit activity
- Noncontrolling ownership interests in a consolidated subsidiary

The new guidance includes principles for determining whether a combination transaction is a merger accounted for using the carryover method, or an acquisition accounted for using the acquisition method. The acquisition method requires the acquirer to measure and recognize the identifiable assets acquired, liabilities assumed, and any noncontrolling ownership interests in the acquiree at acquisition-date fair values, with some exceptions. The acquisition method requires the not-for-profit acquirer to recognize either goodwill or an inherent contribution received in the acquisition. However, if the acquirer expects the operations of the acquiree to be predominately supported by contributions and returns on investments, then the acquirer recognizes an immediate charge in its statement of activities instead of a goodwill asset.

Under the new guidance, goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity are not amortized. Such assets are tested for impairment at least annually.

The new guidance also requires a not-for-profit reporting entity to account for and present noncontrolling interests in a consolidated subsidiary as a separate component of the appropriate class of consolidated net assets (equity).

The new authoritative guidance applies prospectively to mergers or acquisitions that occur after adoption (see Note X: Acquisition of Organization B) and to existing amounts previously recognized for goodwill, intangible assets, and noncontrolling interests in consolidated subsidiaries.

Effect of adoption on previously recognized goodwill

Upon the January 1, 2010 adoption of the new goodwill accounting guidance, the Organization wrote off the $8,000 balance of unamortized goodwill as a separate charge in the statement of activities for the effect of the accounting change in accordance with the FASB's transition guidance for a not-for-profit entity predominately supported by contributions and returns on investments. Before January 1, 2010, the Organization had amortized goodwill recognized on a straight line basis over the expected period of benefit, estimated to be 20 years.

Effect of adoption on previously recognized noncontrolling equity interests in consolidation subsidiaries

As of December 31, 2009, the Organization reported minority equity interest of $5,000 in consolidated Subsidiary X as a line item in the statement of financial condition outside of consolidated net assets (equity). On January 1, 2010, the amount previously reported as minority (noncontrolling) interests outside of net assets (equity) was reclassified to become a separate component of consolidated unrestricted net assets (equity).

Note X: Acquisition of Organization B

On January 1, 2010, the Organization acquired the sole corporate membership interest in Organization B from Organization C in a transaction accounted for as an acquisition. Organization B is a not-for-profit entity that shares the Organization's mission of providing programs and services to improve the quality of life for children in the city of XX. Programs and services include education, fitness, recreation, health, immunization, and counseling services. Organization B operates with skilled staff, volunteer services, and government funding in a part of the city not currently served by the Organization. Therefore, the acquisition provides the Organization an opportunity to expand its service area. To address fiscal challenges faced by Organization B as a result of the economic downturn, the Organization intends to provide additional administrative and financial support needed for Organization B to continue its existing programs.

The Organization did not transfer any consideration as part of the acquisition and recognized an inherent contribution received of $225,000, including $75,000 temporarily restricted by donors for capital improvements, in the Statement of Activities for the three months ended March 31, 2010. The following table summarizes the January 1, 2010 acquisition-date fair values of the assets acquired and liabilities assumed in addition to the classification of the net assets acquired.

Cash and cash equivalents	$ 25,000
Accounts receivable*	20,000
Grants receivable*	100,000
Contributions receivable*	50,000
Land, building, equipment, and furniture	500,000
Accounts payable and accrued liabilities	(70,000)
Mortgages and notes payable	(400,000)
Contribution of net assets of acquired Organization B	$ 225,000
Unrestricted net assets	$ 150,000
Temporarily restricted net assets	75,000
	$ 225,000

* Accounts receivable consist of program participant fees. The contractual amount of accounts receivable is $ 25,000, of which $5,000 is not expected to be collected. Grants receivable consist of government funding. The contractual amount of $100,000 is expected to be fully collected. The undiscounted amount of contributions receivable is $53,000, which is expected to be fully collected.

The Organization recognized $10,000 of acquisition related costs in connection with this acquisition. These costs are included in Supporting Services in the accompanying Statement of Activities for the three months ended March 31, 2010.

Illustration of presentation and disclosure of noncontrolling interests

ASC 958-810-55-17 through 55-25 illustrates a not-for-profit reporting entity's presentation and disclosure requirements for noncontrolling ownership interests in a consolidated subsidiary.

Example disclosure for acquisition with excess consideration

Codification paragraphs ASC 958-805-55-59 through 55-61 illustrate the disclosure required for the acquisition-date charge to the statement of activities for the excess of consideration transferred over the net identifiable assets acquired. Such a charge would be recognized instead of goodwill if the acquirer expects the operations of the acquiree to be predominately supported by contributions and returns on investments.

G. Effective date and transition

The guidance in ASU 2010-07 is effective for mergers on or after December 15, 2009 (December 15, 2009 for a calendar-year entity) and for acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2009 (January 1, 2010 for a calendar-year entity).

Also, in accordance with ASU 2010-07, not-for-profit entities must apply the following guidance prospectively in the first set of initial (for mergers) or annual (for acquisitions) financial statements for a reporting period beginning on or after December 15, 2009:

- ASU 2010-07 amendments to ASC 350 on the subsequent accounting for goodwill and intangible assets recognized in the acquisition of a business or nonprofit activity by a not-for-profit acquirer
- The guidance in ASC 810-10 that was originally issued as Statement 160, with additional guidance in ASC 958-810 on presentation and disclosure of noncontrolling interests
- Amendments that Statement 141R and Statement 160 made to other pronouncements

Early application is prohibited.

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