



BDO Seidman, LLP
Accountants and Consultants

233 North Michigan Avenue
Suite 2500
Chicago, Illinois 60601
Telephone: (312) 616-4661
Fax: (312) 856-4014

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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

BDO Seidman, LLP is pleased to offer comments on the FASB's October 9, 2006 Exposure Drafts (EDs), *Not for-Profit Organizations: Mergers and Acquisitions*, and *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*. We wish to comment on two issues in the EDs.

Mergers and Acquisitions. - The Board proposes that all mergers of not-for-profit organizations are acquisitions, and that it is possible to identify an acquirer. We do not agree with this proposal. We believe very strongly that many such mergers are true mergers of equals, with neither organization being an acquirer of the other. In fact, the experience of our personnel with in-depth knowledge of the not-for-profit sector is that a significant number of mergers are deliberately and carefully structured by the parties *to be* mergers of equals, and those mergers often would not occur if either party perceived that it was being acquired. As a result, we believe that, in a significant number of cases, it will prove impossible to identify an acquirer using the proposed, or any, criteria.

We believe that the final Statement should state a presumption that a merger is an acquisition and provide the proposed guidance on identifying an acquirer. However, the final Statement also should allow for the presumption to be *overcome* in cases *of a merger of equals* without an acquirer. If the presumption is overcome, the combined entity should be viewed as a new entity, and all identifiable assets and liabilities of both parties should be adjusted to current values. We support fresh start, rather than carryover basis, for transactions in which an acquirer can not be identified, *because we* believe the resulting financial statements are more relevant and useful to key constituents and *more* consistent with the underlying principle that a new entity has been created, separate and apart from the two predecessors. In addition, we believe that if fresh start is the alternative to acquisition accounting, entities will not be tempted to inappropriately rebut the presumption that an acquirer exists.



Goodwill. The Board proposes a mechanical application of double-entry bookkeeping:

- (1) If the consideration transferred (if any) plus liabilities assumed exceeds the amounts assigned to identifiable assets acquired, the excess is goodwill.
- (2) If the amounts assigned to the identifiable assets acquired exceed the consideration transferred (if any) plus liabilities assumed, the excess is an implied contribution received.

We believe goodwill is an area where the accounting for not-for-profit organizations should depart from the accounting for business enterprises. In Situation (1), in which the consideration exceeds the assets acquired, we believe the final Statement should state a presumption that the excess should be recorded as a reduction of unrestricted net *assets* (an implied contribution made). This would provide for symmetric accounting in both situations. In addition, we believe *that* this presumption captures the economic substance of many transactions in Situation (1) in which an acquirer effectively "rescues" a financially weaker organization as a means *of* enhancing the charitable mission of both organizations. A "rescue" is a contribution made, not *the* acquisition of goodwill.

If an acquirer in Situation (1) can objectively demonstrate that it has acquired goodwill, representing either going concern value or synergies as described in paragraph B102 of FASB Statement No. 141, then it would *overcome* the presumption and would *record* goodwill at its estimated value, reducing or eliminating the implied contribution made. We believe that it will be exceedingly *rare* to identify goodwill in an acquisition of an organization that *is* supported by contributions or investment income. It will be rare, but not unheard of, to identify goodwill in an acquisition of an organization that is primarily supported by revenues from providing goods and services. Under our proposal, goodwill will be recorded only if an organization has an objective basis to demonstrate that goodwill exists. Subsequent evaluation of goodwill for impairment should be based on quantitative evaluations of whether the anticipated going concern value or synergies continue to exist. This would eliminate the need for two different goodwill impairment models and would eliminate the troublesome "all-or-nothing" qualitative evaluation for organizations primarily supported by contributions or investment income,

We believe that our proposal is conceptually sound, because it would result in recording goodwill only in situations in which goodwill really exists. In addition, our proposal has substantial practical benefits, because it will significantly reduce the need for impairment testing of goodwill.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,
sl BDO Seidman, LLP