



February 28, 2007

Mr. Robert H. Herz Chairman Financial Accounting Standards Board 401 Merritt 7 Norwalk, Connecticut 06856-5116

Dear Mr. Herz:

The Healthcare Financial Management Association (HFMA) appreciates this opportunity to comment on the Financial Accounting Standards Board's exposure draft, *Not-For-Profit Organizations: Mergers and Acquisitions* (M&A ED).

HFMA is a professional organization of more than 34,000 individuals involved in various aspects of healthcare financial management. In 1975, HFMA recognized the need to establish a special group of expert members within HFMA to serve as the primary advisory group in the areas of accounting principles and financial reporting practices. This group, HFMA's Principles and Practices Board, was instrumental in the development of this comment letter.

HFMA believes many aspects of the proposals would improve the current guidance on accounting for combinations of not-for-profit organizations (NPOs).

#### Unique aspects of NPO transactions

We believe that the unique aspects of not-for-profit transactions, which necessitated consideration of these transactions separately from the FASB's business combinations project, are to some extent obscured within the M&A ED by the volume of information related to FAS 141 (and its impending successor). The result is a dilution of the unique nature of the NPO specific issues and conclusions.

We recommend that the final standard present in a prominent way the unique aspects of notfor-profit transactions and the unique model developed for reporting those transactions. This might be done by:

1. Discussing the unique nature of the NPO-specific issues and conclusions (which are described in the Summary of Tentative Decisions posted on the FASB's website) in an introductory section to the final standard;

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- 2. Moving details of guidance relating to recognition and measurement of assets, liabilities, and consideration into the section on "Additional Guidance for Applying the Acquisition Method;"
- 3. Removing references to intangible assets being recognized "separately from goodwill," as goodwill will rarely be recognized;
- 4. Acknowledging that recognition of goodwill in transactions where no monetary consideration is exchanged will be rare (similar to the discussion of bargain purchases in paragraph 59 of the proposed successor to FAS 141); and
- 5. Mentioning "implied contributions" before mentioning "goodwill" in any guidance that discusses both terms, to emphasize that most transactions are expected to involve inherent contributions.

#### Alternatives to the acquisition method

In general, we agree that the acquisition method is the appropriate method of accounting for transactions in which the economic substance is an acquisition of the net assets of an entity by a controlling or surviving organization. However, we do not believe that application of the acquisition method to a transaction in which there is not a clearly controlling or surviving party provides the most appropriate financial reporting. We feel that the recognition of full fair value (fresh-start accounting) for all of the combining entities provides the most appropriate financial reporting available.

We also believe that within the overall NPO industry, a subset of nonpublic organizations primarily supported by contributions exists for whom the costs of applying acquisition method accounting may be particularly burdensome. We question whether information produced by applying acquisition method accounting would be useful to donors to those NPOs, and whether the benefits of providing the additional information would exceed the costs. We encourage the FASB to identify that subset of NPOs and to consider whether an option to continue use of carryover basis in accounting for mergers and acquisitions may be justifiable for them based on cost-benefit concerns.

### Unique considerations related to identifiable intangible assets

Under the proposal, FAS 141's guidance on identifiable intangible assets would be applied by NPOs. However, there potentially are unique differences between intangible assets in a for-profit environment and in a not-for-profit environment. For example, in an NPO the future economic benefit embodied in an asset may often represent an enhanced ability to provide desired or

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needed goods or services to beneficiaries, rather than future cash inflows (as is common in the for-profit environment). Other unique differences include:

- While a business enterprise might view a contract as a "favorable lease," a NPO might believe that the same contract contains a contribution element.
- NPOs often enter into long-term contracts with the federal government on a costreimbursement basis that do not involve a profit (or perhaps, generate a loss) in connection with carrying out their missions.
- The prices charged for an NPO's goods and services (if any) often are not based on market-determined exchange rates.
- Some NPOs rely significantly on contributions or donations (cash and noncash) to supplement selling prices. Revenue recognized in nonexchange transactions (i.e., contributions) is recognized all at once and up front. This differs from the recognition concepts associated with revenue earned in exchange transactions.

Prior to issuing final standards, we recommend that as part of the overall "differences-based" approach to the project the Board consider how a lack of focus on generating cash inflows and these unique aspects of NPO operations might impact the recognition, measurement, and impairment evaluation of identifiable intangible assets recognized in an NPO combination transaction.

Thank you for the opportunity to comment. Should you have any questions, please call Richard Gundling, FHFMA, CMA, Vice President, at 202/296-2920.

Sincerely,

Richard L. Clarke, DHA, FHFMA

President and CEO

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Cc: Ms. Suzanne Bielstein, Director of Major Projects and Technical Activities