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Financial Accounting Series

EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards

Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition

an amendment of FASB Statement No. 142

This Exposure Draft of a proposed Statement of Financial Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. 1500-200

Comment Deadline: January 29, 2007

Financial Accounting Standards Board
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Exposure Draft must be **received** in writing by January 29, 2007. Interested parties should submit their comments by email to director@fasb.org, File Reference 1500-200. Those without email may send their comments to the "Technical Director—File Reference 1500-200" at the address at the bottom of this page. Responses should **not** be sent by fax.

All comments received are considered public information. Those comments will be posted to the FASB's website and will be included in the project's public record.

An electronic copy of this Exposure Draft is available on the FASB's website until the FASB issues a final document. Any individual or organization may obtain one copy of this Exposure Draft without charge until January 29, 2007, on written request only. *Please ask for our Product Code No. E191.* For information on applicable prices for additional copies and copies requested after January 29, 2007, contact:

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Notice for Recipients of This Exposure Draft

A not-for-profit organization may be required to recognize identifiable intangible assets, goodwill, or both as a result of a merger or acquisition. This proposed Statement describes the accounting and reporting for those intangible assets after the merger or acquisition. The requirements in this proposed Statement are presented as a separate standard, as well as a series of amendments to FASB Statement No. 142, *Goodwill and Other Intangible Assets.* Some readers might prefer to review Appendix C first, since it shows how the amendments fit in context with the existing requirements of Statement 142.

The Board invites comments on all matters in this proposed Statement, particularly on the issues discussed below. Respondents need not comment on each issue and are encouraged to comment on additional matters they believe should be brought to the Board's attention. It would be helpful if comments explain the reasons for the positions taken and include any alternatives the Board should consider. The Board is issuing proposed FASB Statement, *Not-for-Profit Organizations: Mergers and Acquisitions,* concurrently with this proposed Statement. Respondents must submit comments in writing by January 29, 2007.

The Board has begun its redeliberations on proposed FASB Statement, *Business Combinations,* and proposed FASB Statement, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries,* and is considering potential revisions to that guidance before it issues final Statements. Those proposed Statements include proposed amendments to Statement 142. To the extent that the proposed amendments are changed by the redeliberations on business combinations, the final amendments to Statement 142 would reflect those changes. Notwithstanding the Board's ongoing discussion on its project on business combinations, the Board requests that respondents provide comments on how the provisions of this proposed Statement would apply to not-for-profit organizations.

Accounting for Identifiable Intangible Assets

This proposed Statement would amend the effective date and transition provisions of Statement 142, which would make those provisions effective for a not-for-profit organization that acquires identifiable intangible assets in a merger or acquisition. Statement 142 requires an entity to make certain assessments about the nature of intangible assets acquired in a merger or acquisition as of the acquisition date, such as whether an intangible asset is indefinite lived. Identifiable intangible assets that are recognized in accordance with the proposed Statement on mergers and acquisitions by not-for-profit organizations would be accounted for after the merger or acquisition in accordance with Statement 142, as amended by this Statement, and FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

(See paragraph 5 for the related requirements and paragraphs B10–B12 for the basis for the Board's conclusions.)

Question 1—Are the accounting requirements for intangible assets appropriate, understandable, and sufficient for identifiable intangible assets acquired by a not-for-profit organization in a merger or acquisition? If not, why and what alternative do you suggest?

Accounting for Goodwill

For purposes of evaluating goodwill for impairment, this proposed Statement would require that a not-for-profit organization determine and assign acquired assets and assumed liabilities to reporting units. This proposed Statement would require that goodwill that is assigned to reporting units be evaluated for impairment using one of the following evaluations:

a. *Qualitative Evaluation*—For those reporting units that are primarily supported by contributions and returns on investments, a qualitative evaluation described in this proposed Statement would apply.
b. *Fair-Value-Based Evaluation*—For those reporting units that are primarily supported by resources other than contributions and returns on investments, a fair-value-based evaluation (the impairment evaluation currently required for business entities by Statement 142) would apply.

Therefore, for reporting units that are primarily supported by contributions and returns on investments, the goodwill impairment evaluation would depart from the approach in Statement 142 and a different impairment evaluation would be required. The primary reason the Board is considering that departure is for cost-benefit reasons.

(See paragraphs 6–50 for the related requirements and paragraphs B13–B42 for the basis for the Board's conclusions.)

Question 2—Is the departure from the goodwill impairment evaluation in Statement 142 appropriate for reporting units that are primarily supported by contributions and returns on investments? If not, why and how should goodwill be evaluated for impairment?

Question 3—Are the criteria for determining which impairment evaluation to apply appropriate, understandable, and sufficient? If not, why and how should the guidance be modified or clarified?

Qualitative Evaluation

For those reporting units that are primarily supported by contributions and returns on investments, this proposed Statement would require the application of a qualitative evaluation of goodwill. That impairment evaluation would require a not-for-profit organization to:

a. Identify the reasons why goodwill arose in the merger or acquisition at the acquisition date and identify specific events that would indicate that the acquired goodwill subsequently has become impaired.

b. Determine whether any identified events occurred. If any identified events occurred, an organization would recognize an impairment loss equal to the carrying amount of goodwill related to that acquisition. If no identified impairment event has occurred, an organization would not recognize a change to the carrying amount of goodwill assigned to a reporting unit for that acquisition.

(See paragraphs 33–36 and A9–A15 for the related requirements and paragraphs B25–B27 for the basis for the Board's conclusions.)

Question 4—Is the proposed qualitative evaluation operational for the intended reporting units and will it adequately identify an impairment of goodwill in the correct period? If not, why and how should the guidance be modified or what alternative evaluation would capture an impairment of goodwill on a more timely basis?

Question 5—Is the guidance for identifying the triggering events appropriate, understandable, and sufficient? If not, why and how should the guidance be modified and are there additional examples that should be included?

Question 6—If an identified triggering event occurs, do you agree with the measurement of the impairment loss (equal to the carrying amount of goodwill related to the acquisition within the reporting unit)? If not, why and what alternative do you suggest?

Changes in the Nature of a Reporting Unit's Primary Support

Because this proposed Statement would distinguish between its two impairment evaluation methods by considering how a reporting unit is primarily supported, this proposed Statement would address the effects of a change in the nature of a reporting unit's primary support. A change may occur because of identifiable events, such as reorganization or disposal of a reporting unit, or may occur gradually.

A not-for-profit organization would be required to evaluate the continued appropriateness of the selected method of goodwill impairment evaluation. This proposed Statement would require that when the nature of the reporting unit to which acquired goodwill has been assigned subsequently changes, the method of evaluating that goodwill for impairment would change accordingly.

In the periods after the acquisition date, a not-for-profit organization may reorganize its reporting structure in a way that changes its reporting units or may dispose of a portion of a reporting unit. In those circumstances, this proposed Statement would require an organization to reassign the assets and liabilities to the affected reporting units based on guidance provided in this proposed Statement.

(See paragraphs 24–32 and A6–A8 for the related requirements and paragraphs B28–B39 for the basis for the Board's conclusions.)

Question 7—Is the guidance for determining what method of impairment should be applied when there is a change in the nature of a reporting unit's primary support appropriate, understandable, and sufficient? If not, why and how should the guidance be modified or clarified?

Benefits and Costs of the Proposed Requirements

The Board believes that the requirements of this proposed Statement would result in improved financial reporting in the following ways:

a. Conforming the accounting by a not-for-profit organization for intangible assets acquired in a merger or acquisition with the accounting for all other acquired intangible assets—whether purchased or donated or whether acquired individually or as part of a group—would improve the consistency and comparability of the reported information.
b. Evaluating goodwill for impairment would result in more representationally faithful and relevant information about events resulting in impairments of goodwill that a not-for-profit organization has acquired than amortizing goodwill on a straight-line basis over an arbitrary period.

The Board sought to reduce the costs of applying the requirements of this proposed Statement without significantly reducing the expected benefits. The Board believes that this proposed Statement would do that by requiring that:

a. Reporting units that are primarily supported by contributions and returns on investments be exempt from measuring the fair value of the reporting unit. Rather, for those units, this proposed Statement would require a not-for-profit organization to evaluate impairment for goodwill using a qualitative evaluation method.
b. Goodwill be allocated based on the relative carrying amounts of the identifiable net assets in disposals and reorganizations of reporting units that are primarily supported by contributions and returns on investments, rather than the relative fair values of the net assets as required by Statement 142.
c. Its provisions be applied prospectively rather than retrospectively.

Question 8—What costs do you expect to incur if the requirements of the proposed Statement were issued as a final Statement? What benefits do you expect? How could the Board further reduce the related costs of applying the requirements of the proposed Statement without significantly reducing the benefits?

Public Roundtable Meetings

The Board plans to hold one or more public roundtable meetings in Norwalk, Connecticut, on March 27, 2007, to discuss this Exposure Draft and FASB Exposure Draft, *Not-for-Profit Organizations: Mergers and Acquisitions.* The purpose of roundtable meetings is to listen to the views of, and obtain information from, interested constituents about the two Exposure Drafts. The Board plans to seek participants for the meetings that represent a wide variety of constituents to ensure it receives broad input.

Any individual or organization wishing to participate in the public roundtable meeting(s) must notify the Board by sending an email to ***director@fasb.org*** by January

29, 2007, and must submit comments on the Exposure Draft in writing by January 29, 2007. Roundtable meetings can accommodate a limited number of participants. Depending on the number of responses received, the Board may not be able to accommodate all requests to participate.

Summary

A not-for-profit organization may be required to recognize identifiable intangible assets, goodwill, or both as a result of a merger or acquisition. This proposed Statement describes the accounting for and reporting of those intangible assets after the merger or acquisition, including determinations about the nature of those intangible assets as of the acquisition date. The benefits of this proposed Statement are:

a. **Consistent and comparable information about identifiable intangible assets acquired by not-for-profit organizations in a merger or acquisition.** Regardless of whether a not-for-profit organization acquires intangible assets in a merger or acquisition, purchases them, or receives them by gift, an organization would be required to account for acquired intangible assets in the same way.
b. **More representationally faithful and relevant information about events resulting in impairments of goodwill that a not-for-profit organization has acquired.** This proposed Statement would end the amortization of goodwill by those organizations. That change would reflect that goodwill generally does not decline in value on a straight-line basis over an arbitrary period. Not-for-profit organizations would be required to evaluate goodwill for impairment.

The Board is issuing proposed FASB Statement, *Not-for-Profit Organizations: Mergers and Acquisitions*, concurrently with this proposed Statement.

Reasons for Issuing This Proposed Statement

Not-for-profit organizations currently account for and report goodwill and other intangible assets acquired in a merger or acquisition, subsequent to the acquisition date, by analogizing to APB Opinion No. 17, *Intangible Assets.* Opinion 17 presumes that those assets are wasting (finite-lived) assets. The amounts assigned to those intangible assets are amortized over the estimated useful life of the asset, which Opinion 17 mandates as a maximum period of 40 years.

In June 2001, the Board issued FASB Statement No. 142, *Goodwill and Other Intangible Assets,* which establishes standards for the financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Opinion 17. The effective date of certain provisions in Statement 142 is deferred for not-for-profit organizations. The Board indicated in Statement 142 that it intended to address the issues related to the application of the purchase method by a not-for-profit organization. This proposed Statement is the result of the Board's consideration of those issues.

Differences between This Statement and Opinion 17

Opinion 17 presumes that goodwill and all other intangible assets are wasting assets and, thus, the amounts assigned to them should be amortized in determining net income. Opinion 17 also mandates an arbitrary ceiling of 40 years for that amortization. This proposed Statement does not presume that those assets are wasting assets. Instead,

goodwill and intangible assets that have indefinite useful lives would not be amortized but rather would be evaluated at least annually for impairment. Intangible assets that have finite useful lives would continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling. Because goodwill and some intangible assets would no longer be amortized, the reported amounts of goodwill and intangible assets (as well as total assets) would not decrease at the same time and in the same manner as under previous standards. There may be more volatility in reported changes in net assets than under previous standards because impairment losses are likely to occur unevenly.

Additionally, Opinion 17 provides little guidance about how to determine and measure goodwill impairment. As a result, the accounting for goodwill impairments is not consistent and not comparable and yields information of questionable usefulness. This proposed Statement would provide specific guidance for evaluating goodwill for impairment. Goodwill would be evaluated for impairment using one of two methods depending on a reporting unit's primary support. Goodwill assigned to a reporting unit that is primarily supported by contributions and returns on investments would be evaluated using the qualitative evaluation, which is described in this proposed Statement. Goodwill assigned to a reporting unit that is primarily supported by resources other than contributions and returns on investments would be evaluated using the fair-value-based evaluation, which is currently required for for-profit entities.

How the Conclusions in This Proposed Statement Relate to the Conceptual Framework

The Board concluded that this proposed Statement would improve the consistency and comparability of information about identifiable intangible assets acquired by not-for-profit organizations in a merger or acquisition. Paragraph 111 of FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* states that:

> Information about an enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time.

This proposed Statement would improve the comparability of information about intangible assets and changes in those assets because, regardless of whether a not-for-profit organization acquires intangible assets in a merger or acquisition, purchases them, or receives them by gift, the organization would be required to account for acquired intangible assets in the same way.

As in Statement 142, this proposed Statement also would improve the representational faithfulness of goodwill. In the summary of Statement 142:

> The Board concluded that amortization of goodwill was not consistent with the concept of representational faithfulness, as discussed in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information.* The Board concluded that nonamortization of goodwill coupled with impairment evaluating *is* consistent with that concept. The appropriate balance of both relevance and reliability and costs and benefits

> also was central to the Board's conclusion that [Statement 142] will improve financial reporting. [Emphasis in the original text.]

Benefits and Costs

As discussed in FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, the objective of financial reporting by a not-for-profit organization is to provide information that is useful to present and potential resource providers and other users in making rational decisions about the allocation of resources to that organization. The Board recognizes that the benefits of providing information for that purpose should justify the related costs of preparing it.

The Board considered whether all goodwill acquired by not-for-profit organizations should be evaluated for impairment in accordance with the provisions of Statement 142. Given cost and benefit constraints of implementation, the Board is proposing a practical solution to reduce the costs of application by requiring a qualitative evaluation for certain goodwill acquired by not-for-profit organizations. While the accounting for goodwill in accordance with Statement 142 is the preferred approach, the Board recognizes that measurement difficulties prevent Statement 142 from being applied in all cases at a reasonable cost.

The expected benefits of this proposed Statement would be improved financial reporting that results from the consistent and comparable accounting and reporting of intangible assets and goodwill that are acquired in a merger or acquisition by a not-for-profit organization. Current information about the acquired intangible assets owned by not-for-profit organizations is often inconsistent, incomplete, and inadequate. This Statement would lead to improved information about those assets and increased consistency in the accounting for those assets.

Based on the findings of those cost-benefit procedures, the Board concluded that the improvements to financial reporting that would result from this proposed Statement justify the costs it would impose.

Effective Date

A not-for-profit organization would be required to apply the provisions in this proposed Statement prospectively in its fiscal year that begins approximately six months after the issuance of a final Statement. For example, if a final Statement is issued on June 30, 2007, its application would be required in fiscal years beginning on or after December 15, 2007. A not-for-profit organization also would be required to apply this proposed Statement's transition provisions to intangible assets that were acquired before the adoption of this proposed Statement and were accounted for using the purchase method. Earlier application would be encouraged for organizations with annual periods that begin on or after the date a final Statement is issued. The Board expects that this proposed Statement would be effective at the same time as the provisions in FASB proposed Statement on mergers and acquisitions by not-for-profit organizations.

Proposed Statement of Financial Accounting Standards

Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition

an amendment of FASB Statement No. 142

October 9, 2006

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Proposed Statement of Financial Accounting Standards

Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition

an amendment of FASB Statement No. 142

October 9, 2006

INTRODUCTION

1. A not-for-profit organization may be required to recognize identifiable intangible assets, goodwill, or both as a result of a merger or acquisition. This Statement describes the accounting for and reporting of those intangible assets after the merger or acquisition. The accounting required by this Statement for intangible assets acquired in a merger or acquisition is consistent with the accounting for all other acquired intangible assets—whether purchased or donated or whether acquired individually or as part of a group.

2. The accounting for and reporting of goodwill and other intangible assets acquired in a merger or acquisition is described in paragraphs 3–68 of this Statement. Appendix C includes the amendments to FASB Statement No. 142, *Goodwill and Other Intangible Assets,* that result from the issuance of this Statement. Those amendments are an integral part of this Statement.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

3. This Statement applies to identifiable intangible assets and goodwill that a not-for-profit organization recognizes as the result of a merger or acquisition. Paragraphs 57–68 of this Statement provide transition guidance for intangible assets that were recognized before this Statement was issued and were accounted for in accordance with or by analogy to APB Opinion No. 17, *Intangible Assets.*

Key Terms

4. The following terms are used with specific meanings for the purpose of this Statement and are integral to understanding and applying this Statement.

a. *Chief operating decision maker* "identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the segments of an [entity]. Often the chief operating decision maker of an [entity] is its chief executive officer or chief operating officer, but it may be a group consisting of, for example, the [entity]'s president, executive vice presidents, and others" (paragraph 12 of

FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*).

b. *Fair value* is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (paragraph 5 of FASB Statement No. 157, *Fair Value Measurements*). Paragraph 10 of Statement 157 defines market participants as:

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

c. The *fair-value-based evaluation* is an impairment evaluation method that identifies and analyzes goodwill for impairment based on a two-step quantitative analysis. A not-for-profit organization uses that method to evaluate goodwill for impairment and to measure the amount of a goodwill impairment loss to be recognized (if any) for a reporting unit that is primarily supported by resources other than contributions and returns on investments. Statement 142 requires the application of that impairment evaluation for a for-profit business entity.

d. *Goodwill* is the future economic benefits arising from assets that are not individually identified and separately recognized. The Statement on mergers and acquisitions by not-for-profit organizations requires that an acquirer measure goodwill of the acquiree as a residual.

e. *Intangible assets* are assets (not including financial assets) that lack physical substance. (The term *identifiable intangible assets* is used in this Statement to refer to intangible assets other than goodwill.)

f. A *not-for-profit organization* is an entity that possesses the following characteristics that distinguish it from a for-profit business entity:
   (1) Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
   (2) Operating purposes other than to provide goods or services at a profit
   (3) Absence of ownership interests with characteristics that are similar to those of a for-profit business entity.

   Not-for-profit organizations have those characteristics in varying degrees. Organizations that clearly fall outside this definition include all investor-owned entities and entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance companies, credit unions, farm and rural electric cooperatives, and employee benefit plans (paragraph 209 of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*).

g. The *qualitative evaluation* is an impairment evaluation method that identifies and analyzes goodwill for impairment based on a qualitative analysis. A not-for-profit organization uses that method to evaluate goodwill for a reporting unit that is primarily supported by contributions and returns on investments.

h. A *reporting unit* is the level of reporting at which goodwill is evaluated for impairment. A reporting unit is an operating segment (as described in paragraphs 10–14) or one level below an operating segment.

i. *Residual value* is the estimated fair value of an intangible asset at the end of its useful life to an entity, less any disposal costs.

j. *Useful life* is the period over which an asset is expected to contribute directly or indirectly to future cash flows.

Intangible Assets Other Than Goodwill

5. A not-for-profit organization shall account for an identifiable intangible asset in accordance with Statement 142, as amended. The general requirements of that Statement are as follows:

a. An intangible asset with a finite useful life shall be amortized over its useful life and tested for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* The estimate of the useful life of an intangible asset to an organization shall be based on an analysis of all pertinent factors.

b. An intangible asset with an indefinite useful life shall not be amortized. It shall be tested for impairment by comparing the asset's fair value with its carrying amount. An organization shall perform that impairment test annually or more frequently if events indicate that the asset might be impaired.

Paragraphs 11–17 of Statement 142, as amended, provide guidance for determining the useful life of an intangible asset and the impairment tests for those assets.

Goodwill

6. A not-for-profit organization may be required to recognize goodwill acquired in a merger or acquisition. Goodwill is an indefinite-lived intangible asset that is not subject to amortization. An organization shall evaluate goodwill for impairment and shall recognize a loss if and to the extent that, pursuant to this Statement, goodwill is determined to be impaired.

7. A not-for-profit organization shall evaluate goodwill for impairment at a level of reporting referred to as a reporting unit. An organization shall use one of the following two methods to evaluate goodwill for impairment. The method used depends on the nature of the financial support of a reporting unit. An organization shall:

a. Evaluate goodwill assigned to a reporting unit that is primarily supported by contributions and returns on investments using the **qualitative evaluation** described in paragraphs 33–36 of this Statement. In that evaluation, goodwill attributable to a specific acquisition is deemed to be impaired when an event (an "impairment event") occurs that provides evidence of impairment. An organization shall recognize an impairment loss equal to the related carrying amount of goodwill when an impairment event occurs.
b. Evaluate goodwill assigned to a reporting unit that is primarily supported by resources other than contributions and returns on investments using the **fair-value-based evaluation** described in paragraphs 37–44 of this Statement. In that evaluation, goodwill is deemed to be impaired when its carrying amount exceeds its implied fair value. An organization shall perform that evaluation at least annually. The fair value of goodwill can be measured only as a residual and cannot be measured directly. Therefore, paragraphs 40AO–40AP of Statement 142, as amended by this Statement, provide a methodology to determine an amount that achieves a reasonable estimate of the value of a reporting unit for purposes of measuring an impairment loss. That estimate is referred to herein as the *implied fair value of goodwill.*

8. Paragraphs 9–50 of this Statement elaborate on the general requirements in paragraph 7. There are four steps that describe how to evaluate goodwill for impairment:

a. Determine the reporting unit or units of the not-for-profit organization.
b. Assign the assets acquired (including goodwill) and liabilities assumed to the reporting unit or units.
c. Determine the appropriate method of evaluating goodwill for impairment by determining a reporting unit's primary support. Evaluate the continued appropriateness of the selected method by assessing whether there has been a change in the nature of the reporting unit's primary support.
d. Evaluate goodwill for impairment using either the qualitative evaluation or the fair-value-based evaluation depending on the nature of the reporting unit's primary support.

Reporting Unit

9. A reporting unit is an operating segment, as described in paragraphs 10–14, or one level below an operating segment (referred to as a component). A not-for-profit organization may have only one reporting unit or may have multiple reporting units. An organization shall first determine its operating segments. After an organization determines its operating segments, the organization shall determine the components of each operating segment and then determine whether the operating segment is the reporting unit or whether the components are reporting units.

Operating Segments

10. A not-for-profit organization shall determine whether it is made up of a single operating segment or multiple operating segments. An operating segment[1] is a part of an organization:

a. That engages in activities from which it may earn or receive revenues and incur expenses (including contribution revenues and expenses and including revenues and expenses related to transactions with other parts of the same organization)
b. Whose operating results or changes in net assets are regularly reviewed by the organization's chief operating decision maker to reach conclusions about resources to be allocated to the segment and assess its performance
c. For which discrete financial information is available.

11. Not every part of a not-for-profit organization is necessarily an operating segment or part of an operating segment. For example, an organization's headquarters or certain functional departments may not earn or receive revenues or may earn or receive revenues that are only incidental to the activities of the organization and should not be considered operating segments.

12. For many not-for-profit organizations, the three characteristics of operating segments described in paragraph 10 clearly identify a single set of operating segments. However, an organization may produce reports in which its activities are presented in a variety of different ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of parts as constituting an organization's operating segments, including the nature of the activities of each part, the existence of managers responsible for them, and information presented to the board of directors.

13. Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term *segment manager* identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for certain operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 10 apply to more than one set of parts of a not-for-profit organization but there is only one set for which segment managers are held responsible, that set of parts constitutes the operating segments.

14. The characteristics in paragraph 10 may apply to two or more overlapping sets of parts for which managers are held responsible. That structure is sometimes referred to as a matrix form of organization. For example, in some not-for-profit organizations, certain managers are responsible for specific geographic areas. The chief operating decision

[1]The guidance for determining an operating segment is consistent with the guidance in paragraphs 10–15 of Statement 131 and related interpretative literature.

maker regularly reviews the operating results of both sets of parts, and financial information is available for both. In that situation, the parts based on services should constitute the operating segments.

Components

15. A component of an operating segment is a reporting unit if:

a. The component constitutes a business or nonprofit activity, as defined by the Statement on mergers and acquisitions by not-for-profit organizations.
b. Discrete financial information for that component is available.
c. A segment manager regularly reviews the operating results or changes in net assets of that component.

16. Two or more components of an operating segment shall be deemed a single reporting unit if the components are similar. The similarity of those characteristics shall be determined based on whether aggregation is consistent with the way that management organizes the components within an entity for making operating decisions and assessing performance, whether the components have similar economic characteristics, and whether the components are similar in each of the following areas:

a. The nature of the services and/or products
b. The nature and method used to produce services and/or products
c. The type or class of customer or recipient of services
d. The nature of the regulatory environment.

Likewise, an operating segment shall be deemed to be a reporting unit if none of its components is a reporting unit or if that operating segment consists of only a single component.

Assigning the Assets Acquired and Liabilities Assumed to the Reporting Units

Assigning Identifiable Assets Acquired and Liabilities Assumed

17. For purposes of evaluating goodwill for impairment, a not-for-profit organization shall assign identifiable assets acquired and liabilities assumed to one or more reporting units as of the acquisition date. An organization shall assign those assets and liabilities to a reporting unit as of the acquisition date if the asset will be employed in or the liability relates to the operations of a reporting unit.

18. Assets or liabilities that a not-for-profit organization considers part of its corporate assets or liabilities also shall be assigned to a reporting unit if the criterion in paragraph 17 is met and, for a reporting unit that is supported by resources other than contributions and returns on investments, if the asset or liability will be considered in determining the fair value of the reporting unit. Examples of corporate items that may meet those criteria are environmental liabilities that relate to an existing operating facility of the reporting unit and a pension obligation that would be included in the determination of the fair value of the reporting unit.

19. Some assets or liabilities may be employed in or relate to the operations of multiple reporting units. The methodology used to determine the amount of those assets or liabilities to assign to a reporting unit shall be reasonable and supportable and shall be applied consistently. For example, assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, could be allocated according to the benefit received by the different reporting units (or based on the relative fair values of the net identifiable assets that make up the different reporting units). In the case of pension items, for example, a pro rata allocation based on payroll expense might be used.

Assigning Goodwill

20. For the purpose of evaluating goodwill for impairment, a not-for-profit organization shall assign **all** goodwill acquired in a merger or acquisition to one or more reporting units as of the acquisition date. An organization shall assign goodwill to a reporting unit that is expected to benefit from the synergies of the merger or acquisition that gave rise to the recording of goodwill even if other assets or liabilities of the acquiree are not assigned to that reporting unit. The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to assign goodwill to a reporting unit should be reasonable, supportable, and applied consistently.

21. In concept, the amount of goodwill assigned to a reporting unit would be determined in a manner similar to how the amount of goodwill recognized in a merger or acquisition by a not-for-profit organization is determined. An organization would determine the fair value of the acquiree to be included in a reporting unit unless that reporting unit is primarily supported by contributions and returns on investments. The organization would then recognize the individual assets acquired and liabilities assumed related to that acquired business or nonprofit activity.[2] Any excess of the fair value of the acquiree over the fair value of its identifiable net assets (or any excess of the liabilities assumed over the identifiable assets acquired for reporting units that are primarily supported by contributions and returns on investments) is the amount of goodwill assigned to that reporting unit. If goodwill is to be assigned to a reporting unit that has not been assigned any of the assets acquired or liabilities assumed in that acquisition, the amount of goodwill to be assigned might be determined by applying a "with and without" computation. That is, the difference between the fair value of that reporting unit before the acquisition and its fair value after the acquisition represents the amount of goodwill to be assigned to that reporting unit.

Determining a Reporting Unit's Primary Support

Initial Determination as of the Acquisition Date

22. A not-for-profit organization shall determine as of the acquisition date whether a reporting unit is primarily supported by either:

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[2]Paragraphs 15–36 of the Statement on mergers and acquisitions by not-for-profit organizations provide guidance on recognizing and measuring the assets acquired and liabilities assumed in a merger or acquisition by a not-for-profit organization.

a. Contributions and returns on investments; or
b. Resources other than contributions and returns on investments (for example, fees from services provided to third parties in exchange transactions).

An organization shall consider all relevant qualitative and quantitative factors in determining the nature of a reporting unit's primary support. For example, qualitative and quantitative information about all forms of contributed support, including contributions that are precluded from being recognized or are not required to be recognized in the financial statements (such as certain contributed services and collection items and conditional promises to give), would be considered in the determination. Paragraphs A2–A5 provide examples related to those requirements.

23. A not-for-profit organization that quantifies and discloses the fair value of unrecognized contributed support should use the disclosed amounts in its analysis of a reporting unit's support. For example, Statement 116 encourages organizations to disclose the fair value of contributed services received but not recognized if that is practicable. An organization that is not required to recognize certain items of contributed support under the provisions of Statement 116 need not determine the fair value of those items solely for purposes of determining whether a reporting unit is primarily supported by contributions and returns on investments. The organization, nonetheless, should consider information about that contributed support qualitatively in its analysis of a reporting unit's support.

Changes in the Nature of the Primary Support after Acquisition

24. A not-for-profit organization shall apply the method of evaluating goodwill for impairment consistently unless there is a change in the nature of a reporting unit's primary support that management expects to be of a continuing nature. An organization shall determine whether there has been a change in the nature of the primary support at least annually, or more often if the facts and circumstances indicate that there has been a change in the nature of a reporting unit's primary support. Annual evaluations may be performed any time during the year if the evaluation is performed at the same time every year.

25. For example, those annual evaluations for changes that occurred gradually could include evaluating the:

a. **Duration and amount of the decline or increase in support from resources other than contributions or returns on investments.** For example, a 1-year decline in support from fees to 49 percent of total support may be a one-time event rather than a trend. Continuing significant decline in support from fees may be an indication that the decline is of a continuing nature.
b. **Underlying reasons for the change.** For example, because of increasing poverty or a resettled refugee population in a not-for-profit health clinic's neighborhood, the clinic may have to serve more patients at the low end of its fee scale and may not be able to raise fees to restore declining support from resources other than contributions and returns on investments. Such a clinic

might anticipate relying more heavily on donations for the foreseeable future. On the other hand, an unusually large contribution in a single year may not indicate that the reporting unit's support structure has changed.

c. **Management's plans, reactions to the change, and expectations for the future operations of the reporting unit.** For example, because of management's decision to reduce the fee scale of a health clinic to meet the needs of a neighborhood in which poverty is increasing, the clinic may need to depend on support from donors. Hiring fundraising staff to replace the decreased revenue from resources other than contributions and returns on investments could indicate an expectation, for the foreseeable future, of increased support from contributions and returns on investments.

26. For changes to the nature of a reporting unit's primary support that occur as a result of an identifiable event, the time of change is the date that the event occurs. However, if changes to the nature of a reporting unit's primary support occur gradually, the time of change is the date that the change is determined to be of a continuing nature.

27. When a not-for-profit organization determines there has been a change in the nature of its primary support, it shall evaluate goodwill for impairment at the time of that change. The nature of the impairment evaluation for goodwill upon a change in the nature of the primary support depends on how the support changed. Specifically, as of the time of change, an organization shall:

a. Perform a fair-value-based evaluation when goodwill is assigned to a reporting unit that becomes primarily supported by resources other than contributions and returns on investments.

b. Consider whether the change in the nature of support indicates that goodwill has been significantly impaired when goodwill is assigned to a reporting unit that becomes primarily supported by contributions and returns on investments. In those circumstances, an organization shall not perform a fair-value-based evaluation of goodwill. Rather, the organization shall make an assessment about whether the goodwill is significantly impaired based on its judgment about whether the change itself indicates a significant impairment. That consideration shall be made based on the facts and circumstances that existed at the time of the change. Based on that consideration, if goodwill is:

    (1) Significantly impaired, the organization shall recognize an impairment loss equal to the carrying value of goodwill related to the reporting unit.

    (2) Not significantly impaired, the organization shall not recognize an impairment loss. The organization shall identify, for prospective application, the events and circumstances that would indicate impairment. Subsequently, the organization shall evaluate goodwill in accordance with the qualitative evaluation (see paragraph 36).

Reorganization of the reporting structure

28. A not-for-profit organization that reorganizes its reporting structure in a way that changes the composition of its reporting units without disposing of any reporting units shall reassign the identifiable assets and liabilities and goodwill to the affected reporting units upon that reorganization.

29. A not-for-profit organization shall reassign identifiable assets and liabilities using the same approach as required on the acquisition date (see paragraphs 17–19). An organization shall reassign goodwill based on the support of the reporting unit from which the goodwill originated. Goodwill that is reassigned from a reporting unit that is primarily supported by contributions and returns on investments shall be reassigned based on the relative carrying values of the reassigned identifiable net assets. Goodwill that is reassigned from a reporting unit that is primarily supported by resources other than contributions and returns on investments shall be reassigned based on the relative fair value allocation approach. For example, if existing Reporting Unit A is to be integrated with Reporting Units B, C, and D, goodwill in Reporting Unit A would be assigned to Reporting Units B, C, and D based on the relative fair values of the three portions of Reporting Unit A before those portions are integrated with Reporting Units B, C, and D.

Disposal of all or a portion of a reporting unit

30. A not-for-profit organization may decide to dispose of an entire reporting unit or a portion of a reporting unit that is a business or nonprofit activity. The goodwill of a reporting unit that is disposed of in its entirety shall be included in the carrying amount of that reporting unit in determining the gain or loss on disposal. Similarly, the goodwill associated with a business or nonprofit activity shall be included in the carrying amount of that portion in determining the gain or loss on disposal.

31. A not-for-profit organization shall determine the amount of goodwill to be included in the carrying amount when disposing of a business or nonprofit activity based on the goodwill assigned to a specific acquisition within the reporting unit, if possible. That situation might occur when the acquired business or nonprofit activity is primarily supported by contributions and returns on investments, is operated as a standalone entity, or is to be disposed of shortly after it is acquired. An organization that cannot determine the amount of goodwill that relates to a portion to be disposed of shall determine the amount of goodwill to include in the carrying amount using the:

a. Relative carrying values of the identifiable net assets of each part if the portion to be disposed of is primarily supported by contributions and returns on investments
b. Relative fair value allocation approach if the portion to be disposed of is primarily supported by resources other than contributions and returns on investments.

32. A not-for-profit organization applying a qualitative evaluation to assess goodwill for impairment may have identified the partial disposal of the reporting unit as an impairment

event when goodwill was acquired. In that circumstance, if the **retained portion** of the reporting unit is:

a. Supported primarily by contributions and returns on investments, the organization shall recognize an impairment loss upon disposal equal to the carrying value of goodwill remaining in the retained portion of the reporting unit. However, if a previously identified impairment event does not occur upon disposal, the organization shall review and update, based on current facts and circumstances, the events that would indicate impairment of the retained goodwill.
b. Supported primarily by resources other than contributions and returns on investments, the organization shall evaluate the carrying value of goodwill remaining in the retained portion of the reporting unit for impairment based on the current facts and circumstances in accordance with the fair-value-based evaluation.

Applying the Qualitative Evaluation

33. A not-for-profit organization that assigns goodwill to a reporting unit that is primarily supported by contributions and returns on investments shall, as of the acquisition date, identify the reasons why goodwill arose in the acquisition. An organization also shall identify a comprehensive list of events and circumstances that would indicate that goodwill assigned to the reporting unit is impaired. That list of events and circumstances shall include, but is not limited to, consideration of the reasons why goodwill arose. Paragraphs A9–A12 provide additional guidance and examples related to those requirements.

34. The qualitative evaluation inherently requires specific identification of the amount of goodwill for which a specific set of impairment events has been identified. Because the list of impairment events and circumstances is identified for each assignment or reassignment (such as reorganization or a change in the nature of a reporting unit) of goodwill to a reporting unit, each assignment shall be maintained separately. For example, if goodwill from two different acquisitions is assigned to the same reporting unit, the goodwill and any goodwill impairment would be identified by acquisition.

35. Examples of the relationship between the identified reasons why goodwill arose in the merger or acquisition and impairment events include, but are not limited to, the following:

a. If a reason for a merger was an expectation of benefiting from the acquiree's trained employees to provide services to the service beneficiaries, the subsequent loss of those employees is an impairment event for goodwill.
b. If a reason for an acquisition was an expectation that the acquiree's key employees would raise significant resources, the subsequent loss of those key employees is an impairment event for goodwill.

c. If a reason for a merger was to acquire certain integrated tangible or identifiable intangible assets owned by the acquiree, an impairment of those assets is an impairment event for goodwill.

d. If a reason for a merger was the expected benefit from synergies, cost savings, or other benefits from consolidating the acquiring organization and the acquiree's activities, the failure of those expected synergies, cost savings, or other benefits to develop is an impairment event for goodwill.

e. If a reason for an acquisition was the expected benefit from the acquiree continuing to operate as a going concern, information that indicates that the reporting unit is no longer a going concern is an impairment event for goodwill.

Assessing Whether an Impairment Event Has Occurred

36. A not-for-profit organization shall assess whether any of the impairment events identified pursuant to the requirements of paragraph 33 has occurred. The qualitative evaluation requires judgment, and there may be circumstances in which an impairment event occurs that was unidentified at the acquisition date. An organization shall consider compelling evidence of impairment, despite the fact that an impairment event arises from an unanticipated event. If no identified impairment event has occurred, an organization shall not recognize a change to the carrying amount of goodwill assigned to a reporting unit. However, if any of the identified impairment events has occurred, an organization shall recognize an impairment loss equal to the carrying amount of goodwill attributable to a specific acquisition. A previously recognized impairment loss shall not be reversed. Paragraphs A13–A15 provide additional guidance and an example related to those requirements.

Applying the Fair-Value-Based Evaluation

37. A not-for-profit organization that assigns goodwill to a reporting unit that is primarily supported by resources other than contributions and returns on investments shall apply the fair-value-based evaluation. The two-step impairment evaluation discussed in paragraphs 39 and 40 shall be used to identify potential goodwill impairment and to measure the amount of a goodwill impairment loss to be recognized (if any).

38. A not-for-profit organization shall perform that evaluation at least annually, or more often if an event occurs or circumstances change that would likely reduce the fair value of a reporting unit below its carrying amount (see paragraph 40AN of Statement 142, as amended by this Statement). An organization may perform the annual goodwill impairment evaluation any time during the fiscal year if the evaluation is performed at the same time every year. Different reporting units may be evaluated for impairment at different times. If goodwill and another asset (or asset group) of a reporting unit are evaluated for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under Statement 144, which potentially would require a goodwill impairment evaluation, the impairment test for the significant asset group would be performed before the goodwill impairment evaluation. If the asset group was impaired,

the impairment loss would be recognized prior to goodwill being evaluated for impairment.

39. The first step of the fair-value-based evaluation identifies potential impairment. In that step, a not-for-profit organization shall compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and the second step of the fair-value-based evaluation is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, an organization shall perform the second step to measure the amount of impairment loss, if any.

40. In the second step of the evaluation, a not-for-profit organization shall compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The guidance in paragraph 41 shall be used to estimate the implied fair value of goodwill. If the carrying amount of goodwill assigned to the reporting unit exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill becomes its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

41. The implied fair value of goodwill shall be determined similarly to how the amount of goodwill recognized in a merger or acquisition is determined. That is, a not-for-profit organization shall assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a merger or acquisition. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. That process of assignment shall be performed only for purposes of evaluating goodwill for impairment; an organization shall not write up or write down a recognized asset or liability. An organization also shall not recognize a previously unrecognized intangible asset as a result of that allocation process.

42. The relevant guidance in paragraphs 15–36 of the Statement on mergers and acquisitions by not-for-profit organizations shall be used in determining how to assign the fair value of a reporting unit to the assets and liabilities of that unit. However, no portion of the fair value of the reporting unit shall be assigned to an asset or liability if that asset or liability:

a. Relates to a merger or acquisition that was completed before implementation of the Statement on mergers and acquisitions by not-for-profit organizations
b. Had not been recognized separately from goodwill in accordance with provisions that existed before the Statement on mergers and acquisitions by not-for-profit organizations.

For example, in performing the second step of a fair-value-based evaluation, an organization would not assign any fair value to an asset for a contingency if it had not been separately recognized and arose from a merger or acquisition completed before the implementation of the Statement on mergers and acquisitions by not-for-profit organizations.

43. If the second step of the fair-value-based evaluation is not completed before the financial statements are issued and a goodwill impairment loss is probable and can be reasonably estimated, a not-for-profit organization shall recognize the best estimate of that loss in those financial statements.[3] Paragraph 55(c) requires disclosure of the fact that the measurement of the impairment loss is an estimate. Any adjustment to that estimated loss based on the completion of the measurement of the impairment loss shall be recognized in the subsequent reporting period.

44. A detailed determination of the fair value of a reporting unit may be carried forward from one year to the next if all of the following criteria have been met:

a. The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination. (A recent significant acquisition or a reorganization of an entity's segment reporting structure is an example of an event that might significantly change the composition of a reporting unit.)
b. The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.
c. Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

Goodwill Impairment Evaluation by a Subsidiary

45. All goodwill recognized by a public or nonpublic subsidiary (subsidiary goodwill) in its separate financial statements that are prepared in accordance with generally accepted accounting principles shall be accounted for in accordance with this Statement. Subsidiary goodwill shall be evaluated for impairment at the subsidiary level using the subsidiary's reporting units.

46. If a goodwill impairment loss is recognized using the fair-value-based evaluation at the subsidiary level, goodwill of the reporting unit or units (at the higher consolidated level) in which the subsidiary's reporting unit with impaired goodwill resides must be evaluated for impairment if the event that gave rise to the loss at the subsidiary level would more likely than not reduce the fair value of the reporting unit (at the higher consolidated level) below its carrying amount (see paragraph 40AN(g) of Statement 142, as amended by this Statement). Only if goodwill of that higher-level reporting unit is impaired would a goodwill impairment loss be recognized at the consolidated level.

47. If a goodwill impairment loss is recognized using the qualitative evaluation at the subsidiary level, goodwill of the reporting unit or units (at the higher consolidated level) in which the subsidiary's reporting unit with impaired goodwill resides must be evaluated

[3]See FASB Statement No. 5, *Accounting for Contingencies.*

for impairment. Only if goodwill of that higher-level reporting unit is impaired would a goodwill impairment loss be recognized at the consolidated level.

Goodwill Impairment Evaluation When a Noncontrolling Ownership Interest in a Subsidiary Exists

48. Goodwill arising from a merger or acquisition by a not-for-profit organization with a continuing noncontrolling ownership interest shall be evaluated for impairment using an approach consistent with the approach used to measure the noncontrolling interest at the acquisition date. Paragraphs 40AT and 40AU of Statement 142, as amended by this Statement, provide additional guidance for applying that requirement.

Equity Method Goodwill

49. A not-for-profit organization shall not amortize the portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 19(b) of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* (equity method goodwill). However, equity method goodwill shall not be reviewed for impairment in accordance with this Statement. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 19(h) of Opinion 18.

Financial Statement Presentation of Goodwill and Related Impairment Losses

50. A not-for-profit organization shall present the aggregate amount of goodwill as a separate line item in the statement of financial position. An organization also shall present the aggregate amount of goodwill impairment losses recognized in a reporting period as a separate line item in the statement of activities.

Disclosures

Disclosures about Identifiable Intangible Assets

51. In the period of acquisition, a not-for-profit organization shall disclose the following information separately for each material merger or acquisition:

a. For intangible assets subject to amortization:
   (1) The amount assigned, in total and by 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 amount assigned, in total and by major intangible asset class.

An organization shall disclose in the aggregate for individually immaterial mergers and acquisitions that are material collectively. Individually immaterial mergers and acquisitions are deemed to be material collectively if the aggregate fair values of identifiable intangible assets acquired are significant.

52. In each period for which a statement of financial position is presented, a not-for-profit organization shall disclose the following information:

a. For intangible assets subject to amortization:
   (1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class
   (2) The aggregate amortization expense for the period
   (3) The estimated aggregate amortization expense for each of the five succeeding fiscal years.
b. For intangible assets **not** subject to amortization, the carrying amount, in total and by major intangible asset class.

53. For each impairment loss recognized related to an intangible asset, a not-for-profit organization shall disclose the following information in the notes to the financial statements that include the period in which the impairment loss is recognized:

a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment
b. The amount of the impairment loss and the method for determining fair value
c. The caption in the statement of activities in which the impairment loss is aggregated.

Disclosures about Goodwill

54. In each period for which a statement of activities is presented, a not-for-profit organization shall disclose the type of impairment evaluation used (qualitative or fair-value-based), the beginning and ending balances of the carrying amount of goodwill, and changes in the carrying amount during that period. If an organization has both goodwill that is subject to the fair-value-based evaluation and goodwill that is subject to the qualitative evaluation, it should disclose separately the carrying amounts of goodwill that are evaluated for impairment using each type of impairment evaluation. To the extent that the following items exist, the changes in the carrying amounts of goodwill during the period should show separately:

a. The amount of goodwill that changed from the fair-value-based evaluation to the qualitative evaluation and vice versa as a result of changes in the nature of the primary support of the reporting unit to which goodwill is assigned
b. The amount recognized as of the acquisition date and accumulated impairment losses at the beginning and the end of the period
c. Additional goodwill recognized during the period, except goodwill included in a disposal group that on the acquisition date meets the criteria to be classified as held for sale in accordance with Statement 144

d. Adjustments that result from the subsequent recognition of deferred tax assets during the period in accordance with paragraph 30 of FASB Statement No. 109, *Accounting for Income Taxes*
e. Goodwill included in a disposal group classified as held for sale in accordance with Statement 144 and goodwill derecognized during the period without having previously been included in a disposal group classified as held for sale
f. Impairment losses recognized during the period in accordance with this Statement
g. Net exchange differences that arise during the period in accordance with FASB Statement No. 52, *Foreign Currency Translation*
h. Any other changes in the carrying amounts during the period.

55. In each period for which a statement of financial position is presented, a not-for-profit organization also shall disclose:

a. For each reporting unit that is primarily supported by contributions and returns on investments, the events that would indicate that goodwill would become impaired
b. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, that unallocated amount and the reasons for not allocating that amount
c. For each goodwill impairment loss recognized, in the notes to the financial statements that include the period in which the impairment loss is recognized:
    (1) A description of the facts and circumstances that led to the impairment, including the method that was used to evaluate the impairment
    (2) The amount of the impairment loss and, if applying the fair-value-based evaluation, the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable entities, a present value or other valuation technique, or a combination thereof)
    (3) If an organization is applying the fair-value-based evaluation and a recognized impairment loss is an estimate that has not yet been finalized (see paragraph 43), that fact and the reasons why it has not yet been finalized and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss.

Effective Date and Transition

56. This Statement shall be applied prospectively to goodwill and intangible assets acquired in a merger or acquisition as of the beginning of the first annual period beginning on or after [date to be inserted after exposure]. Early application is encouraged, but only at the beginning of an annual period that begins after this Statement is issued. If applied earlier, a not-for-profit organization shall apply the provisions of this Statement at the same time that it applies the provisions in the Statement on mergers and acquisitions by not-for-profit organizations. Retroactive application is prohibited.

Previously Recognized Intangible Assets

57. For those acquisitions by a not-for-profit organization that occurred before the application of this Statement and that were accounted for using the purchase method, the carrying amount of intangible assets previously recognized and included in the amount reported as goodwill (or as goodwill and intangible assets) shall be reclassified and accounted for as an asset apart from goodwill as of the date this Statement is applied if the intangible asset:

a. Meets the recognition criteria in paragraph 17 of the Statement on mergers and acquisitions by not-for-profit organizations
b. Had been assigned an amount equal to its estimated fair value at the date that the merger or acquisition was initially recorded
c. Was accounted for separately from goodwill as evidenced by the maintenance of accounting records for that asset, such as a separate general ledger account or other subsidiary ledger (such as a spreadsheet or similar ledger account) to which periodic amortization charges, impairment charges, and other accounting entries were posted.

The carrying amount of acquired intangible assets that do not meet the criteria in (a) (and any related deferred tax liabilities if the intangible asset amortization is not deductible for tax purposes) shall be reclassified as goodwill as of the date this Statement is applied.

Identifiable Intangible Assets

58. To apply this Statement to identifiable intangible assets acquired in a merger or acquisition prior to the application of this Statement, a not-for-profit organization shall reassess the useful lives of those previously recognized intangible assets using the guidance in paragraph 11 of Statement 142 and adjust the remaining amortization periods accordingly. Previously recognized intangible assets deemed to have indefinite useful lives shall be tested for impairment as of the beginning of the fiscal year in which this Statement is applied. An organization shall complete that reassessment and transitional impairment test prior to the end of the fiscal year in which this Statement is applied. Any resulting impairment loss shall be presented in a separate line item in the statement of activities. An organization shall present that transitional impairment loss outside a performance indicator or other intermediate measure of operations, if one is presented.

Goodwill

59. To apply this Statement to goodwill acquired in a merger or acquisition prior to the application of this Statement, a not-for-profit organization shall establish its reporting units and determine the primary support of those reporting units based on its reporting structure at application using the guidance in paragraphs 9–16 and 22 and 23 of this Statement. Recognized net assets, excluding goodwill, shall be assigned to reporting units using the guidance in paragraphs 17–19. Recognized assets and liabilities that do not relate to a reporting unit that an entity does not consider part of its corporate assets or liabilities, such as an environmental liability for an operation previously disposed of, need

not be assigned to a reporting unit. All goodwill recognized in an organization's statement of financial position at the date this Statement is applied shall be assigned to one or more reporting units. Goodwill shall be assigned in a reasonable and supportable manner. In making that assignment, the sources of previously recognized goodwill and the reporting units to which the related acquired net assets were assigned shall be considered. The guidance in paragraphs 20 and 21 may be useful in assigning goodwill to reporting units upon initial application of this Statement.

60. Goodwill assigned to reporting units that are primarily supported by contributions and returns on investments shall not be subject to a transitional impairment evaluation as of the beginning of the fiscal year in which this Statement is initially applied. Rather, the impairment events that would trigger the write-off of goodwill shall be identified based on the facts and circumstances existing at the date this Statement is initially applied, with consideration given to factors that led to the original recognition of goodwill.

Equity method goodwill

61. Upon initial application of this Statement, the portion of the excess of cost over the underlying equity in net assets of an investee accounted for using the equity method that has been recognized as goodwill shall no longer be amortized. However, equity method goodwill shall not be evaluated for impairment in accordance with this Statement (see paragraph 49).

Transitional impairment evaluation for goodwill assigned to reporting units that are primarily supported by resources other than contributions and investment returns

62. Goodwill assigned to reporting units that are primarily supported by resources other than contributions and returns on investments shall be subject to a transitional impairment evaluation. Goodwill in each of those reporting units shall be evaluated for impairment as of the beginning of the fiscal year in which this Statement is applied (in accordance with paragraphs 37–44). A not-for-profit organization shall complete the first step of that transitional evaluation within six months from the date it initially applies this Statement. However, the amounts used in the transitional goodwill impairment evaluation shall be measured as of the beginning of the year of initial application. If the carrying amount of the net assets of a reporting unit (including goodwill) exceeds the fair value of that reporting unit, the second step of the transitional goodwill impairment evaluation must be completed as soon as possible, but no later than the end of the fiscal year of initial application.

63. An impairment loss recognized as a result of a transitional goodwill impairment evaluation and related income tax effects, if any, shall be presented in a separate line item in the statement of activities. A not-for-profit organization shall present that transitional impairment loss outside a performance indicator or other intermediate measure of operations, if one is presented.

64. A not-for-profit organization that reports on an interim basis shall recognize a transitional impairment loss for goodwill in the first interim period regardless of the

period in which it is measured. The financial information for the interim periods of the fiscal year that precede the period in which the transitional goodwill impairment loss is measured shall be restated to reflect the accounting change in those periods. The aggregate amount of the accounting change shall be included in restated changes in net assets of the first interim period of the year of initial application (and in any year-to-date or last-12-months-to-date financial reports that include the first interim period). Whenever financial information is presented that includes the periods that precede the period in which the transitional goodwill impairment loss is measured, that financial information shall be presented in the restated financial information.

65. If events indicate that goodwill of a reporting unit might be impaired before the completion of the transitional goodwill impairment evaluation, goodwill shall be evaluated for impairment when the impairment indicator arises. A goodwill impairment loss that does not result from a transitional goodwill impairment evaluation shall not be recognized as a transitional impairment loss as described in paragraph 63; rather, it shall be recognized in accordance with paragraph 50.

66. In addition to the transitional goodwill impairment evaluation, a not-for-profit organization shall perform the required annual goodwill impairment evaluation in the year that this Statement is initially applied. That is, the transitional goodwill impairment evaluation may not be considered the initial year's annual evaluation unless an organization designates the beginning of its fiscal year as the date for its annual goodwill impairment evaluation.

67. Upon completion of the first step of the transitional goodwill impairment evaluation, a not-for-profit organization shall disclose in any interim financial information the reportable segment or segments in which an impairment loss might have to be recognized and the period in which that potential loss will be measured.

68. In the period of initial application, and thereafter until goodwill and all other intangible assets have been accounted for in accordance with this Statement in all periods presented, the following information shall be displayed either on the face of the statement of activities or in the notes to the financial statements: total changes in net assets for all periods presented adjusted to exclude amortization expense (including any related tax effects) recognized in those periods related to goodwill, intangible assets that are no longer being amortized, any deferred credit related to an excess over cost (amortized in accordance with Opinion 16), and equity method goodwill. The adjusted total changes in net assets also shall reflect any adjustments for changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying this Statement (including any related tax effects). In addition, the notes to the financial statements shall disclose a reconciliation of reported total changes in net assets to the adjusted total changes in net assets.

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

Appendix A

IMPLEMENTATION GUIDANCE

CONTENTS

Appendix A

IMPLEMENTATION GUIDANCE

Introduction

A1. This appendix discusses generalized situations and provides examples that incorporate simplified assumptions to illustrate how to apply some of the provisions of this Statement. Application of this Statement's provisions to actual situations will require the exercise of judgment; this appendix is intended to aid in making those judgments.

Determining a Reporting Unit's Primary Support

A2. In accordance with paragraph 22, a not-for-profit organization should determine as of the acquisition date whether a reporting unit is primarily supported by contributions and returns on investments or by resources other than contributions and returns on investments. The organization should consider all relevant qualitative and quantitative factors in determining the nature of a reporting unit's primary support, which include considering the reporting unit's current and anticipated future support.

Example 1: Reporting Unit Supported by Contributions

A3. NFP-A has a reporting unit that provides career counseling services. That reporting unit provides those services to the needy for a fee, the counseling services do not require specialized skills, and the services are provided by volunteers. NFP-A does not quantify the contributed services for financial reporting or other purposes. Based solely on the reported financial information about the support from fees, the reporting unit appears to be supported by fees. However, this Statement requires a not-for-profit organization to consider information about a reporting unit's support on a qualitative basis if quantitative information is unavailable. Therefore, NFP-A should consider on a qualitative basis how its contributed services received relate to the reporting unit's support. NFP-A concludes that because the majority of the support is from the donated services of volunteers, its career counseling services reporting unit is primarily supported by contributions. NFP-A would evaluate goodwill for impairment using the qualitative evaluation, assuming that there are no changes in the nature of the reporting unit's primary support.

Example 2: Reporting Unit Supported by Resources Other Than Contributions

A4. NFP-B has a reporting unit that provides health services. That reporting unit provides those services for a fee. Some volunteers contribute their services; however, the majority of the services are provided by compensated health services professionals. NFP-B does not quantify the contributed services for financial reporting or other purposes. Based on the reported financial information about the support from fees, the reporting unit appears to be supported by fees. NFP-B concludes that because the majority of the support is from fees for services, its health services reporting unit is primarily supported by resources other than contributions and returns on investments. NFP-B would evaluate goodwill for impairment using the fair-value-based evaluation, assuming that there are no changes in the nature of the reporting unit's primary support.

Example 3: Conditional Promises to Give

A5. NFP-C has one reporting unit (RU-C) that collects and provides funds for cancer research. That reporting unit receives its support from unconditional donor contributions and matching corporate contributions that are conditioned on the not-for-profit organization raising $25,000 for its cancer research program. Additionally, another organization (Foundation) has communicated its intention to contribute to the activities within RU-C. NFP-C does not quantify the conditional contributions received for financial reporting or other purposes and, therefore, considers on a qualitative basis how those conditional promises relate to the support of the reporting unit. NFP-C concludes that because the majority of the support is from current and anticipated contributions, RU-C is primarily supported by contributions. NFP-C would evaluate goodwill for impairment using the qualitative evaluation, assuming that there are no changes in the nature of the reporting unit's primary support.

Determining Whether a Change Has Occurred in a Reporting Unit's Primary Support

A6. Paragraph 24 requires a not-for-profit organization to evaluate the nature of its reporting units that include goodwill to determine the appropriateness of the goodwill impairment evaluation method applied. Goodwill should no longer be evaluated in accordance with the fair-value-based evaluation if the reporting unit to which it is assigned becomes primarily supported by contributions and returns on investments. Similarly, goodwill should begin to be evaluated using the fair-value-based evaluation if the reporting unit to which it is assigned becomes primarily supported by resources other than contributions and returns on investments.

A7. Some changes to the nature of a reporting unit's primary support occur as a result of an identifiable event, such as a disposal or reorganization of a reporting unit (see paragraphs 28–32), while other changes to the nature of a reporting unit's primary support occur gradually. Paragraph 24 of this Statement requires a not-for-profit organization to assess the continued appropriateness of the method being applied to evaluate goodwill for impairment at least annually by determining whether there has been a change in the nature of a reporting unit's primary support that is of a continuing nature.

Example 4: Forward-Looking Assessment of the Nature of a Reporting Unit's Primary Support

A8. In the year just ended, a reporting unit (RU-D) of NFP-D received 52 percent of its support from fees and 48 percent from contributions and returns on investments, with no unrecognized contributed support. In each of the two years before the year just ended, RU-D received a significantly higher percentage in the amount of contributed support and was evaluated for impairment using the qualitative evaluation. NFP-D's budgets for the year just ended and the current year allocated resources sufficient to support fund-raising efforts, which is consistent with those allocations of the two previous years, and established fee rates based on expectations of obtaining one-third of RU-D's total support from fees. Fund-raising efforts fell short in the year just ended because of turnover in key fund-raising staff; however, by the end of the year, the fund-raising department was fully staffed again. No other changes to the structure or operation of RU-D were made during the last three years or are planned to be made in the current year. NFP-D concludes that RU-D is designed to be primarily supported by contributions and will continue to be in future periods, despite the actual amounts of support received in the year just ended.

Identifying Impairment Events

A9. In accordance with paragraph 33, a not-for-profit organization that assigns goodwill to a reporting unit that is primarily supported by contributions and returns on investments should identify the reasons why goodwill arose in the acquisition as of the acquisition date. The organization should identify a comprehensive list of events related to those reasons that, if an identified event was to occur, would indicate that the assigned goodwill was impaired.

A10. The identification of impairment events should include, but not be limited to, consideration of the reasons why goodwill arose in the merger or acquisition. An acquiring not-for-profit organization also should consider whether it should identify events that affect the organization as a whole as goodwill impairment events. The identification of impairment events is an important element of the qualitative evaluation because the objective of that evaluation is to determine when goodwill is impaired. The qualitative evaluation requires judgment, and there may be circumstances in which an impairment event occurs that was unidentified at the acquisition date. An organization should consider compelling evidence of impairment, despite the fact that an impairment event arises from an unanticipated event.

Example 5: Identified Organizational Impairment Event

A11. NFP-E acquired NFP-F in an acquisition. NFP-E evaluates the goodwill assigned to NFP-F, which is a separate reporting unit, using the qualitative evaluation. Many of the identified impairment events relate to reasons identified in the acquisition. Additionally, NFP-E identifies damage to its reputation as an impairment event. After the acquisition date, NFP-E's reputation is severely damaged, reducing NFP-F's ability to attract contributions and to continue operations. NFP-E recognizes an impairment loss equal to the carrying amount of goodwill attributable to NFP-F.

Example 6: Unidentified Organizational Impairment Event

A12. NFP-G acquired NFP-H in an acquisition. NFP-G evaluates the goodwill assigned to NFP-H, which is a separate reporting unit, using the qualitative evaluation. Due to an unforeseen event after the acquisition date, NFP-G's reputation is severely damaged. NFP-G had not identified that event as an impairment event at the date of acquisition. However, that event reduces NFP-H's ability to attract contributions and to continue operations. NFP-G considers that event an impairment event and recognizes an impairment loss equal to the carrying amount of goodwill attributable to NFP-H.

Determining Whether an Impairment Event Has Occurred

A13. Paragraph 36 requires that a not-for-profit organization assess whether any of the identified impairment events occurred. In assessing whether an impairment event has occurred, an organization should consider whether it has an expectation that the event will result in negative consequences that are of a continuing nature. For example, if an identified impairment event is the loss of a key executive, the negative consequence of that loss may be mitigated if the organization hires a qualified replacement. Evaluating whether an impairment event has occurred requires the application of judgment. For example, an organization identifies the acquisition of five key employees as one of the primary reasons why goodwill arose. If the organization loses some but not all five of those key employees, that organization would need to apply its judgment in determining whether that loss signifies that an impairment event has occurred.

A14. Paragraph 36 requires that if any of the identified impairment events has occurred, a not-for-profit organization should recognize an impairment loss equal to the carrying amount of goodwill attributable to a specific acquisition.

Example 7: Impairment of a Portion of Goodwill within a Reporting Unit

A15. NFP-I acquires NFP-J and NFP-K in two separate acquisition transactions. NFP-I identifies impairment events related to each of those acquisitions as of the acquisition dates. Because of the similarities between NFP-J and NFP-K, NFP-I aggregates NFP-J and NFP-K into a single reporting unit that is supported primarily by contributions and returns on investments. NFP-J loses a specific key employee. That loss is an identified impairment event for the goodwill that is assigned to NFP-J and the negative effect of that impairment event is expected to be of a continuing nature. NFP-J's loss of a key employee has no effect on NFP-K's operations. NFP-I should recognize an impairment loss equal to the carrying amount of goodwill assigned to the reporting unit related to the acquisition of NFP-J.

Illustration of Disclosures

A16. Paragraph A17 provides an illustration of the financial statement disclosure requirements of this Statement. The information presented in the following examples is included for illustrative purposes only and, therefore, may not represent actual transactions. For simplicity, the illustrative disclosures do not provide all of the background information that would be necessary to arrive at the disclosed information.

Example 8: Disclosure Requirements in Periods Subsequent to a Merger or Acquisition

A17. In accordance with paragraphs 52 and 54, the following disclosures would be made by Omega Organization in its June 30, 20X7, financial statements relating to acquired intangible assets and goodwill. Omega Organization has two reporting units with goodwill—Reporting Unit A and Reporting Unit B.

Note B: Acquired Intangible Assets

(in thousands)		As of June 30, 20X7 Gross Carrying Amount	As of June 30, 20X7 Accumulated Amortization
Amortized intangible assets			
Donor list		$ 5,065	$ (1,013)
Copyright		840	(168)
Other		95	(76)
Total		$ 6,000	$ (1,257)
Unamortized intangible assets			
Broadcast licenses		$ 1,600	
Trademark		400	
Total		$ 2,000	
Aggregate amortization expense:			
For year ended 6/30/X7	$1,116		
Estimated amortization expense:			
For year ending 6/30/X8	$1,116		
For year ending 6/30/X9	$1,097		
For year ending 6/30/X0	$1,097		
For year ending 6/30/Y1	$1,097		
For year ending 6/30/Y2	$84		

Note C: Goodwill

Goodwill is assigned to two reporting units. Reporting Unit A is primarily supported by contributions and returns on investments, and the goodwill assigned to Reporting Unit A is evaluated for impairment using the qualitative evaluation. Reporting Unit B is primarily supported by resources other than contributions and returns on investments, and the goodwill assigned to Reporting Unit B is evaluated for impairment using the fair-value-based evaluation. The changes in the carrying amount of goodwill for the year ended June 30, 20X7, are as follows:

(in thousands)	Qualitative Evaluation	Fair Value Evaluation	Total
Balance as of July 1, 20X6	$ 100	$ 904	$ 1,004
Goodwill acquired during year	—	115	115
Impairment losses	(100)	(46)	(146)
Balance as of June 30, 20X7	$ 0	$ 973	$ 973

Reporting Unit A was assigned $100,000 of goodwill that arose in an acquisition that occurred at March 1, 20X5. At the date of acquisition, the organization identified a comprehensive list of events related to the reasons why goodwill arose in that acquisition. In May 20X7, the acquiree's key employees that were expected to raise significant resources left the organization. That departure was an identified impairment event for the goodwill that is assigned to Reporting Unit A, and the negative effect of that event is expected to be of a continuing nature. Because the carrying amount of goodwill that is evaluated using the qualitative evaluation at June 1, 20X6, relates solely to the acquisition that occurred at March 1, 20X5, the organization recognized a $100,000 goodwill impairment loss associated with Reporting Unit A.

During the current year, the organization performed its annual goodwill impairment evaluation for Reporting Unit B. Due to an increase in competition, cash flows were lower than expected in October 20X6 through April 20X7. Based on that trend, the organization revised its forecast for the next five years. In May 20X7, a goodwill impairment loss of $46,000 was recognized in Reporting Unit B. The fair value of that reporting unit was estimated using the expected present value of future cash flows.

Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

CONTENTS

Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

B1. This appendix summarizes the Board's considerations in reaching the conclusions in this proposed Statement. It includes the reasons why the Board accepted particular approaches and rejected others. Individual Board members gave greater weight to some factors than to others.

Background Information

B2. In 1999, the Board decided to separate the project on mergers and acquisitions by not-for-profit organizations from the project on business combinations. Proposed FASB Statement, *Not-for-Profit Organizations: Mergers and Acquisitions,* would provide guidance for the accounting for mergers and acquisitions by not-for-profit organizations and the accounting for noncontrolling interests in subsidiaries. This proposed Statement would provide guidance for the subsequent accounting and reporting for goodwill and other intangible assets acquired in a merger or acquisition.

B3. Throughout the project, the Board and its staff received technical support from members of the FASB's not-for-profit resource group, which comprises users of financial statements and individuals with accounting, auditing, and related financial reporting expertise in not-for-profit organizations and mergers and acquisitions by those organizations. The Board held an open educational meeting with resource group members in October 2001. In addition, the Board held educational meetings with other constituents and industry groups to benefit from their insight and expertise on specific project and industry-related issues. The Board deliberated the project issues at 20 public decision-making meetings that led to this proposed Statement and the concurrently issued proposed Statement on mergers and acquisitions by not-for-profit organizations.

B4. In June 2001, the Board issued FASB Statement No. 142, *Goodwill and Other Intangible Assets.* That Statement addresses how entities, including not-for-profit organizations, should account for:

a. Intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination)
b. Goodwill and other intangible assets after they have been initially recognized in the financial statements.

Statement 142 provides a delayed effective date for goodwill and other intangible assets acquired in a merger or acquisition by a not-for-profit organization. That delay is effective until this proposed Statement and the provisions in the proposed Statement on mergers and acquisitions by not-for-profit organizations become effective. Before that delayed effective date is removed by this proposed Statement, not-for-profit organizations are required to apply APB Opinion No. 17, *Intangible Assets.* Opinion 17 requires that an entity amortize, by systematic charges to income, goodwill and other intangible assets over the period estimated to be benefited, which should not exceed 40 years.

Project Approach

B5. When beginning the development of this proposed Statement and the proposed Statement on mergers and acquisitions by not-for-profit organizations, the Board affirmed its belief that accounting standards should result in accounting for similar transactions and circumstances similarly and accounting for different transactions and circumstances differently. Thus, in developing this proposed Statement, the Board began with the presumption that the provisions of Statement 142 are relevant to a not-for-profit organization unless circumstances unique to a not-for-profit organization justify a departure from those standards.

B6. As observed in the proposed Statement on mergers and acquisitions by not-for-profit organizations, the Board considered whether there are fundamental differences between mergers and acquisitions by not-for-profit organizations and business combinations. Because a not-for-profit acquiree lacks ownership interests like business entities, negotiations in some of those mergers and acquisitions focus on the furtherance of the mission, governance, and programs for the benefit of the public rather than focusing on maximizing returns for equity holders. Unlike acquisitions in which the consideration transferred in exchange for the acquiree provides evidence of the fair value of the acquiree, many mergers and acquisitions by not-for-profit organizations involve a gift. Also, some activities are not business-like, and, thus, valuation of those activities is more difficult. In the proposed Statement on mergers and acquisitions by not-for-profit organizations, the Board concluded that because of those differences, an acquiring not-for-profit organization should be exempt from a requirement to measure the fair value of the acquiree as a whole at the acquisition date. That decision also influenced the Board's considerations in this proposed Statement about whether goodwill acquired by a not-for-profit organization should be evaluated for impairment using the same requirements as for-profit entities.

Basis for Conclusions

Benefits and Costs

B7. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement a new standard are borne primarily by the reporting entity. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

B8. The Board believes that the requirements of this proposed Statement would result in improved financial reporting for goodwill and other intangible assets after they have been initially recognized in the financial statements of a not-for-profit organization. This proposed Statement would:

a. **Increase consistency and comparability of information about other intangible assets acquired by not-for-profit organizations in a merger or acquisition.** This proposed Statement would conform the accounting by a not-for-profit organization for intangible assets acquired in a merger or acquisition with the accounting for all other acquired intangible assets—whether purchased or donated or whether acquired individually or as part of a group.
b. **Increase comparability of the evaluation for the impairment of goodwill and indefinite-lived intangible assets.** Statement 142, as amended by this proposed Statement, would provide specific guidance for evaluating goodwill and indefinite-lived intangible assets for impairment, whereas Opinion 17 provides minimal guidance about those determinations.
c. **Improve representational faithfulness of impairments of goodwill.** Statement 142, as amended by this proposed Statement, would prohibit the amortization of recognized goodwill over a mandated arbitrary maximum useful life. Rather, it would require an evaluation of goodwill for impairment periodically and upon specific events. It also would require reporting impairment losses in the period those impairments are indicated by that evaluation. The appropriate balance of both relevance and reliability and costs and benefits is central to this approach.
d. **Enhance disclosures about goodwill and intangible assets subsequent to their acquisition.** Statement 142, as amended by this proposed Statement, would require that entities provide information about the expectations and changes in those assets over time. That requirement would improve the ability of users of financial statements to assess management's stewardship and performance and future cash flows.

B9. The Board sought to reduce the costs of applying this proposed Statement without significantly reducing the expected benefits. The Board believes this proposed Statement would do that by:

a. Requiring a qualitative method to evaluate impairment for goodwill that is assigned to reporting units that are primarily supported by contributions and returns on investments. For those reporting units, a not-for-profit organization would be exempt from the requirement to use a quantitative method to evaluate goodwill, which would require an organization to measure the fair value of the reporting unit. Rather, this proposed Statement would require that goodwill be evaluated for impairment by assessing whether identified qualitative impairment events have occurred. The Board believes that the qualitative evaluation would be less costly to apply than the fair-value-based evaluation.
b. Requiring that the allocation of the carrying amount of goodwill be based on the **relative carrying amounts** of the identifiable net assets in disposals and

reorganizations of reporting units that are primarily supported by contributions and returns on investments rather than the relative fair values of the net assets as required by Statement 142.

c. Applying its provisions prospectively rather than retrospectively.

The Board acknowledges that those steps may result in some sacrifice to the benefits of improved financial reporting in accordance with this proposed Statement. However, the Board believes that the benefits would not justify the complexities and related costs of requiring an organization to measure the fair value of a reporting unit, to measure the relative fair values of the net assets, and to apply this proposed Statement retrospectively.

Identifiable Intangible Assets Acquired by a Not-for-Profit Organization in a Merger or Acquisition

B10. The proposed Statement on mergers and acquisitions by not-for-profit organizations would require that the acquirer separately recognize the acquisition date fair value of identifiable intangible assets (with certain exceptions) acquired in a merger or acquisition. An asset is identifiable if "it arises from contractual or other legal rights (the contractual-legal criterion) or is separable (separability criterion). Intangible assets that meet the contractual-legal criterion are identifiable even if the asset is not transferable or separable from an acquiree or from other rights and obligations" (paragraph 17 of the proposed Statement on mergers and acquisitions by not-for-profit organizations).

B11. By removing Statement 142's delayed effective date, this proposed Statement would require that those identifiable intangible assets be accounted for in accordance with Statement 142. In accordance with that Statement, the acquirer would need to determine the useful life of intangible assets, amortize finite-lived intangible assets over that life, and assess both finite-lived and indefinite-lived intangible assets for impairment.

B12. The Board affirmed its support for the application of Statement 142 to identifiable intangible assets acquired in a merger or acquisition and the removal of the delayed effective date because the provisions within the proposed Statement on mergers and acquisitions by not-for-profit organizations would provide the guidance for the initial recognition of those assets. The final issuance of that guidance would remove the need for that delay. Additionally, the Board observed that Statement 142 applies to identifiable intangible assets that are acquired by not-for-profit organizations other than in a merger or acquisition. Removing that delay would increase the comparability and understandability of the information reported for identifiable intangible assets following their acquisition.

Goodwill—Subsequent Recognition and Measurement

B13. The Board observed that not-for-profit organizations possess certain characteristics that distinguish them from business entities. However, the Board concluded that, in concept, goodwill acquired by a not-for-profit organization is similar to goodwill acquired by business entities in most important aspects. Accordingly, the Board affirmed its decision, as explained in paragraph B16 of Statement 142, that the provisions of Statement 142 should apply to all entities, including not-for-profit organizations. At that time, the

Board explained that goodwill acquired in a merger or acquisition should be included in the scope of Statement 142. However, the Board:

> . . . agreed to delay the effective date of [Statement 142] as it applies to not-for-profit organizations . . . until it completes the project on its agenda addressing issues related to [mergers and acquisitions by] those entities. The Board noted that goodwill . . . acquired in those types of [mergers or acquisitions] would be accounted for in the same manner as goodwill and intangible assets acquired in business combinations unless distinguishing characteristics or circumstances are identified justifying a different accounting treatment. [paragraph B16 of Statement 142]

Rejection of Amortization and Immediate Write-Off Approaches

B14. Paragraph 6 of this proposed Statement states that goodwill acquired in a merger or acquisition by a not-for-profit organization is an indefinite-lived intangible asset that is not subject to amortization. In this proposed Statement, the Board affirmed the conclusion reached in Statement 142 that goodwill should be reviewed for impairment subsequent to its initial recognition. The Board rejected three alternatives, each of which had previously been considered when developing Statement 142. Those alternatives are to write off goodwill immediately, to amortize goodwill over a useful life, and to segregate goodwill into nonwasting and wasting portions and amortize the latter portion. The reasons for rejecting those alternatives, which are more fully discussed in paragraphs B69–B100 of Statement 142, include that:

a. Some portion or all of what is recognized as goodwill may not decline in value; it may have an indefinite useful life that could last as long as the entity continues as a going concern.
b. It would be impractical to separate the portion of recognized goodwill that might not be a wasting asset from the portion that is a wasting asset.
c. Neither straight-line amortization of goodwill over an arbitrary period nor the immediate write-off of goodwill subsequent to its initial recognition in a merger or acquisition reflects economic reality and, thus, neither of those alternatives would provide useful information.
d. Improvements to the criteria (in proposed FASB Statement, *Business Combinations*, referred to in this proposed Statement as *proposed Statement 141(R)*, and the proposed Statement on mergers and acquisitions by not-for-profit organizations) for separating intangible assets from goodwill would reduce the portion of recognized goodwill that under prior practice may have included wasting assets.
e. Nonamortization of goodwill combined with an adequate impairment evaluation would provide financial information that more faithfully reflects the economic effect of acquired goodwill.

Evaluating Goodwill for Impairment

B15. Paragraph 7 of this proposed Statement would require that goodwill be evaluated for impairment, and paragraph 8 describes the following four steps to implement that requirement:

a. Determine the reporting unit or units of the not-for-profit organization.
b. Assign the assets acquired (including goodwill) and liabilities assumed to the reporting unit or units.
c. Determine the appropriate method of evaluating goodwill for impairment by determining a reporting unit's primary support. Evaluate the continued appropriateness of the selected method by assessing whether there has been a change in the nature of the reporting unit's primary support.
d. Evaluate goodwill for impairment using either the qualitative evaluation or the fair-value-based evaluation, depending on the nature of the reporting unit's primary support.

Determining and assigning assets and liabilities to reporting units

B16. This proposed Statement would extend to not-for-profit organizations Statement 142's requirements for determining reporting units and assigning assets and liabilities to those units.

Determining a reporting unit

B17. Statement 142 requires that the relevant provisions of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* and related interpretive literature be used to determine the reporting units in evaluating goodwill. Statement 131 excludes not-for-profit organizations from its requirements to report information about its operating segments. Nevertheless, this proposed Statement would require a not-for-profit organization to apply the guidance in Statement 131 for determining its reporting units because the Board concluded that the guidance in Statement 131 is relevant to not-for-profit organizations and is helpful in determining their operating segments. The relevant guidance from Statement 131 for determining the operating segments is summarized in paragraphs 9–16. In reaching its conclusion to extend the requirements of Statement 131 to not-for-profit organizations for this limited purpose, the Board noted that:

a. Many entities that are not required to apply Statement 131, including not-for-profit organizations, have internal reporting systems that gather or are capable of gathering the data necessary to evaluate goodwill for impairment at a level below the entity level (a segment level).
b. The guidance in Statements 131 and 142 is sufficient for and relevant to those entities that are not required to apply Statement 131 and that have two or more reporting units to evaluate for goodwill impairments.

c. The guidance allows for circumstances in which a reporting unit level may be the same as the entity level, as is often the case for small not-for-profit organizations.
d. Not-for-profit organizations are required to evaluate goodwill for impairment at the entity level if that level meets the definition of a reporting unit.

Assigning assets and liabilities to reporting units

B18. Paragraphs 32–35 of Statement 142 provide guidance on assigning assets and liabilities to reporting units. The Board concluded that the guidance in that Statement generally is appropriate and relevant for purposes of assigning assets and liabilities to a not-for-profit organization's reporting units, regardless of the nature of a reporting unit's primary support. However, the Board decided that it is not practical, cost-effective, or otherwise appropriate to require a not-for-profit organization to determine whether a particular asset or liability should be included as part of the fair value of an acquiree as a basis for assigning assets and liabilities to reporting units that are primarily supported by contributions and returns on investments. That decision is consistent with the reasons underlying the Board's decision in the proposed Statement on mergers and acquisitions by not-for-profit organizations not to require the measurement of the fair value of a not-for-profit acquiree in a merger or acquisition and the reasons for developing a qualitative evaluation of goodwill in this proposed Statement (see paragraphs B25–B27). Accordingly, the Board decided that the requirements in paragraphs 17–21 of this proposed Statement generally are consistent with the guidance in Statement 142. However, for purposes of assigning assets and liabilities to reporting units that apply the qualitative evaluation, those requirements would exclude the Statement 142 criterion that is based on the fair value measurement of the acquiree.

Determining a reporting unit's primary support

B19. The Board considered whether the fair-value-based evaluation for goodwill prescribed by Statement 142 is adequate, feasible, and appropriate for application to all mergers and acquisitions by not-for-profit organizations. The Board concluded that the adequacy, feasibility, and appropriateness of that impairment evaluation depends on the nature of a reporting unit's primary support.

B20. The Board concluded that the fair-value-based evaluation often is impracticable for reporting units that are primarily supported by contributions and returns on contributed investments. In those circumstances, the reporting unit and the continued existence of its related goodwill primarily rely on continuing support from contributions, returns of investments, or a combination of both. Consistent with its reasons for not requiring a not-for-profit organization to measure the fair value of a not-for-profit acquiree in a merger or acquisition, the Board believes that it may be difficult to forecast future gifts for the purpose of determining the fair value of a reporting unit and evaluating goodwill for impairment. Moreover, identifying and allocating future unrestricted income would be problematic in those circumstances because those contributions and investment income generally are identified with the entity rather than with any particular reporting unit. For example, attributing future contributions to reporting units often requires arbitrary and subjective judgments because donors frequently provide gifts to an organization rather than to a specific reporting unit or activity. As a result, the Board considered another method for evaluating goodwill for impairment that would be better suited to reporting units for which it is difficult to reliably determine the fair value. The Board's objective in developing that method was to provide information that would be useful to donors, creditors, and other users of an organization's financial statements at a cost that is justified in relation to the expected benefits of that information. The Board concluded, for the reasons discussed in paragraphs B25–B27, that this proposed Statement's qualitative evaluation achieves that objective.

B21. The Board concluded that requiring the qualitative evaluation for **all** reporting units that are primarily supported by contributions and returns on investments results in fewer operational difficulties as compared with other possible approaches. For example, another approach might be to define fees for services and other business-like activities and require reporting units that are supported by those fees and activities to apply the fair-value-based evaluation of goodwill. The Board reached that conclusion because contributions are well defined and that definition is currently applied in other financial accounting guidance. For example, FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* provides guidance on identifying contributions. Moreover, operational complexity would be reduced because, as a rule, reporting units that are supported primarily by contributions and returns on investments are required to apply the qualitative evaluation. The Board observed that tracking investment returns on contributed assets separately from returns on other investments is impractical.

B22. For reporting units that are primarily supported by resources other than contributions and returns on investments, the Board considered whether there were any reasons to depart from the fair-value-based evaluation described in Statement 142. The Board concluded that the fair-value-based evaluation in Statement 142 should be applied to those reporting units because:

a. Goodwill that is assigned to those reporting units is supported by resources similar to the resources of a for-profit entity, such as fees charged for goods or services.
b. A not-for-profit organization should be able to apply the fair-value-based evaluation described in Statement 142 with the same reliability as a for-profit entity because of well-developed markets and valuation methods for for-profit entities, provided that the reporting unit continues to be operated in a manner similar to a for-profit entity in that it is self-sustaining from fees it charges for goods and services. For example, in those reporting units, assessments of the amounts, timing, and uncertainty of cash flows may be the dominant interest of creditors and other resource providers, and profitability may be an important indicator of the performance of those units.

B23. The Board observed that the proposed Statement on mergers and acquisitions by not-for-profit organizations would require the use of a single approach (referred to as the net asset approach) for the recognition of acquired goodwill. Similarly, this proposed Statement would require that all goodwill be evaluated for impairment. While the mechanics of the fair-value-based evaluation and the qualitative evaluation are different, the objective of those two evaluations is the same—recognizing an impairment loss and a decrease in goodwill when it becomes impaired.

Assessing the nature of a reporting unit's primary support

B24. In determining a reporting unit's primary support, paragraph 22 of this proposed Statement would require that an organization "consider all relevant qualitative and quantitative factors," including all forms of contributed support, even unrecognized contributions such as contributed services and conditional promises. After carefully considering costs and benefits, the Board rejected an approach that would have required an organization to quantify all forms of contributed support solely for purposes of evaluating goodwill for impairment. The Board noted that qualitative factors may provide evidence about the nature of a reporting unit's primary support, especially when an organization receives significant amounts of unrecognized contributed support that the organization has not quantified. Therefore, the Board supported an assessment of all relevant quantitative and qualitative factors because both types of factors are useful in assessing how a reporting unit is primarily supported.

Qualitative evaluation

B25. The qualitative evaluation in this proposed Statement would require an acquirer to identify at the acquisition date the reasons why goodwill arose in the merger or acquisition. The acquirer also would determine at that time potential impairment events whose occurrence would indicate that goodwill is impaired. Upon the occurrence of one of the identified events, an acquirer would recognize a goodwill impairment loss equal to the reporting unit's carrying amount of goodwill.

B26. The Board noted that the qualitative evaluation approach requires no measurement of goodwill and, therefore, that approach alleviates concerns about the measurability of the fair value of reporting units that are primarily supported by contributions and investment returns. Unlike the quantitative requirements for Statement 142's fair-value-based evaluation for goodwill impairment, the qualitative evaluation focuses only on impairment events. The Board acknowledges that this approach may decrease the relevance and representational faithfulness of the financial statements. The Board believes that impairments often occur in several increments; thus, the amount of goodwill could be overstated until one of the identified events occurs. Because this approach would require the write-off of all goodwill upon the occurrence of an impairment event, there also is the potential that goodwill would be understated, perhaps permanently, if that portion of goodwill is a nonwasting asset.

B27. The Board also considered whether goodwill assigned to reporting units that are primarily supported by contributions and returns on investments should be immediately written off after the acquisition. Consistent with its conclusion in Statement 142, the Board rejected that alternative because:

a. Goodwill meets the definition of an asset regardless of whether it is acquired by a business entity or by a not-for-profit organization.

b. The financial statements of a not-for-profit organization are more representationally faithful using the qualitative evaluation of goodwill versus the recognition of immediate goodwill impairment. Virtually no event other than a catastrophe could occur in which goodwill instantaneously becomes worthless. Therefore, the qualitative evaluation is more likely to result in the recognition of a significant impairment in the period in which it occurs. The use of the qualitative evaluation also provides information to assess management's stewardship for the effective use of the assets employed in the reporting unit to which the goodwill is assigned. Additionally, if goodwill was immediately written off when in fact it was not impaired, the amount of goodwill reported on the balance sheet would be understated.

c. Although the impairment evaluation is qualitative for reporting units that are primarily supported by contributions and returns on investments, evaluating goodwill for impairment after the acquisition is consistent with Statement 142. The impairment of goodwill would provide decision-useful information that is comparable and understandable.

Changes in the nature of a reporting unit's primary support

B28. Because this proposed Statement would require alternative methods to evaluate goodwill for impairment based on the nature of the reporting unit's primary support, the Board decided that this proposed Statement also should provide guidance on how changes to a reporting unit's primary support affect the method for evaluating goodwill impairment. Paragraphs B29–B35 discuss the Board's conclusions on changes in the nature of a reporting unit's primary support other than those that result from a disposal or reorganization of a reporting unit. Paragraphs B36–B39 discuss the Board's conclusions on those changes that result from a disposal or reorganization.

Reporting unit no longer primarily supported by contributions and returns on investments

B29. Paragraph 27 of this proposed Statement would require that an organization apply Statement 142's fair-value-based evaluation when goodwill assigned to a reporting unit becomes primarily supported by resources other than contributions and returns on investments. The Board reasoned that when the nature of the reporting unit to which acquired goodwill is assigned changes, the method of evaluating that goodwill for impairment also changes. That requirement is consistent with the Board's decision to apply either the qualitative evaluation or the fair-value-based evaluation, depending on the nature of the reporting unit. Therefore, the Board concluded that Statement 142's fair-value-based evaluation should be required as of the date when a reporting unit that has been assigned goodwill that is subject to the qualitative evaluation is no longer primarily supported by contributions and returns on investments.

Reporting unit becomes primarily supported by contributions and returns on investments

B30. Paragraph 27 of this proposed Statement would require that an organization consider whether a change in the reporting unit's primary support indicates that goodwill is impaired. It would require an organization to assess whether the goodwill is significantly impaired based on its judgment on whether the change itself indicates a significant impairment. If goodwill is significantly impaired, the organization would recognize an impairment loss equal to the carrying value of the goodwill related to the reporting unit. Otherwise, the not-for-profit organization would identify impairment events as of the date of the change. The Board reached that conclusion because when the nature of the reporting unit to which acquired goodwill is assigned changes, the method of evaluating that goodwill for impairment also changes.

B31. In reaching that conclusion, the Board also considered whether any change in the support for a reporting unit to which goodwill is assigned is an event that indicates possible impairment. It observed that a reduction in support from resources other than contributions and returns on investments may indicate goodwill impairment. However, that reduction also could result from other circumstances, such as a decision to increase the level of charity services provided to an organization's beneficiaries. Therefore, the Board rejected approaches in which all changes in support for a reporting unit either are ignored or result in an immediate impairment. Rather, the Board decided that an organization should evaluate goodwill because goodwill impairment depends on the facts and circumstances that exist at the date of change.

B32. The Board also considered whether this proposed Statement should require that an organization perform a final fair-value-based evaluation as of the date a reporting unit becomes primarily supported by contributions and returns on investments. The Board rejected that alternative because performing that evaluation might ignore the possibility that the change itself is an indication that the goodwill is impaired. Performing a final fair-value-based evaluation would have required an organization to determine the reporting unit's fair value. That determination would have required the use of market participant information for similar reporting units that are supported by resources other than contributions and returns on investments. Evaluating goodwill for impairment in such a manner would have excluded possible impairment related to the change itself. Moreover, requiring that the reporting unit's fair value be determined by using information that corresponds to the future use or funding structure of the reporting unit would have been inconsistent with the reasons for this proposed Statement's requirement of the qualitative evaluation, rather than the fair-value-based evaluation required by Statement 142.

B33. Lastly, the Board considered whether to require that a not-for-profit organization retrospectively identify qualitative impairment events as of the date the goodwill was acquired. Under that alternative, at the date that the reporting unit to which the goodwill is assigned becomes primarily supported by contributions and returns on investments, an organization would have been required to determine whether goodwill should be written off as impaired based on those events. The Board rejected that alternative because of concerns about the relevance and reliability of a retrospective identification process. That is, in identifying impairment events it might be impossible to avoid consideration of events and circumstances that arose subsequent to the acquisition date.

Determining the date the change occurred

B34. Because some changes in the nature of a reporting unit's primary support occur gradually over time, the Board considered at what point and how often an organization should be required to evaluate the reporting unit's primary support. Paragraph 24 of this proposed Statement requires that a not-for-profit organization evaluate its reporting units that include recorded goodwill at least annually (and between annual determinations if the facts and circumstances indicate that there has been a change in the nature of a reporting unit's primary support) to determine the continued appropriateness of the goodwill impairment evaluation method applied.

B35. Goodwill would cease to be evaluated in accordance with the fair-value-based evaluation on the date that the reporting unit to which it is assigned becomes primarily supported by contributions and returns on investments. Similarly, goodwill would be evaluated in accordance with the fair-value-based evaluation on the date that the reporting unit to which it is assigned becomes primarily supported by resources other than contributions and returns on investments.

Disposal or reorganization of a reporting unit subject to the qualitative evaluation

B36. For reporting units subject to the qualitative evaluation, the Board considered how the carrying amount of goodwill should be reallocated to reporting units or portions of reporting units that are disposed of or reorganized. The Board rejected the allocation of the carrying amount of goodwill based on a relative fair value basis (the allocation method that is required for reporting units that are evaluated using the fair-value-based evaluation approach) because determining the relative fair values of the reporting units or portions of the reporting units may be impracticable or unduly costly. For example, the Board noted that oftentimes the disposed-of portion, the retained portion, or both, may be primarily supported by contributions and returns on investments, and the disposed-of portion may be transferred in a nonreciprocal transaction. In those circumstances, the disposal transaction provides no readily available evidence of the fair value of the disposed-of portion.

B37. The Board believes the guidance for reassigning goodwill in reorganizations should be consistent with the guidance for assigning goodwill in a partial disposal of a reporting unit. The Board concluded that although any allocation approach is arbitrary, applying a single approach for reassigning goodwill to reporting units that are primarily supported by contributions and returns on investments offers more consistent allocation. Therefore, to increase the consistency in the application of the qualitative evaluation, the reallocation of goodwill would be based on the relative carrying amount of goodwill for all reporting units subject to the qualitative evaluation rather than based on relative fair value.

B38. The Board concluded that the carrying amount of goodwill should be allocated based on the **relative carrying amounts** of the identifiable net assets of each portion. The Board reached that conclusion based on a consideration of the relative costs and benefits in circumstances in which all or a portion of a reporting unit is primarily supported by contributions and returns on investments. Specifically, incremental costs are incurred to determine the fair value of the separate portions (disposed of and retained or resulting from reorganization) or of the identifiable net assets assigned to each portion. Those costs are higher for reporting units that are supported by contributions and returns on investments than for other reporting units. Moreover, those costs are not outweighed by a corresponding benefit because the expected benefits of allocating goodwill based on the fair value method versus the relative carrying amounts are insignificant for those reporting units.

B39. The Board observed that a not-for-profit organization may be able to specifically identify the carrying amount of goodwill that relates to a particular reporting unit or portion of a reporting unit. The Board concluded that the carrying amount of goodwill should be allocated based on specific identification of goodwill with the portion disposed of and the portion retained, if possible. The reason for that conclusion is that if a portion of a reporting unit is historically segregated, the benefits of the goodwill acquired are not realized by any other portion of the reporting unit.

Financial Statement Presentation of Goodwill and Impairment Losses

B40. Paragraph 50 of this proposed Statement requires a not-for-profit organization to present the aggregate amount of goodwill as a separate line item in the statement of financial position. The Board affirmed its conclusion in Statement 142 that goodwill is a unique asset that may be assessed differently by different users of financial statements. The Board believes that separate presentation would make identifying and analyzing the changes to goodwill easier. Therefore, the Board concluded that separate display of goodwill would be appropriate.

B41. FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* permits (but neither encourages nor requires) additional classifications within the statement of activities, which may include an intermediate measure of operations such as results from operations. Some organizations currently elect to provide an intermediate measure of operations. The Board concluded in this proposed Statement that the presentation requirements for goodwill impairment losses should be no more restrictive than existing generally accepted accounting principles, except that those goodwill impairment losses would be presented separately.

B42. Health care organizations are subject to additional presentation requirements for an intermediate measure of operations (referred to as a performance indicator) in the AICPA Audit and Accounting Guide, *Health Care Organizations.* Statement 142, as amended by this proposed Statement, would require that an entity that presents a subtotal such as income from continuing operations include the amounts of those impairment losses, unless a goodwill impairment loss is associated with a discontinued operation. Health care organizations that are required to apply the health care Guide would be required to include transactions within the performance indicator that are reported in income from continuing operations. Therefore, health care organizations that are required to apply the health care Guide would include goodwill impairment losses in their performance indicator based on that guidance.

Disclosures

B43. The Board concluded that the same basic disclosures required for business entities in Statement 142 also should be required for not-for-profit organizations (paragraphs 51–55 of this proposed Statement). In reaching that conclusion, the Board affirmed its conclusions in Statement 142 about the expected benefits and utility from information about identifiable intangible assets and goodwill subsequent to an acquisition.

B44. The Board also decided that not-for-profit organizations should be required to disclose:

a. Information about changes in the carrying amount of goodwill separately for goodwill that is subject to each of the two impairment evaluation methods—the qualitative evaluation and the fair-value-based evaluation
b. The method of impairment evaluation used to determine a goodwill impairment loss.

The Board reasoned that although the objective is the same, the process and precision of the two goodwill impairment evaluation methods are sufficiently different to justify disclosures based on the method of impairment evaluation.

Effective Date and Transition

B45. The Board concluded that the transition requirements in Statement 142 should apply equally to not-for-profit organizations.

B46. In developing Statement 142, the Board expected that the fair-value-based evaluation for goodwill would be more robust than previous impairment tests under Opinion 17 and FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* Because of changes in the impairment evaluation, evaluating goodwill for impairment could result in losses upon application of Statement 142 that did not relate to impairment loss in the current period. Therefore, the purpose of the transitional goodwill impairment evaluation required by Statement 142 was to determine the amount of loss attributable to the change in the method of impairment evaluation rather than to current impairment.

B47. The Board considered the need for transitional guidance upon initial application of this proposed Statement for previously reported goodwill assigned by a not-for-profit organization to a reporting unit that is primarily supported by contributions and returns on investments. Statement 142 prohibits retroactive application, and the Board concluded in this proposed Statement that retroactive application of the qualitative evaluation for goodwill is problematic. Therefore, the only impairment losses that would be recognized under that impairment method result from impairment events that occur on or after the date this proposed Statement is initially applied. Impairment losses caused by events that occur after application of this proposed Statement would be reported as losses of the period rather than losses primarily related to the change in accounting principle.

B48. For reporting units that are primarily supported by contributions and returns on investments, this proposed Statement would require that the impairment events that trigger the write-off of goodwill be identified based on the facts and circumstances existing at the date that this proposed Statement is initially applied. That approach is consistent with the requirement in Statement 142 that reporting units be identified and goodwill be assigned to them based on the reporting structure at the date this proposed Statement is initially applied.

Appendix C

AMENDED PARAGRAPHS OF STATEMENT 142 MARKED TO SHOW CHANGES MADE BY THIS STATEMENT

INTRODUCTION

C1. This appendix contains paragraphs 4–62 of Statement 142, as amended. This appendix also includes the amendments proposed in paragraph D22 of proposed FASB Statement, *Business Combinations* (referred to as *proposed Statement 141(R)*), and paragraph D18 of proposed FASB Statement, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries.* The proposed amendments from those two proposed Statements are incorporated (unmarked) into the text below as if those two proposed Statements were final. As noted in paragraph B12 of proposed FASB Statement, *Not-for-Profit Organizations: Mergers and Acquisitions,* the Board has begun its redeliberations on proposed Statement 141(R) and is in the process of considering potential revisions to that guidance before it issues final Statements. Therefore, if the proposed amendments are changed in the redeliberations of those proposals, the final amendments to Statement 142 would reflect those changes. The amendments that result from this Statement are shown as marked additions or ~~deletions~~.

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Paragraph
Numbers

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

4. The initial recognition and measurement provisions of this Statement apply to **intangible assets**[2] acquired individually or with a group of other assets (but not those acquired in a business combination or a merger or acquisition by a not-for-profit organization).[3] The remaining provisions of this Statement apply to **goodwill** that an entity[4] recognizes in accordance with Statement 141(R) and FASB Statement No. 1XA, *Not-for-Profit Organizations: Mergers and Acquisitions*, and to other intangible assets that an entity acquires, whether individually, with a group of other assets, ~~or~~ in a business combination, or in a merger or acquisition by a not-for-profit organization. While goodwill is an intangible asset, the term *intangible asset* is used in this Statement to refer to an intangible asset other than goodwill.

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[2]Terms defined in Appendix F, the glossary, are set forth in **boldface** type the first time they are used.

[3]Statement 141(R) addresses the initial recognition and measurement of intangible assets acquired in a business combination. Statement 1XA addresses the initial recognition and measurement of intangible assets acquired in a merger or acquisition by a not-for-profit organization.

[4]This Statement applies to a business enterprise, a **mutual enterprise,** and a **not-for-profit organization,** each of which is referred to herein as an *entity*.

5. This Statement applies to costs of internally developing goodwill and other unidentifiable intangible assets with indeterminate lives. Some entities capitalize costs incurred to develop identifiable intangible assets, while others expense those costs as incurred. This Statement also applies to costs of internally developing identifiable intangible assets that an entity recognizes as assets (Opinion 17, paragraphs 5 and 6).

6. This Statement applies to goodwill and other intangible assets that were recognized on the acquisition of some or all of the noncontrolling interests in a subsidiary before [effective date to be determined in business combinations project] ~~December 15, 2006~~ (the effective date of FASB Statement No. 141 (revised 2005)), *Business Combinations,*~~—~~ whether acquired by the parent, the subsidiary itself, or another affiliate.[5] This Statement, including its transition provisions, applies to amounts recognized as goodwill in applying the equity method of accounting and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.* That excess reorganization value shall be reported as goodwill and accounted for in the same manner as goodwill.

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[5]FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries,* which became effective [effective date to be determined in business combinations project] ~~on December 15, 2006~~, requires ~~acquisitions of~~an acquisition of a noncontrolling interest~~s~~ in a subsidiary to be accounted for as an equity transaction~~s~~. Thus, no goodwill or other intangible assets would be recognized on acquisitions of noncontrolling interests after the effective date of that Statement.

7. [This paragraph has been deleted. See Status page.]

8. Except as described in Appendix D, this Statement does not change the accounting prescribed in the following pronouncements:

a. FASB Statement No. 2, *Accounting for Research and Development Costs*
b. FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*
c. [This subparagraph has been deleted. See Status page.]
d. FASB Statement No. 50, *Financial Reporting in the Record and Music Industry*
e. FASB Statement No. 61, *Accounting for Title Plant*
f. FASB Statement No. 63, *Financial Reporting by Broadcasters*
g. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation* (paragraphs 29 and 30)
h. [This subparagraph has been deleted. See Status page.]
i. FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*
j. FASB Statement No. 109, *Accounting for Income Taxes* (a deferred tax asset)
k. FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (a servicing asset or liability).
l. [This subparagraph has been deleted. See Status page.]
m. [This subparagraph has been deleted. See Status page.]

Initial Recognition and Measurement of Intangible Assets

9. An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination or those acquired in a merger or acquisition by a not-for-profit organization) shall be initially recognized and measured based on its **fair value.** General concepts related to the initial measurement of assets acquired in exchange transactions, including intangible assets, are provided in paragraphs C2–C7 of Statement 141(R) and paragraphs A84–A90 of Statement 1XA.[6] The cost of a group of assets acquired in a transaction other than a business combination (or a merger or acquisition by a not-for-profit organization) shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to goodwill.[7] Intangible assets acquired in a business combination are initially recognized and measured in accordance with Statement 141(R).[8] Similarly, intangible assets acquired in a merger or acquisition by a not-for-profit organization are initially recognized and measured in accordance with Statement 1XA. Intangible assets acquired in a business combination (or a merger or acquisition by a not-for-profit organization) that are to be used in a particular research and development project shall be recognized as intangible assets and accounted for in accordance with this Statement. However, research and development expenditures related to those assets incurred internally after the date of acquisition shall be accounted for in accordance with Statement 2, as amended.

[6]Although those paragraphs refer to determining the cost of the assets acquired, both paragraph 20 of Statement 141(R) and paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*,

note that, in general, cost should be measured based on the fair value of the consideration given or the fair value of the net assets acquired, whichever is more reliably measurable.

[7]Statement 141(R) and Statement 1XA require~~s~~ intangible assets acquired in a business combination or a merger or acquisition by a not-for-profit organization that do not meet certain criteria to be included in the amount initially recognized as goodwill. Those recognition criteria do not apply to intangible assets acquired in transactions other than business combinations or a merger or acquisition by a not-for-profit organization.

[8][This footnote has been deleted. See Status page.]

Internally Developed Intangible Assets

10. Costs of internally developing, maintaining, or restoring intangible assets (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, shall be recognized as an expense when incurred (Opinion 17, paragraph 24).

Accounting for Intangible Assets

Determining the Useful Life of an Intangible Asset

11. The accounting for a recognized intangible asset is based on its **useful life** to the reporting entity. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. The useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity.[9] The estimate of the useful life of an intangible asset to an entity shall be based on an analysis of all pertinent factors, in particular:

a. The expected use of the asset by the entity
b. The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate
c. Any legal, regulatory, or contractual provisions that may limit the useful life
d. Any legal, regulatory, or contractual provisions that enable renewal or extension of the asset’s legal or contractual life without substantial cost (provided there is evidence to support renewal or extension and renewal or extension can be accomplished without material modifications of the existing terms and conditions)
e. The effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels)
f. The level of maintenance expenditures required to obtain the expected future cash flows from the asset (for example, a material level of required maintenance in relation to the carrying amount of the asset may suggest a very limited useful life).[10]

If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term *indefinite* does not mean infinite. Appendix A includes illustrative examples of different intangible assets and how they should be accounted for in accordance with this Statement, including determining whether the useful life of an intangible asset is indefinite.

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[9]The useful life of an intangible asset shall reflect the period over which it will contribute to the cash flows of the reporting entity, not the period of time that it would take that entity to internally develop an intangible asset that would provide similar benefits.

[10]As in determining the useful life of depreciable tangible assets, regular maintenance may be assumed but enhancements may not.

Intangible Assets Subject to Amortization

12. A recognized intangible asset shall be amortized over its useful life to the reporting entity unless that life is determined to be indefinite. If an intangible asset has a finite useful life, but the precise length of that life is not known, that intangible asset shall be amortized over the best estimate of its useful life. The method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method shall be used. An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period.[11]

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[11]Statement 2 requires amounts assigned to intangible assets acquired in an asset purchase that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.

13. The amount of an intangible asset to be amortized shall be the amount initially assigned to that asset less any **residual value.** The residual value of an intangible asset shall be assumed to be zero unless at the end of its useful life to the entity the asset is expected to continue to have a useful life to another entity and (a) the reporting entity has a commitment from a third party to purchase the asset at the end of its useful life or (b) the residual value can be determined by reference to an exchange transaction in an existing market for that asset and that market is expected to exist at the end of the asset's useful life.

14. An entity shall evaluate the remaining useful life of an intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset shall be amortized prospectively over that revised remaining useful life. If an intangible asset that is being amortized is subsequently determined to have an indefinite useful life, the asset shall be tested for impairment in accordance with paragraph 17. That intangible asset shall no longer be amortized and shall be accounted for in the same manner as other intangible assets that are not subject to amortization.

Recognition and Measurement of an Impairment Loss

15. An intangible asset that is subject to amortization shall be reviewed for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* by applying the recognition and measurement provisions in paragraphs 7–24 of that Statement. In accordance with Statement 144, an impairment loss shall be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited.

Intangible Assets Not Subject to Amortization

16. If an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite. An entity shall evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset shall be tested for impairment in accordance with paragraph 17. That intangible asset shall then be amortized prospectively over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization. Intangible assets that are acquired in a business combination or a merger or acquisition by a not-for-profit organization for use in a particular research and development project and that have no alternative future uses shall be considered *indefinite-lived* until the completion or abandonment of the associated research and development efforts, at which point the acquirer would make a separate determination of the useful life of that asset.

Recognition and Measurement of an Impairment Loss

17. An intangible asset that is not subject to amortization shall be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. (Paragraph 8 of Statement 144 includes examples of impairment indicators.) The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited.

Accounting for Goodwill by a For-Profit Entity

[Paragraphs 18–40 are not included because those provisions in Statement 142 are irrelevant to not-for-profit organizations.]

Accounting for Goodwill by a Not-for-Profit Organization

40A. A not-for-profit organization may be required to recognize goodwill acquired in a merger or acquisition. Goodwill is an indefinite-lived intangible asset that is not subject to amortization. An organization shall evaluate goodwill for impairment and shall recognize a loss if and to the extent that, pursuant to this Statement, goodwill is determined to be impaired.

40B. A not-for-profit organization shall evaluate goodwill for impairment at a level of reporting referred to as a reporting unit. An organization shall use one of the following two methods to evaluate goodwill for impairment. The method used depends on the nature of the financial support of a reporting unit. An organization shall:

a. Evaluate goodwill assigned to a reporting unit that is primarily supported by contributions and returns on investments using the **qualitative evaluation** described in paragraphs 40AB–40AE of this Statement. In that evaluation, goodwill attributable to a specific acquisition is deemed to be impaired when an event (an "impairment event") occurs that provides evidence of impairment. An organization shall recognize an impairment loss equal to the related carrying amount of goodwill when an impairment event occurs.
b. Evaluate goodwill assigned to a reporting unit that is primarily supported by resources other than contributions and returns on investments using the **fair-value-based evaluation** described in paragraphs 40AF–40AP of this Statement. In that evaluation, goodwill is deemed to be impaired when its carrying amount exceeds its implied fair value. An organization shall perform that evaluation at least annually. The fair value of goodwill can be measured only as a residual value and cannot be measured directly. Therefore, paragraphs 40AO–40AP of this Statement provide a methodology to determine an amount that achieves a reasonable estimate of the value of a reporting unit for purposes of measuring an impairment loss. That estimate is referred to herein as the *implied fair value of goodwill.*

40C. Paragraphs 40D–40AV of this Statement elaborate on the general requirements in paragraph 40B. There are four steps that describe how to evaluate goodwill for impairment:

a. Determine the reporting unit or units of the not-for-profit organization.
b. Assign the assets acquired (including goodwill) and liabilities assumed to the reporting unit or units.
c. Determine the appropriate method of evaluating goodwill for impairment by determining a reporting unit's primary support. Evaluate the continued

appropriateness of the selected method by assessing whether there has been a change in the nature of the reporting unit's primary support.

d. Evaluate goodwill for impairment using either the qualitative evaluation or the fair-value-based evaluation depending on the nature of the reporting unit's primary support.

Reporting Unit

40D. A reporting unit is an operating segment, as described in paragraphs 40E–40K, or one level below an operating segment (referred to as a component). A not-for-profit organization may have only one reporting unit or may have multiple reporting units. An organization shall first determine its operating segments. After an organization determines its operating segments, the organization shall determine the components of each operating segment and then determine whether the operating segment is the reporting unit or whether the components are reporting units.

Operating Segments

40E. A not-for-profit organization shall determine whether it is made up of a single operating segment or multiple operating segments. An operating segment[23a] is a part of an organization:

a. That engages in activities from which it may earn or receive revenues and incur expenses (including contribution revenues and expenses and including revenues and expenses related to transactions with other parts of the same organization)
b. Whose operating results or changes in net assets are regularly reviewed by the organization's chief operating decision maker to reach conclusions about resources to be allocated to the segment and assess its performance
c. For which discrete financial information is available.

[23a]The guidance for determining an operating segment is consistent with the guidance in paragraphs 10–15 of Statement 131 and related interpretative literature.

40F. Not every part of a not-for-profit organization is necessarily an operating segment or part of an operating segment. For example, an organization's headquarters or certain functional departments may not earn or receive revenues or may earn or receive revenues that are only incidental to the activities of the organization and should not be considered operating segments.

40G. For many not-for-profit organizations, the three characteristics of operating segments described in paragraph 40E clearly identify a single set of operating segments. However, an organization may produce reports in which its activities are presented in a variety of different ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of parts as constituting an organization's operating segments, including the nature of the activities of each part, the existence of managers responsible for them, and information presented to the board of directors.

40H. Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term *segment manager* identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for certain operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 40E apply to more than one set of parts of a not-for-profit organization but there is only one set for which segment managers are held responsible, that set of parts constitutes the operating segments.

40I. The characteristics in paragraph 40E may apply to two or more overlapping sets of parts for which managers are held responsible. That structure is sometimes referred to as a matrix form of organization. For example, in some not-for-profit organizations, certain managers are responsible for specific geographic areas. The chief operating decision maker regularly reviews the operating results of both sets of parts, and financial information is available for both. In that situation, the parts based on services should constitute the operating segments.

Components

40J. A component of an operating segment is a reporting unit if:

a. The component constitutes a business or nonprofit activity, as defined by the Statement on mergers and acquisitions by not-for-profit organizations.
b. Discrete financial information for that component is available.
c. A segment manager regularly reviews the operating results or changes in net assets of that component.

40K. Two or more components of an operating segment shall be deemed a single reporting unit if the components are similar. The similarity of those characteristics shall be determined based on whether aggregation is consistent with the way that management organizes the components within an entity for making operating decisions and assessing performance, whether the components have similar economic characteristics, and whether the components are similar in each of the following areas:

a. The nature of the services and/or products
b. The nature and method used to produce services and/or products
c. The type or class of customer or recipient of services
d. The nature of the regulatory environment.

Likewise, an operating segment shall be deemed to be a reporting unit if none of its components is a reporting unit or if that operating segment consists of only a single component.

Assigning the Assets Acquired and Liabilities Assumed to the Reporting Units

Assigning Identifiable Assets Acquired and Liabilities Assumed

40L. For purposes of evaluating goodwill for impairment, a not-for-profit organization shall assign identifiable assets acquired and liabilities assumed to one or more reporting units as of the acquisition date. An organization shall assign those assets and liabilities to a reporting unit as of the acquisition date if the asset will be employed in or the liability relates to the operations of a reporting unit.

40M. Assets or liabilities that a not-for-profit organization considers part of its corporate assets or liabilities also shall be assigned to a reporting unit if the criterion in paragraph 40L is met and, for a reporting unit that is supported by resources other than contributions and returns on investments, if the asset or liability will be considered in determining the fair value of the reporting unit. Examples of corporate items that may meet those criteria are environmental liabilities that relate to an existing operating facility of the reporting unit and a pension obligation that would be included in the determination of the fair value of the reporting unit.

40N. Some assets or liabilities may be employed in or relate to the operations of multiple reporting units. The methodology used to determine the amount of those assets or liabilities to assign to a reporting unit shall be reasonable and supportable and shall be applied consistently. For example, assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, could be allocated according to the benefit received by the different reporting units (or based on the relative fair values of the net identifiable assets that make up the different reporting units). In the case of pension items, for example, a pro rata allocation based on payroll expense might be used.

Assigning Goodwill

40O. For the purpose of evaluating goodwill for impairment, a not-for-profit organization shall assign **all** goodwill acquired in a merger or acquisition to one or more reporting units as of the acquisition date. An organization shall assign goodwill to a reporting unit that is expected to benefit from the synergies of the merger or acquisition that gave rise to the recording of goodwill even if other assets or liabilities of the acquiree are not assigned to that reporting unit. The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to assign goodwill to a reporting unit should be reasonable, supportable, and applied consistently.

40P. In concept, the amount of goodwill assigned to a reporting unit would be determined in a manner similar to how the amount of goodwill recognized in a merger or acquisition by a not-for-profit organization is determined. An organization would determine the fair value of the acquiree to be included in a reporting unit unless that reporting unit is primarily supported by contributions and returns on investments. The organization would then recognize the individual assets acquired and liabilities assumed related to that acquired business or nonprofit activity.[23b] Any excess of the fair value of the acquiree over the fair value of its identifiable net assets (or any excess of the liabilities assumed over the identifiable assets acquired for reporting units that are primarily supported by contributions and returns on investments) is the amount of goodwill assigned to that reporting unit. If goodwill is to be assigned to a reporting unit that has not been assigned any of the assets acquired or liabilities assumed in that acquisition, the amount of goodwill to be assigned might be determined by applying a "with and without" computation. That is, the difference between the fair value of that reporting unit before the acquisition and its fair value after the acquisition represents the amount of goodwill to be assigned to that reporting unit.

[23b]Paragraphs 15–36 of the Statement on mergers and acquisitions by not-for-profit organizations provide guidance on recognizing and measuring the assets acquired and liabilities assumed in a merger or acquisition by a not-for-profit organization.

Determining a Reporting Unit's Primary Support

Initial Determination as of the Acquisition Date

40Q. A not-for-profit organization shall determine as of the acquisition date whether a reporting unit is primarily supported by either:

a. Contributions and returns on investments; or
b. Resources other than contributions and returns on investments (for example, fees from services provided to third parties in exchange transactions).

An organization shall consider all relevant qualitative and quantitative factors in determining the nature of a reporting unit's primary support. For example, qualitative and quantitative information about all forms of contributed support, including contributions that are precluded from being recognized or are not required to be recognized in the financial statements (such as certain contributed services and collection items and conditional promises to give), would be considered in the determination.

40R. A not-for-profit organization that quantifies and discloses the fair value of unrecognized contributed support should use the disclosed amounts in its analysis of a reporting unit's support. For example, Statement 116 encourages organizations to disclose the fair value of contributed services received but not recognized if that is practicable. An organization that is not required to recognize certain items of contributed support under the provisions of Statement 116 need not determine the fair value of those items solely for purposes of determining whether a reporting unit is primarily supported by contributions and returns on investments. The organization, nonetheless, should consider information about that contributed support qualitatively in its analysis of a reporting unit's support.

Changes in the Nature of the Primary Support after Acquisition

40S. A not-for-profit organization shall apply the method of evaluating goodwill for impairment consistently unless there is a change in the nature of a reporting unit's primary support that management expects to be of a continuing nature. An organization shall determine whether there has been a change in the nature of the primary support at least annually, or more often if the facts and circumstances indicate that there has been a change in the nature of a reporting unit's primary support. Annual evaluations may be performed any time during the year if the evaluation is performed at the same time every year.

40T. For example, those annual evaluations for changes that occurred gradually could include evaluating the:

a. **Duration and amount of the decline or increase in support from resources other than contributions or returns on investments.** For example, a 1-year decline in support from fees to 49 percent of total support may be a 1-time event rather than a trend. Continuing significant decline in support from fees may be an indication that the decline is of a continuing nature.
b. **Underlying reasons for the change.** For example, because of increasing poverty or a resettled refugee population in a not-for-profit health clinic's neighborhood, the clinic may have to serve more patients at the low end of its fee scale and may not be able to raise fees to restore declining support from resources other than contributions and returns on investments. Such a clinic might anticipate relying more heavily on donations for the foreseeable future. On the other hand, an unusually large contribution in a single year may not indicate that the reporting unit's support structure has changed.
c. **Management's plans, reactions to the change, and expectations for the future operations of the reporting unit.** For example, management's decision to reduce the fee scale of a health clinic meets the needs of a neighborhood in which poverty is increasing and, thus, the clinic may need to depend on support from donors. Hiring fundraising staff to replace the decreased revenue from resources other than contributions and returns on investments could indicate an expectation, for the foreseeable future, of increased support from contributions and returns on investments.

40U. For changes to the nature of a reporting unit's primary support that occur as a result of an identifiable event, the time of change is the date that the event occurs. However, if changes to the nature of a reporting unit's primary support occur gradually, the time of change is the date that the change is determined to be of a continuing nature.

40V. When a not-for-profit organization determines there has been a change in the nature of its primary support, it shall evaluate goodwill for impairment at the time of that change. The nature of the impairment evaluation for goodwill upon a change in the nature of the primary support depends on how the support changed. Specifically, as of the time of change, an organization shall:

a. Perform a fair-value-based evaluation when goodwill is assigned to a reporting unit that becomes primarily supported by resources other than contributions and returns on investments.
b. Consider whether the change in the nature of support indicates that goodwill has been significantly impaired when goodwill is assigned to a reporting unit that becomes primarily supported by contributions and returns on investments. In those circumstances, an organization shall not perform a fair-value-based

evaluation of goodwill. Rather, the organization shall make an assessment about whether the goodwill is significantly impaired based on its judgment about whether the change itself indicates a significant impairment. That consideration shall be made based on the facts and circumstances that existed at the time of the change. Based on that consideration, if goodwill is:

(1) Significantly impaired, the organization shall recognize an impairment loss equal to the carrying value of goodwill related to the reporting unit.
(2) Not significantly impaired, the organization shall not recognize an impairment loss. The organization shall identify, for prospective application, the events and circumstances that would indicate impairment. Subsequently, the organization shall evaluate goodwill in accordance with the qualitative evaluation (see paragraph 40AE).

Reorganization of the reporting structure

40W. A not-for-profit organization that reorganizes its reporting structure in a way that changes the composition of its reporting units without disposing of any reporting units shall reassign the identifiable assets and liabilities and goodwill to the affected reporting units upon that reorganization.

40X. A not-for-profit organization shall reassign identifiable assets and liabilities using the same approach as required on the acquisition date (see paragraphs 40L–40N). An organization shall reassign goodwill based on the support of the reporting unit from which the goodwill originated. Goodwill that is reassigned from a reporting unit that is primarily supported by contributions and returns on investments shall be reassigned based on the relative carrying values of the reassigned identifiable net assets. Goodwill that is reassigned from a reporting unit that is primarily supported by resources other than contributions and returns on investments shall be reassigned based on the relative fair value allocation approach. For example, if existing Reporting Unit A is to be integrated with Reporting Units B, C, and D, goodwill in Reporting Unit A would be assigned to Reporting Units B, C, and D based on the relative fair values of the three portions of Reporting Unit A before those portions are integrated with Reporting Units B, C, and D.

Disposal of all or a portion of a reporting unit

40Y. A not-for-profit organization may decide to dispose of an entire reporting unit or a portion of a reporting unit that is a business or nonprofit activity. The goodwill of a reporting unit that is disposed of in its entirety shall be included in the carrying amount of that reporting unit in determining the gain or loss on disposal. Similarly, the goodwill associated with a business or nonprofit activity shall be included in the carrying amount of that portion in determining the gain or loss on disposal.

40Z. A not-for-profit organization shall determine the amount of goodwill to be included in the carrying amount when disposing of a business or nonprofit activity based on the goodwill assigned to a specific acquisition within the reporting unit, if possible. That situation might occur when the acquired business or nonprofit activity is primarily supported by contributions and returns on investments, is operated as a standalone entity, or is to be disposed of shortly after it is acquired. An organization that cannot determine the amount of goodwill that relates to a portion to be disposed of shall determine the amount of goodwill to include in the carrying amount using the:

a. Relative carrying values of the identifiable net assets of each part if the portion to be disposed of is primarily supported by contributions and returns on investments
b. Relative fair value allocation approach if the portion to be disposed of is primarily supported by resources other than contributions and returns on investments.

40AA. A not-for-profit organization applying a qualitative evaluation to assess goodwill for impairment may have identified the partial disposal of the reporting unit as an impairment event when goodwill was acquired. In that circumstance, if the **retained portion** of the reporting unit is:

a. Supported primarily by contributions and returns on investments, the organization shall recognize an impairment loss upon disposal equal to the carrying value of goodwill remaining in the retained portion of the reporting unit. However, if a previously identified impairment event does not occur upon disposal, the organization shall review and update, based on current facts and circumstances, the events that would indicate impairment of the retained goodwill.
b. Supported primarily by resources other than contributions and returns on investments, the organization shall evaluate the carrying value of goodwill remaining in the retained portion of the reporting unit for impairment based on the current facts and circumstances in accordance with the fair-value-based evaluation.

Applying the Qualitative Evaluation

40AB. A not-for-profit organization that assigns goodwill to a reporting unit that is primarily supported by contributions and returns on investments shall, as of the acquisition date, identify the reasons why goodwill arose in the acquisition. An organization also shall identify a comprehensive list of events and circumstances that would indicate that goodwill assigned to the reporting unit is impaired. That list of events and circumstances shall include, but is not limited to, consideration of the reasons why goodwill arose.

40AC. The qualitative evaluation inherently requires specific identification of the amount of goodwill for which a specific set of impairment events has been identified. Because the list of impairment events and circumstances is identified for each assignment or reassignment (such as reorganization or a change in the nature of a reporting unit) of goodwill to a reporting unit, each assignment shall be maintained separately. For example, if goodwill from two different acquisitions is assigned to the same reporting unit, the goodwill and any goodwill impairment would be identified by acquisition.

40AD. Examples of the relationship between the identified reasons why goodwill arose in the merger or acquisition and impairment events include, but are not limited to, the following:

a. If a reason for a merger was an expectation of benefiting from the acquiree's trained employees to provide services to the service beneficiaries, the subsequent loss of those employees is an impairment event for goodwill.
b. If a reason for an acquisition was an expectation that the acquiree's key employees would raise significant resources, the subsequent loss of those key employees is an impairment event for goodwill.
c. If a reason for a merger was to acquire certain integrated tangible or identifiable intangible assets owned by the acquiree, an impairment of those assets is an impairment event for goodwill.
d. If a reason for a merger was the expected benefit from synergies, cost savings, or other benefits from consolidating the acquiring organization and the acquiree's activities, the failure of those expected synergies, cost savings, or other benefits to develop is an impairment event for goodwill.
e. If a reason for an acquisition was the expected benefit from the acquiree continuing to operate as a going concern, information that indicates that the reporting unit is no longer a going concern is an impairment event for goodwill.

Assessing Whether an Impairment Event Has Occurred

40AE. A not-for-profit organization shall assess whether any of the impairment events identified pursuant to the requirements of paragraph 40AB has occurred. The qualitative evaluation requires judgment, and there may be circumstances in which an impairment event occurs that was unidentified at the acquisition date. An organization shall consider compelling evidence of impairment, despite the fact that an impairment event arises from an unanticipated event. If no identified impairment event has occurred, an organization shall not recognize a change to the carrying amount of goodwill assigned to a reporting unit. However, if any of the identified impairment events has occurred, an organization shall recognize an impairment loss equal to the carrying amount of goodwill attributable to a specific acquisition. A previously recognized impairment loss shall not be reversed.

Applying the Fair-Value-Based Evaluation

40AF. A not-for-profit organization that assigns goodwill to a reporting unit that is primarily supported by resources other than contributions and returns on investments shall apply the fair-value-based evaluation. The two-step impairment evaluation discussed in paragraphs 40AH–40AI shall be used to identify potential goodwill impairment and to measure the amount of a goodwill impairment loss to be recognized (if any).

40AG. A not-for-profit organization shall perform that evaluation at least annually, or more often if an event occurs or circumstances change that would likely reduce the fair value of a reporting unit below its carrying amount (see paragraph 40AN). An organization may perform the annual goodwill impairment evaluation any time during the fiscal year if the evaluation is performed at the same time every year. Different reporting units may be evaluated for impairment at different times. If goodwill and another asset (or asset group) of a reporting unit are evaluated for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under Statement 144, which potentially would require a goodwill impairment evaluation, the impairment test for the significant asset group would be performed before the goodwill impairment evaluation. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being evaluated for impairment.

40AH. The first step of the fair-value-based evaluation identifies potential impairment. In that step, a not-for-profit organization shall compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and the second step of the fair-value-based evaluation is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, an organization shall perform the second step to measure the amount of impairment loss, if any.

40AI. In the second step of the evaluation, a not-for-profit organization shall compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The guidance in paragraph 40AJ shall be used to estimate the implied fair value of goodwill. If the carrying amount of goodwill assigned to the reporting unit exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill becomes its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

40AJ. The implied fair value of goodwill shall be determined similarly to how the amount of goodwill recognized in a merger or acquisition is determined. That is, a not-for-profit organization shall assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a merger or acquisition. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. That process of assignment shall be performed only for purposes of evaluating goodwill for impairment; an organization shall not write up or write down a recognized asset or liability. An organization also shall not recognize a previously unrecognized intangible asset as a result of that allocation process.

40AK. The relevant guidance in paragraphs 15–36 of the Statement on mergers and acquisitions by not-for-profit organizations shall be used in determining how to assign the fair value of a reporting unit to the assets and liabilities of that unit. However, no portion of the fair value of the reporting unit shall be assigned to an asset or liability if that asset or liability:

a. Relates to a merger or acquisition that was completed before implementation of the Statement on mergers and acquisitions by not-for-profit organizations

b. Had not been recognized separately from goodwill in accordance with provisions that existed before the Statement on mergers and acquisitions by not-for-profit organizations.

For example, in performing the second step of a fair-value-based impairment evaluation, an organization would not assign any fair value to an asset for a contingency if it had not been separately recognized and arose from a merger or acquisition completed before the implementation of the Statement on mergers and acquisitions by not-for-profit organizations.

40AL. If the second step of the fair-value-based evaluation is not completed before the financial statements are issued and a goodwill impairment loss is probable and can be reasonably estimated, a not-for-profit organization shall recognize the best estimate of that loss in those financial statements.[23c] Paragraph 47(c) requires disclosure of the fact that the measurement of the impairment loss is an estimate. Any adjustment to that estimated loss based on the completion of the measurement of the impairment loss shall be recognized in the subsequent reporting period.

[23c]See FASB Statement No. 5, *Accounting for Contingencies*.

40AM. A detailed determination of the fair value of a reporting unit may be carried forward from one year to the next if all of the following criteria have been met:

a. The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination. (A recent significant acquisition or a reorganization of an entity's segment reporting structure is an example of an event that might significantly change the composition of a reporting unit.)
b. The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.
c. Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

40AN. Goodwill of a reporting unit shall be evaluated for impairment between annual evaluations if an event occurs or circumstances change that would likely reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances include:

a. A significant adverse change in legal factors or in the business climate
b. An adverse action or assessment by a regulator
c. Unanticipated competition
d. A loss of key personnel
e. A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of

f. The testing for recoverability under Statement 144 of a significant asset group within a reporting unit

g. Recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

In addition, paragraph 40AA requires that goodwill be evaluated for impairment after a portion of goodwill has been allocated to a business or nonprofit activity to be disposed of.

Fair Value Measurements

40AO. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. However, the market price of an individual equity security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit as a whole. Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual equity securities. An acquiring entity often is willing to pay more for equity securities that give it a controlling interest than an investor would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of a reporting unit to exceed its market capitalization. The quoted market price of an individual equity security, therefore, need not be the sole measurement basis of the fair value of a reporting unit.

40AP. In estimating the fair value of a reporting unit, a valuation technique based on multiples of earnings or revenue or a similar performance measure may be used if that technique is consistent with the objective of measuring fair value. Use of multiples of earnings or revenue in determining the fair value of a reporting unit may be appropriate, for example, when the fair value of an entity that has comparable operations and economic characteristics is observable and the relevant multiples of the comparable entity are known. Conversely, use of multiples would not be appropriate in situations in which the operations or activities of an entity for which the multiples are known are not of a comparable nature, scope, or size as the reporting unit for which fair value is being estimated.

Goodwill Impairment Evaluation by a Subsidiary

40AQ. All goodwill recognized by a public or nonpublic subsidiary (subsidiary goodwill) in its separate financial statements that are prepared in accordance with generally accepted accounting principles shall be accounted for in accordance with this Statement. Subsidiary goodwill shall be evaluated for impairment at the subsidiary level using the subsidiary's reporting units.

40AR. If a goodwill impairment loss is recognized using the fair-value-based evaluation at the subsidiary level, goodwill of the reporting unit or units (at the higher consolidated level) in which the subsidiary's reporting unit with impaired goodwill resides must be evaluated for impairment if the event that gave rise to the loss at the subsidiary level would more likely than not reduce the fair value of the reporting unit (at the higher consolidated level) below its carrying amount (see paragraph 40AN(g)). Only if goodwill of that higher-level reporting unit is impaired would a goodwill impairment loss be recognized at the consolidated level.

40AS. If a goodwill impairment loss is recognized using the qualitative evaluation at the subsidiary level, goodwill of the reporting unit or units (at the higher consolidated level) in which the subsidiary's reporting unit with impaired goodwill resides must be evaluated for impairment. Only if goodwill of that higher-level reporting unit is impaired would a goodwill impairment loss be recognized at the consolidated level.

Goodwill Impairment Evaluation When a Noncontrolling Ownership Interest in a Subsidiary Exists

40AT. Goodwill arising from a merger or acquisition by a not-for-profit organization with a continuing noncontrolling ownership interest shall be evaluated for impairment using an approach consistent with the approach used to measure the noncontrolling interest at the acquisition date. For example, if the goodwill assigned to a reporting unit was based only on the controlling interest of the parent, the fair value of the reporting unit used in the impairment evaluation should be based on that controlling interest and should not reflect the portion of fair value attributable to the noncontrolling interest. For that reporting unit, the implied fair value of goodwill that is determined in the second step of the impairment evaluation and used to measure the impairment loss should reflect only the parent company's interest in that goodwill. Those circumstances could arise if the goodwill was initially recognized in accordance with Statement 1XA, in other than a net deficit combination.

40AU. In a net deficit combination, the amount of goodwill recognized in a merger or acquisition relates to both the controlling and noncontrolling ownership interests. If an entity has one or more subsidiaries with an outstanding noncontrolling interest, goodwill impairment losses shall be assigned to the controlling and noncontrolling interests on a pro rata basis using the relative carrying values of goodwill. Paragraph A74(b)(2) of Statement 1XA requires that the goodwill acquired in a net deficit combination be assigned to the controlling and noncontrolling interests in a merger or acquisition by a not-for-profit organization in which the acquirer holds less than 100 percent of the ownership interests in the acquiree at the acquisition date. Goodwill impairment losses shall be assigned first to the components of the reporting unit if the partially owned subsidiary is part of a larger reporting unit, and then to the controlling and noncontrolling interests of the partially owned subsidiary. For example, if a partially owned subsidiary is part of a reporting unit, the portion of the impairment loss assigned to that subsidiary would be determined by multiplying the goodwill impairment loss by the proportion of the carrying value of the goodwill assigned related to that partially owned subsidiary over the carrying value of the goodwill assigned to the reporting unit as a whole. The amount of the impairment loss allocated to the partially owned subsidiary would then be allocated to the controlling and noncontrolling interests pro rata based on the relative carrying values of goodwill allocated to those interests. If the partially owned subsidiary incurs a goodwill impairment loss and is itself a reporting unit, then the impairment loss is only allocated to the controlling and noncontrolling interests based on the relative carrying values of goodwill allocated to them.

Equity Method Goodwill

40AV. A not-for-profit organization shall not amortize the portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 19(b) of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* (equity method goodwill). However, equity method goodwill shall not be reviewed for impairment in accordance with this Statement. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 19(h) of Opinion 18.

Deferred Income Taxes

41. Paragraph 30 of Statement 109 states that deferred income taxes are not recognized for any portion of goodwill for which amortization is not deductible for income tax purposes. Paragraphs 261 and 262 of that Statement provide additional guidance for recognition of deferred income taxes related to goodwill when amortization of goodwill is deductible for tax purposes. This Statement does not change the requirements in Statement 109 for recognition of deferred income taxes related to goodwill and intangible assets.

Financial Statement Presentation

Intangible Assets

42. At a minimum, all intangible assets shall be aggregated and presented as a separate line item in the statement of financial position. However, that requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items. The amortization expense and impairment losses for intangible assets shall be presented in income statement line items within continuing operations as deemed appropriate for each entity. Paragraphs 14 and 16 require that an intangible asset be tested for impairment when it is determined that the asset should no longer be amortized or should begin to be amortized due to a reassessment of its remaining useful life. An impairment loss resulting from that impairment test shall not be recognized as a change in accounting principle.

Goodwill

43. The aggregate amount of goodwill shall be presented as a separate line item in the statement of financial position. The aggregate amount of goodwill impairment losses shall be presented as a separate line item in the income statement before the subtotal

income from continuing operations (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation. A not-for-profit organization shall present the aggregate amount losses for goodwill impairments as a separate line item in the statement of activities. A goodwill impairment loss associated with a discontinued operation shall be included (on a net-of-tax basis) within the results of discontinued operations.

Disclosures

44. For intangible assets acquired either individually or as part of a group of assets (in ~~either~~ an asset acquisition, ~~or~~ business combination, or merger or acquisition by a not-for-profit organization), the following information shall be disclosed in the notes to the financial statements in the period of acquisition:

a. For intangible assets subject to amortization:
   (1) The total amount assigned and the amount assigned to any major **intangible asset class**
   (2) The amount of any significant residual value, in total and by major intangible asset class
   (3) The weighted-average amortization period, in total and by major intangible asset class
b. For intangible assets *not* subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class
c. The amount of research and development assets acquired in a transaction other than a business combination and written off in the period and the line item in the income statement in which the amounts written off are aggregated.

This information also shall be disclosed separately for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant. For example, for-profit entities should consider whether those aggregate fair values are significant in relation to the fair value of the acquiree.

45. The following information shall be disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented:

a. For intangible assets subject to amortization:
   (1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class
   (2) The aggregate amortization expense for the period
   (3) The estimated aggregate amortization expense for each of the five succeeding fiscal years
b. For intangible assets *not* subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class
c. The changes in the carrying amount of goodwill during the period showing separately:

(1) The gross amount and accumulated impairment losses at the beginning of the period
(2) Additional goodwill recognized during the period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with Statement 144
(3) Adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraph 30 of Statement 109
(4) Goodwill included in a disposal group classified as held for sale in accordance with Statement 144 and goodwill derecognized during the period without having previously been included in a disposal group classified as held for sale
(5) Impairment losses recognized during the period in accordance with this Statement
(6) Net exchange differences arising during the period in accordance with FASB Statement No. 52, *Foreign Currency Translation*
(7) Any other changes in the carrying amounts during the period
(8) The gross amount and accumulated impairment losses at the end of the period.

Entities that report segment information in accordance with Statement 131 shall provide the above information about goodwill in total and for each reportable segment and shall disclose any significant changes in the allocation of goodwill by reportable segment. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, that unallocated amount and the reasons for not allocating that amount shall be disclosed.

Illustration 1 in Appendix C provides an example of those disclosure requirements.

46. For each impairment loss recognized related to an intangible asset, the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:

a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment
b. The amount of the impairment loss and the method for determining fair value
c. The caption in the income statement or the statement of activities in which the impairment loss is aggregated
d. If applicable, the segment in which the impaired intangible asset is reported under Statement 131.

47. For each goodwill impairment loss recognized, the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:

a. A description of the facts and circumstances leading to the impairment

b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses, a present value or other valuation technique, or a combination thereof)

c. If a recognized impairment loss is an estimate that has not yet been finalized (refer to paragraph 22), that fact and the reasons therefor and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss.

Illustration 1 in Appendix C provides an example of those disclosure requirements.

Additional Disclosures by a Not-for-Profit Organization

47A. In applying the disclosure requirements in paragraph 45(c), for each period for which a statement of financial position is presented, a not-for-profit organization shall disclose separately:

a. The changes in carrying amounts of goodwill that is subject to the fair-value-based evaluation

b. The changes in carrying amounts of goodwill that is subject to the qualitative evaluation

c. The amount of goodwill that changed from the fair-value-based evaluation to the qualitative evaluation and vice versa as a result of changes in the nature of the primary support of the reporting unit to which goodwill is assigned.

For each reporting unit that is primarily supported by contributions and returns on investments, an organization shall disclose the events that would indicate that goodwill would become significantly impaired. In addition, for each goodwill impairment loss recognized, an organization shall disclose which method of evaluating goodwill impairment was used to determine the loss.

Effective Date and Transition

48. This Statement shall be effective as follows:

a. All of the provisions of this Statement shall be applied in fiscal years beginning after December 15, 2001, to all goodwill and other intangible assets recognized in an entity's statement of financial position at the beginning of that fiscal year, regardless of when those previously recognized assets were initially recognized. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued previously. In all cases, the provisions of this Statement shall be initially applied at the beginning of a fiscal year. Retroactive application is not permitted. (Refer to paragraphs 53–61 for additional transition provisions.)

b. As described in paragraphs 50 and 51, certain provisions of this Statement shall be applied to goodwill and other acquired intangible assets for which the acquisition date is after June 30, 2001, even if an entity has not adopted this Statement in its entirety.

c. The disclosures required by paragraph 45(c), as amended by Statement 141(R), shall be provided beginning in annual periods beginning on or after [effective date to be determined in business combinations project].

d. This Statement shall be applied to previously recognized goodwill and intangible assets acquired in a merger or acquisition by a not-for-profit organization in accordance with the transition provisions in paragraphs 63–75.

~~d. This Statement shall not be applied to previously recognized goodwill and intangible assets acquired in a combination between not-for-profit organizations or arising from the acquisition of a for-profit business entity by a not-for-profit organization until interpretive guidance related to the application of the purchase method to those transactions is issued (refer to paragraph 52).[24]~~

e. For combinations involving only mutual entities, all of the provisions of this Statement shall be applied as of the beginning of the first annual period beginning on or after [effective date to be determined in business combinations project], to goodwill and all other intangible assets recognized in an entity's statement of financial position at the beginning of that annual period, regardless of when those previously recognized assets were initially recognized. Early application is encouraged, but only at the beginning of an annual period that begins after Statement 141(R) is issued. If applied earlier, the provisions of this Statement shall be applied concurrent with the adoption of Statement 141(R) and FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries.* Retroactive application is not permitted.

~~[24]The Board is considering issues related to application of the acquisition method to combinations between not-for-profit organizations and the acquisition of a for-profit business entity by a not-for-profit organization in a separate project.~~

[Paragraphs 49–62 are not included because the effective dates of those provisions in Statement 142 have passed or are irrelevant to not-for-profit organizations.]

Effective Date and Transition for Goodwill and Other Intangible Assets Acquired by a Not-for-Profit Organization in a Merger or Acquisition

63. This Statement, as amended by FASB Statement No. 1XB, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*, shall be applied prospectively to goodwill and intangible assets acquired in a merger or acquisition as of the beginning of the first annual period beginning on or after [date to be inserted after exposure]. Early application is encouraged, but only at the beginning of an annual period that begins after Statement 1XB is issued. If applied earlier, a not-for-profit organization shall apply this Statement at the same time that it applies the provisions in the FASB Statement on mergers and acquisitions by not-for-profit organizations. Retroactive application is prohibited.

Previously Recognized Intangible Assets

64. For those acquisitions by a not-for-profit organization that occurred before the application of Statement 1XB and that were accounted for using the purchase method, the carrying amount of intangible assets previously recognized and included in the amount reported as goodwill (or as goodwill and intangible assets) shall be reclassified and accounted for as an asset apart from goodwill as of the date Statement 1XB is applied if the intangible asset:

a. Meets the recognition criterion in paragraph 17 of the Statement on mergers and acquisitions by not-for-profit organizations
b. Had been assigned an amount equal to its estimated fair value at the date that the merger or acquisition was initially recorded
c. Was accounted for separately from goodwill as evidenced by the maintenance of accounting records for that asset, such as a separate general ledger account or other subsidiary ledger (such as a spreadsheet or similar ledger account) to which periodic amortization charges, impairment charges, and other accounting entries were posted.

The carrying amount of acquired intangible assets that do not meet the criterion in (a) (and any related deferred tax liabilities if the intangible asset amortization is not deductible for tax purposes) shall be reclassified as goodwill as of the date Statement 1XB is applied.

Identifiable intangible assets

65. To apply this Statement to intangible assets acquired in a merger or acquisition prior to the application of Statement 1XB, a not-for-profit organization shall reassess the useful lives of those previously recognized intangible assets using the guidance in paragraph 11 and adjust the remaining amortization periods accordingly.[26] Previously recognized intangible assets deemed to have indefinite useful lives shall be tested for impairment as of the beginning of the fiscal year in which Statement 1XB is initially applied (in accordance with paragraph 17). An organization shall complete that reassessment and transitional impairment test prior to the end of the fiscal year in which Statement 1XB is initially applied. Any resulting impairment loss shall be presented in a separate line item in the statement of activities. An organization shall present that transitional impairment loss outside a performance indicator or other intermediate measure of operations, if one is presented.

[26] For example, the amortization period for a previously recognized intangible asset might be increased if its original useful life was estimated to be longer than the 40-year maximum amortization period allowed by Opinion 17.

Goodwill

66. To apply this Statement to goodwill acquired in a merger or acquisition prior to the application of Statement 1XB, a not-for-profit organization shall establish its reporting units and determine the primary support of those reporting units based on its reporting structure at application using the guidance in paragraphs 40D–40K and 40Q and 40R of this Statement. Recognized net assets, excluding goodwill, shall be assigned to reporting units using the guidance in paragraphs 40L–40N. Recognized assets and liabilities that do not relate to a reporting unit that an entity does not consider part of its corporate assets or liabilities, such as an environmental liability for an operation previously disposed of, need not be assigned to a reporting unit. All goodwill recognized in an organization's statement of financial position at the date this Statement is applied shall be assigned to one or more reporting units. Goodwill shall be assigned in a reasonable and supportable manner. In making that assignment, the sources of previously recognized goodwill and the reporting units to which the related acquired net assets were assigned shall be considered. The guidance in paragraphs 40O and 40P may be useful in assigning goodwill to reporting units upon initial application of this Statement.

67. Goodwill assigned to reporting units that are primarily supported by contributions and returns on investments shall not be subject to a transitional impairment evaluation as of the beginning of the fiscal year in which Statement 1XB is initially applied. Rather, the impairment events that would trigger the write-off of goodwill shall be identified based on the facts and circumstances existing at the date Statement 1XB is initially applied, with consideration given to factors that led to the original recognition of goodwill.

Equity method goodwill

68. Upon initial application of this Statement, the portion of the excess of cost over the underlying equity in net assets of an investee accounted for using the equity method that has been recognized as goodwill shall no longer be amortized. However, equity method goodwill shall not be evaluated for impairment in accordance with this Statement (see paragraph 40AV).

Transition for the fair-value-based evaluation

69. Goodwill assigned to reporting units that are primarily supported by resources other than contributions and investment returns shall be subject to a transitional impairment evaluation. Goodwill in each of those reporting units shall be evaluated for impairment as of the beginning of the fiscal year in which Statement 1XB is applied. A not-for-profit organization shall complete the first step of that transitional evaluation within six months from the date it initially applies Statement 1XB. However, the amounts used in the transitional goodwill impairment evaluation shall be measured as of the beginning of the year of initial application. If the carrying amount of the net assets of a reporting unit (including goodwill) exceeds the fair value of that reporting unit, the second step of the transitional goodwill impairment evaluation must be completed as soon as possible, but no later than the end of the fiscal year of initial application.

70. An impairment loss recognized as a result of a transitional goodwill impairment evaluation and related income tax effects, if any, shall be presented in a separate line item in the statement of activities. A not-for-profit organization shall present that transitional impairment loss outside a performance indicator or other intermediate measure of operations, if one is presented.

71. A not-for-profit organization that reports on an interim basis shall recognize a transitional impairment loss for goodwill in the first interim period regardless of the period in which it is measured. The financial information for the interim periods of the fiscal year that precede the period in which the transitional goodwill impairment loss is measured shall be restated to reflect the accounting change in those periods. The aggregate amount of the accounting change shall be included in restated changes in net assets of the first interim period of the year of initial application (and in any year-to-date or last-12-months-to-date financial reports that include the first interim period). Whenever financial information is presented that includes the periods that precede the period in which the transitional goodwill impairment loss is measured, that financial information shall be presented on the restated basis.

72. If events indicate that goodwill of a reporting unit might be impaired before the completion of the transitional goodwill impairment evaluation, goodwill shall be evaluated for impairment when the impairment indicator arises. A goodwill impairment loss that does not result from a transitional goodwill impairment evaluation shall not be recognized as a transitional impairment loss as described in paragraph 70; rather, it shall be recognized in accordance with paragraph 43.

73. In addition to the transitional goodwill impairment evaluation, a not-for-profit organization shall perform the required annual goodwill impairment evaluation in the year that Statement 1XB is initially applied. That is, the transitional goodwill impairment evaluation may not be considered the initial year's annual evaluation unless an organization designates the beginning of its fiscal year as the date for its annual goodwill impairment evaluation.

74. Upon completion of the first step of the transitional goodwill impairment evaluation, a not-for-profit organization shall disclose in any interim financial information the reportable segment or segments in which an impairment loss might have to be recognized and the period in which that potential loss will be measured.

75. In the period of initial application, and thereafter until goodwill and all other intangible assets have been accounted for in accordance with this Statement in all periods presented, the following information shall be displayed either on the face of the statement of activities or in the notes to the financial statements: total changes in net assets for all periods presented adjusted to exclude amortization expense (including any related tax effects) recognized in those periods related to goodwill, intangible assets that are no longer being amortized, any deferred credit related to an excess over cost (amortized in accordance with Opinion 16), and equity method goodwill. The adjusted total changes in net assets also shall reflect any adjustments for changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying this

Statement (including any related tax effects). In addition, the notes to the financial statements shall disclose a reconciliation of reported total changes in net assets to the adjusted total changes in net assets.

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

Appendix D

AMENDMENTS TO OTHER EXISTING PRONOUNCEMENTS AND RELATED AUTHORITATIVE LITERATURE

D1. This section addresses the effect of this Statement on authoritative accounting literature included in the GAAP hierarchy discussed in AICPA Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles.

AICPA Literature

D2. The following table lists guidance issued by the AICPA or its staff that may be affected by the tentative decisions made by the Board in this proposed Statement. This information is presented for informational purposes only. Decisions about whether to amend AICPA guidance are made by the FASB in conjunction with the AICPA prior to issuing the final pronouncement.

AICPA Literature	Title	Analysis
AICPA Audit and Accounting Guide	*Health Care Organizations*	This Guide requires that not-for-profit organizations apply APB Opinion No. 17, *Intangible Assets*, to account for goodwill and other intangible assets acquired in a merger or acquisition. This Statement removes the delay in the effective date for not-for-profit organizations in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and requires that those organizations apply Statement 142, as amended by this Statement. All references to APB Opinion No. 17 in this Guide will be replaced with reference to Statement 142, as amended by this Statement.
AICPA Audit and Accounting Guide	*Not-for-Profit Organizations*	This Guide requires that not-for-profit organizations apply Opinion 17 to account for goodwill and other intangible assets acquired in a merger or acquisition. This Statement removes the delay in the effective date for not-for-profit organizations in Statement 142 and requires that those organizations apply Statement 142, as amended by this Statement. All references to APB Opinion No. 17 in this Guide will be replaced with reference to Statement 142, as amended by this Statement.