Merger and Acquisition Considerations

While mergers and acquisitions are similar in that they both represent the combination of multiple nonprofit organizations, there are several key differences between the two that impact both the accounting and the financial statement preparation of the newly formed organization.

Mergers

A merger of nonprofit organizations is a transaction or event in which the governing bodies of two or more non-profit organizations cede control of their previous entities to create a new nonprofit organization.

Key Points:

1. During a merger, the previous organizations relinquish their respective control and work together to create a newly formed organization, resulting in a new governing body and new management. It is important to note that the governing bodies of the previously merged organizations cannot retain shared control; a new governing body must be established.

2. A merger does not necessarily require that a new legal entity must be created. The legal entity of one of the previously pre-merged organizations may be used as the legal entity of the newly formed organization.

Jones & Associates LLC
Certified Public Accountants
TEL 206.525.5170
1701 NE 104th Street
Seattle, WA 98125-7646
www.judyjonescpa.com

3. A merger is accounted for in the general ledger by combining the assets, liabilities, and net assets of the merged organizations (the carryover method).

4. The initial reporting period of the newly merged organization commences on the effective date of the merger. The initial statement of activities should report the merged organization's activity from the merger's effective date through the end of the reporting period.

Acquisitions

An acquisition occurs when a nonprofit organization obtains control of one or more nonprofit activities or businesses.

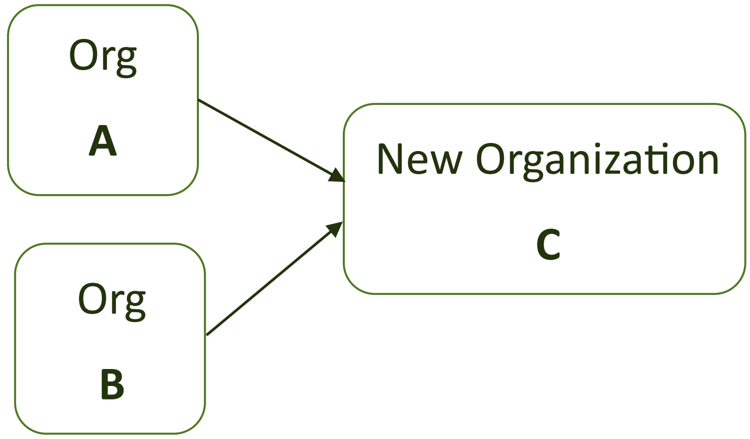
Key Points:

1. Any combination of nonprofit organizations that does not meet the above definition of a merger should be considered an acquisition.

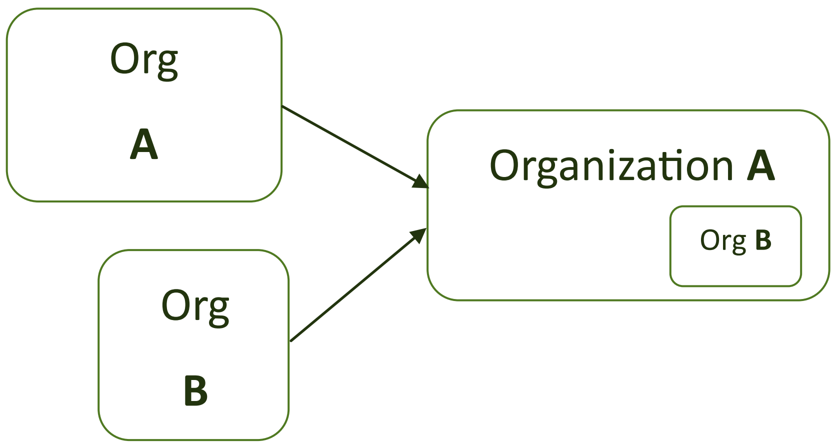
2. Some factors that may indicate a combination is an acquisition, and not a merger, include the following:

   - One organization's ability to appoint significantly more of the governing board members for the new entity
   - One organization's ability to retain significantly more key senior officers
   - One organization's ability to retain largely unchanged governing documents (bylaws, operating policies)

Merger



Acquisition



3. In an acquisition the acquiring organization recognizes and measures, at fair value, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired organization as of the acquisition date. This is the same method of accounting used by for-profit entities in acquisitions.

4. The reporting period of the acquiring organization is not impacted by the acquisition. Presentation of two comparative years in the financial statements is permissible for the year of the acquisition.