# Merging Non-Profit Organizations

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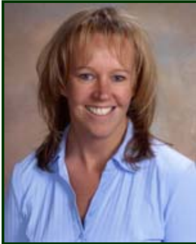

In today's economy, we may see more non-profit entities combining forces, as they struggle to look for alternatives to having to close their doors. On May 22, 2009, the Financial Accounting Standards Board issued Statement No. 164 to provide guidance on how to account for non-profit mergers and acquisitions. This guidance will be effective in 2010.

Up until now, there really hasn't been any guidance on this topic specifically for non-profits, and how to recognize a combination of non-profits in the financial statements. Combinations of non-profit organizations are different from for-profit companies mainly because non-profits do not have *owners*. When non-profits merge, they focus on the furtherance of their combined missions, not on how the owners can benefit. Also, when non-profits merge, there is not a *purchase* of one entity by the other, so there is usually no exchange of money. Instead, the acquisition of one non-profit organization by another is more like one is donating all of its assets to the other.

The new guidance defines a merger as when the non-profit entities combine to form a *new* non-profit entity. An acquisition is when one non-profit obtains control over another non-profit. If two non-profit entities *merge*, they simply combine their financial statements, using the carrying amounts on the financial statements of the combining organizations.

When one non-profit *acquires* another, the accounting is different than in a merger. The *acquiring* non-profit records the assets and liabilities on its books at *fair value.* In an acquisition, you record any "extra" received by the acquirer as contribution income. For example, if NPO-A (*the acquirer*) acquires NPO-B (*the acquiree*), and NPO-B has assets worth $1,000 and liabilities worth $700, NPO-A would record contribution income of $300. If it's the other way around (assets are worth $700 and liabilities are worth $1,000), NPO-A would either record goodwill on the Statement of Financial Position in the amount of $300, or they would record a charge to contribution income on the Statement of Activities. If the non-profit being acquired was primarily supported by contributions and investment returns, then you would charge the $300 to contributions. If the non-profit being acquired is mainly supported by program service fees, you would record the $300 as goodwill.

This is a basic summary of the new non-profit merger and acquisition guidance. There are various exceptions and other details covered in this new guidance as well.

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