NONPROFIT MERGERS AND CONSOLIDATIONS: GUIDANCE AT LAST

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ABSTRACT

In the past, generally accepted accounting principles (GAAP) addressed for-profit organization consolidation but provided nothing about how a combination of nonprofit organizations should be recognized and reported. Thus without any guidance, recording a nonprofit combination was open to interpretation based on business entity guidance (APB 1970). Nonprofit organization (NFP) mergers and acquisitions break down into several different groups with their unique challenges. These include a combination between two or more nonprofit organizations, a merger or acquisition of a for-profit business by a nonprofit organization, or the acquisition of a nonprofit organization by a for-profit organization.

FASB's Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions – Including an amendment of FASB Statement No. 142* produces new GAAP guidance for NFP combination (FASB 2009a). This paper discusses the different types of NFP mergers and acquisitions together with the provisions and guidance that will become GAAP for nonprofits with reporting periods beginning on or after December 15, 2009 as early adoption is prohibited. The discussion also provides an illustration of the old GAAP recognition together with the new recognition to display the differences in financial information available to financial statement users.

The FASB's NFP combination project is now concluded but has it achieved the stated objective to develop guidance on the accounting and reporting for NFP combinations? Unfortunately a group of combination events were excluded and not addressed including the formation of a joint venture, the acquisition of noncontrolling interests, and the transfer of net assets or exchange of equity interests between entities under common control. Rather than address these specific events, the Board defined a nonprofit combination as an event that results in the initial inclusion of a combined set of assets and activities in a NFP consolidated financial statement that excludes other forms of affiliation. Thus other types of combined activities must continue to use APB Opinion No. 16 guidance (1970).

With the completion of the NFP business combinations project by issuing SFAS No. 164 and amending Statement No. 142 address NFP mergers and acquisitions, there should not be large accounting and recognition uncertainty in the accounting for and recording NFP mergers and acquisitions. Different financial statement recognition should no longer be recorded for similar economic transactions and events. However like other new GAAP guidance, there may be implementation revisions and other directives needed to clarify combination issues. The two areas that could cause problems including (1) the concept of a combination being reciprocal or nonreciprocal and (2) the different methods of accounting for goodwill subsequent to acquisition appear to be resolved by the SFAS 142 amendment.

Only time will tell what, if any, problems will arise with SFAS No. 164 and what codification revisions will be warranted (FASB 2009b).

References furnished upon request to author.