BDO Seidman, LLP
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FASB *Flash* Report

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The FASB expects to issue its long-awaited final Statement on combinations of not-for-profit organizations in the first quarter of 2009. The new Statement will not take effect until 2010. Its requirements will differ substantially from current practice, however, with the result that our people and our clients will want to become familiar with the new requirements well ahead of the effective date. This FASB Flash Report alerts you to the key provisions, which will require that NFP entities distinguish between mergers and acquisitions, account for them differently, and disclose additional information.

Accounting for NFP Mergers and Acquisitions

The FASB decided that combinations of not-for-profit organizations represent two classes of transactions—mergers and acquisitions. The final Statement will describe factors that are helpful in distinguishing a merger from other types of combinations. The key factor to consider is control. In a merger, the governing bodies of two or more not-for-profit entities cede control of those entities to create a new entity. No entity dominates the merger transaction. In an acquisition, by contrast, one entity obtains control over the net assets of another entity.

A comparison of the new accounting requirements is as follows:

- **Mergers.** Because a merger of two or more not-for-profit organizations involves the creation of a newly formed entity as of the merger date, with no entity gaining control of another, it would be inappropriate to apply acquisition accounting to any entity. Accordingly, a merger is accounted for at carryover basis, similar to a pooling of interests and similar to current practice. In applying the carryover basis of accounting, the merged entity's statement of activities and statement of cash flows for its first period should: (1) reflect the combined amounts of the merging entities' net assets (in total and by classes of net assets) and cash as of the merger date in its opening amounts, and (2) include activity from the merger date through the end of the fiscal period. The opening amounts should be as adjusted to conform the individual accounting policies of the merging entities at the merger date.

- **Acquisitions.** A combination that is not a merger will be accounted for as an acquisition, similar to acquisition accounting by business enterprises under FASB Statement No. 141(R). The acquisition accounting method requires re-valuation of assets and liabilities of the acquired entity to fair value at the date of acquisition and the recording of goodwill (if applicable). If the acquired entity is supported mainly by contributions and investment income, rather than by fees for services, then it is impossible to apply the goodwill impairment guidance of FASB Statement No. 142. Accordingly, any goodwill for these acquired entities is charged to the statement of activities in the period of the acquisition. If the acquired entity is supported mainly by fees for services, then it accounts for goodwill in accordance with Statement 142.

Disclosure Requirements and Other Key Provisions

In addition, the latest project summary posted on the FASB's website indicates the Board has decided to:

1. Require that a newly merged public not-for-profit organization include specified pro forma pre-merger information as supplementary information.

2. Require certain disclosures for mergers of not-for-profit organizations and acquisitions by not-for-profit organizations. (A draft of those disclosures is available on the FASB's website http://www.fasb.org/project/11-12-08_nfp.pdf.)

3. Require that:

    a. Previously recognized goodwill assigned to a reporting unit supported mainly by contributions and investments income will be written off as a change in accounting principle.

    b. All other previously recognized goodwill will be subject to the transitional impairment evaluation of Statement 142, and subsequently to the provisions of Statement 142.

4. Make the final Statement effective in the first fiscal year beginning after December 15, 2009, with no delayed effective date for small organizations. The Statement will prohibit early adoption.

Please direct questions about the new Statement to Bob Stillman (614.221.1120).