



October 2009

FASB Statement No. 164, “Not-for-Profit Entities: Mergers and Acquisitions”

The Financial Accounting Standards Board has issued Statement No. 164 which will dramatically change the historical cost method of accounting used for combinations of not-for-profit organizations (“NPOs”). Its provisions are effective for mergers which occur on or after December 15, 2009 and for acquisitions which occur in fiscal years beginning on or after December 15, 2009. Earlier application of Statement 164 is prohibited. Prior to Statement 164 mergers of two or more NPOs into a new reporting entity were accounted for by analogy to APB No. 16, “Business Combinations”, at carryover basis (e.g. historical cost) applied in a manner similar to a pooling of interests as of the earliest period presented. All other combinations of NPOs not resulting in a new reporting entity were accounted for at carryover basis from the date of combination.

Under Statement 164, combinations of NPOs will use either merger or acquisition accounting (e.g. fair value accounting) as follows:

Merger Accounting - Combinations that meet the requirements for merger accounting will be accounted for using the carryover method as of the merger date. For a combination to qualify for merger accounting the governing bodies of the two or more combining not-for-profit entities must cede control of those entities to create a new not-for-profit entity. To cede control requires that the merging entities not retain shared control of the new entity. To qualify as a new entity, the combined entity must have a newly formed governing body. A new entity often is, but need not be, a new legal entity. The entity resulting from a merger is deemed to be a new reporting entity with no activities before the date of the merger. Consequently, for purposes of the statements of activities and cash flows, the initial reporting period will commence as of the merger date.

Acquisition Accounting - All other combinations of NPOs not meeting the requirements for merger accounting are required to use the acquisition method. For each acquisition, one of the combining entities shall be identified as the acquirer using the existing guidance on control and consolidation of NPOs. Once the acquirer is identified, the fair value of the acquired assets (tangible and intangible), assumed liabilities and consideration transferred, if any, must be measured as follows:

- If the fair value of the assets acquired exceeds the value of the liabilities assumed and consideration transferred, if any, a contribution will be recorded in the statement of activities of the acquirer for such excess.
- If the value of the liabilities assumed and the consideration transferred, if any, exceeds the value of the assets acquired, such excess is treated as either goodwill or as a separate charge in the statement of activities as of the acquisition date. If the operations of the acquiree as part of the combined entity are expected to be predominantly supported by contributions and returns on investments, such excess is charged to the statement of activities (e.g. Excess of liabilities assumed over assets acquired), otherwise, such excess is recognized as goodwill as of the acquisition date. Any resulting goodwill would than be subject to periodic impairment testing.

Note that the requirements for merger accounting would generally indicate that most combinations of not-for-profit entities under Statement 164 will result in acquisition accounting and the resulting need for fair value measurements.

If you would like more information about the impact of FASB No.164 on a potential business combination involving your organization, please contact Jerry O’Neil, Partner, at 212-286-2600 or joneil@odmd.com or your ODMD Not-for-Profit Team professional.

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