ASNPO 4449 Combinations by Not-for-Profit Organizations

MNP LLP

EFFECTIVE DATE

ASNPO 4449 is effective for financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

SCOPE

ASNPO 4449 applies to a combination involving two or more NPOs, whether the combination involves related or unrelated parties.

This Section does not apply to:

- Acquisition of a for-profit enterprise
- Contribution of a for-profit enterprise
- Contribution of cash or other assets not constituting an NPO
- Formation of a joint venture

DEFINITIONS

Acquiree is the NPO(s) that the acquirer obtains control of in the combination.

Acquirer is the NPO(s) that obtains control of the acquiree.

A **combination** is a transaction or other event involving NPOs that is accounted for as a merger or an acquisition.

Control is the continuing power to determine the strategic operating, investing and financing policies without the co-operation of others.

A **Not-for-profit organization ("NPO")** is an entity, normally without transferable ownership interest, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A NPO's members, contributors and other resource providers do not receive any financial return directly from the organization.

Reporting entity

- In case of merger, a combined NPO once the merger occurs.
- In case of acquisition, the acquirer inclusive of the acquiree.

MERGER VS ACQUISITION

A combination is accounted for as a merger when **all** of the following criteria are met:

(a) No party to the combination is characterized as either the acquirer or acquiree.
(b) Those charged with governance of the predecessor organizations participate in determining the terms of combination, including the governance and management structures and selection of management personnel.
(c) No significant consideration, except for transaction costs, flows to a third party of the combined entity.
(d) The combined entity must encompass the purposes of each of the NPOs subject to the combination at the combination date.
(e) There is no significant decline or planned significant decline in the client communities served by one or more but not all of the organizations that combined to form the reporting entity.

A combination of NPOs under common control is accounted for as a merger.

If **all** of the above criteria are not met, the combination shall be accounted for as an acquisition in accordance with the acquisition method.

ACCOUNTING FOR A MERGER

Recognizing and Measuring the Assets, Liabilities, and Net Assets

Recognition

Recognize the carrying value of the assets, liabilities, and net assets of the entities subject to the combination on the combination date. No recognition of previously unrecognized assets or liabilities (e.g., internally developed intangible assets).

Measurement

Measure the assets, liabilities and net assets at the amounts reported in the financial statements of the combining entities adjusted to achieve uniformity of accounting policies across the combining entities.

If the tangible capital asset or intangible asset exemptions no longer applies (i.e., combined revenues exceed $500,000), then these assets may be recognized on a retrospective or prospective basis.

Subsequent Measurement and Accounting

The combined entity shall subsequently measure and account for combined assets, liabilities, and net assets in accordance with applicable sections of ASNPO.

Presentation and Disclosure

Presentation

The financial statements of the combining entities shall be combined including the comparative information showing the combined result of the prior period as though the entities had always been combined.

Different year-ends

If the merging entities have differing year-ends, the reporting entity shall present comparative information for the 12-month period preceding the reporting period chosen for the reporting entity.

Disclosure

Refer to ASNPO 4449.19 - .20 for disclosure requirements on combinations accounted for as a merger.

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ACCOUNTING FOR AN ACQUISITION - AQUISITION METHOD

Identifying the Acquirer	Determining the Combination Date	Recognizing and Measuring the Identifiable Assets Acquired and the Liabilities Assumed	Recognizing and Measuring the Excess Consideration Transferred or a Bargain Purchase
One of the combining entities shall be identified as the acquirer using the control guidance in ASNPO 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations*: • Control is presumed when an entity holds the right to appoint the majority of the voting members of the other entity's board of directors. • Other possible indicators to identify acquirer include: o The entity that has a significant economic interest in the other entity is more likely to be the acquirer. o The entity that has to provide consent to change the provisions in the other entity's charter or bylaws is more likely the acquirer.	• Date the acquirer obtains control of the acquiree. • Generally, acquisition date is when acquirer legally transfers consideration, acquires the assets and assumes the liabilities (i.e., the closing date).	**Recognition** • Recognize all identifiable assets acquired and liabilities assumed on the combination date. • The definition of assets and liabilities in Section 1001, *Financial Statement Concepts for Not-for-Profit Organizations* must be met to qualify for recognition. • Classify or designate identifiable assets acquired and liabilities assumed as necessary to apply other sections subsequently. • Recognition exceptions include contingent liabilities, donor or member relationships and lists, asset retirement obligations, employee benefits, and indemnification assets. **Measurement** • Measure all identifiable assets acquired and liabilities assumed at their acquisition-date fair values. • Measurement exceptions include collections, assets held for sale, tangible capital assets and intangible assets, asset retirement obligations, employee benefits, and indemnification assets. **Measurement period** • Ends as soon as the acquirer receives information it was seeking or learns that more information is not obtainable. • Does not exceed one year from the acquisition date. **During the measurement period** • Adjust provisional amounts retrospectively for new information obtained about facts and circumstances that existed and would have affected the measurement at the combination date. • Recognize additional assets and liabilities if new information obtained would have resulted in recognition at the combination date.	Recognize and present separately the difference between (a) and (b) below in the statement of net assets: (a) The acquisition date fair value of the consideration transferred. (b) Net of the identifiable assets acquired and liabilities assumed.

Separate Transactions Not to be Included in Applying the Acquisition Method	Subsequent Measurement and Accounting, and Disclosures
• Separate transactions shall be accounted for in accordance with other relevant sections. • A transaction entered into primarily for the benefit of the acquirer or the combined entity is likely to be a separate transaction. Examples include: o A transaction that settles pre-existing relationships or other arrangements between the acquirer and acquiree. o A transaction that remunerates employees of the acquiree for future services. o A transaction that reimburses the acquiree for paying the acquirer's acquisition-related costs.	• An acquirer shall subsequently measure and account for assets acquired and liabilities assumed or incurred in accordance with applicable sections of ASNPO. • Specific guidance exists for contingent liabilities and indemnification assets. • Refer to ASNPO 4449.61 - .66 for disclosure requirements on combinations accounted for as an acquisition.