ASNPO At a Glance

Section 4449 – Combinations by Not-for-Profit Organizations

May 2025

Section 4449 – *Combinations by Not-for-Profit Organizations*

Effective Date
Fiscal years beginning on or after January 1, 2022

Scope

Applies to:

- Combinations involving two or more not-for-profit organizations that are unrelated parties or related parties. See Section 4460, *Disclosure of Related Party Transactions by Not-for-profit Organizations* for the definition of related parties.
- Subsequent to the combination, a not-for-profit organization applies Section 4450, *Reporting Controlled and Related Entities by Not-for-profit Organizations*, which establishes the presentation and disclosure of controlled entities of a not-for-profit organization.

Does not apply to:

- The acquisition of a for-profit enterprise by a not-for-profit organization;
- A contribution of a for-profit enterprise to a not-for-profit organization;
- A contribution of cash or other assets, which do not constitute a not-for-profit organization, to a not-for-profit organization; or
- The formation of a joint venture.

Identifying and accounting for a combination

A combination is a transaction or event involving two or more not-for-profit organizations that is accounted for as a merger or an acquisition.

A combination of not-for-profit organizations under common control is accounted for as a merger.

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

- No party to the combination is identified as either the acquirer or the acquiree;
- Those charged with governance of the predecessor organizations participate in determining the terms of the combination. This includes establishing the governance and management structures of the combined organization and in selecting management personnel;
- Except for transaction costs, no significant consideration is paid to a third party of the organizations combining (A merger generally is accomplished by combining all of the assets and liabilities of the combining entities into a single reporting entity without a transfer of cash or other assets to a third party of the reporting entity);
- When entities combine, the reporting entity encompasses the purposes of each of the not-for-profit organizations combined; and
- At the combination date, 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.

If all of the above criteria are not met, the combination is accounted for as an acquisition.

Accounting for a merger

Step 1: Determine the combination dates

The date on which the not-for-profit organizations merge.

Step 2: Recognition and measurement of assets and liabilities

- As of the combination date, the carrying values of the assets, liabilities and net assets of the entities subject to the combination become the combined carrying values of the assets, liabilities and net assets of the reporting entity.[1]
- The reporting entity measures the assets, liabilities and net assets in its combined financial statements at the amounts reported in the financial statements of the combining entities as of the combination date.
- The reporting entity makes adjustments to have consistent accounting policies across all combining entities.
- If, prior to the combination, one of more of the combining entities have exempt tangible capital assets[2] and/or exempt intangible assets[3] that were previously expensed, the exemption threshold may be exceeded at the combination date. In these situations, the reporting entity must apply uniform accounting policies on a retrospective basis[4].

Transaction costs
- Cannot be capitalized, must instead be expensed in the period they are incurred.

Subsequent measurement and accounting

- After the date of the combination, the reporting entity measures and accounts for the combined assets, liabilities and net assets in accordance with the applicable Sections of ASNPO, consistent with the reporting entity's accounting policies.

Presentation

- Current and prior year figures are presented on a combined basis as if the organizations were always one entity.
- Comparative figures must be marked as combined figures.
- 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.

[1]Identifiable assets and liabilities must mee the definitions of assets and liabilities as per Section 1001, Financial Concepts for Not-For-Profit Organizations, at the combination date.
[2]See also our publication ASNPO At a Glance: Section 4433, Tangible Capital Assets Held by Not-for-profit Organizations.
[3]See also our publication ASNPO At a Glance: Section 4434, Intangible Assets Held by Not-for-profit Organizations.
[4]See also our publication ASPE At a Glance: Section 1506, Accounting Changes.

Accounting for an acquisition

Step 1: Identify the acquirer

For each acquisition, one of the combining entities is identified as the acquirer.

The guidance in Section 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations*, paragraphs 4 to 8 is used to identify the acquirer.

Step 2: Determine the combination date

The combination date is the date on which the acquirer obtains control of the acquiree.

Step 3: Recognition and measurement of assets and liabilities

- As of the combination date, the acquirer recognizes:
  - The identifiable assets acquired; and
  - The liabilities assumed.
- The identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities[1] and must be part of what the acquirer and acquiree exchanged in the combination transactions rather than the result of separate transactions.
- The acquirer may recognize some assets and liabilities that the acquiree had not previously recognized, such as an intangible asset internally generated by the acquiree that was historically expensed.
- The acquired assets and liabilities are required to be measured at their acquisition-date fair values.
- There are certain exceptions to the recognition and / or measurement principles which cover contingent liabilities, donor or member relationships and lists, asset retirement obligations, employee benefits, indemnification assets, collections, assets held for sale, exempt tangible capital assets and intangible assets, and cash surrender value of a life insurance policy.

Step 4: Recognition and measurement of excess of consideration transferred

- As of the combination date, the acquirer determines the difference between:
  - The acquisition-date fair value of the consideration transferred; and
  - The acquisition-date amount of the identifiable net assets acquired and measured in accordance with Step 3.
- The difference is recognized and presented separately in the statement of changes in net assets

Acquisition-related costs
- Cannot be capitalized, must instead be expensed in the period they are incurred.

Subsequent measurement and accounting

- In general, after the date of the combination, an acquirer measures and accounts for assets acquired, liabilities assumed or incurred and equity instruments issued in accordance with the applicable Sections of ASNPO.
- However, paragraphs 58 and 59 of this Section includes specific accounting requirements for contingent liabilities and indemnification assets.

Disclosure

Merger

- The reporting entity must disclose, during the reporting period in which the merger takes place:
  - The names of the combining entities, a description of their operations and that a merger occurred;
  - The combination date;
  - The primary reason(s) for the merger;
  - A summary of the principal components of the current reporting period's statement of operations, to indicate:
    - The amounts relating to the merged entity for the period after the date of the merger; and
    - The amounts related to each party to the merger up to the date of the merger;
  - A summary of the principal components of the statement of financial position of each party to the merger, as at the date of the merger;
  - A summary of the principal components of the comparative period's statement of financial position and statement of operations for each party of the merger;
  - The combined carrying amount of the net assets of each party to the merger, differentiating between different categories of net assets or fund balances at the date of the merger; and
  - The nature and amount of any significant adjustments they have made to align accounting policies.

Combination that occurs after the end of the reporting period, but before the financial statements are completed:

- An organization that is party to a merger after the end of its reporting period, but before its financial statements are completed must disclose the following:
  - The names of the combining entities and a description of the nature of their operations;
  - The combination date; and
  - The primary reason(s) for the merger.

Acquisition

- The reporting entity must disclose the following information for each **material** combination that occurs either during the current reporting period or after the end of the reporting period, but before the financial statements are completed:
  - The name and a description of the acquiree and that an acquisition occurred;
  - The combination date; and
  - The primary reason(s) for the acquisition.
- Subsequent to initial measurement, if the reporting entity is consolidating the acquiree[5], the reporting entity must also disclose:
  - The acquisition date fair value of the total consideration transferred and the acquisition date fair value of each major class of consideration, such as cash and liabilities incurred.
  - A description of the arrangement and the basis for determining the amount of the payment for the indemnification assets;
  - A condensed statement of financial position showing the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed; and
  - The difference between the consideration transferred and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed and that this difference is presented in the statement of changes in net assets.
- For **individually immaterial acquisitions occurring during the reporting period that are material collectively**, the reporting entity must disclose the following:
  - The number of organizations acquired and a brief description of those organizations; and
  - Subsequent to initial measurement, if the reporting entity is consolidating the acquirees[5]:
    - the acquisition-date fair value of the total consideration transferred; and
    - a description of the arrangement and the basis for determining the amount of the payment for the indemnification assets.

Combination that occurs after the end of the reporting period, but before the financial statements are completed:

- If the initial accounting for an acquisition that occurs after the end of the reporting period, but before the financial statements are completed, and the initial accounting of the acquisition is incomplete, the reporting entity must describe which disclosures could not be made and the reasons why they could not be made.

If the specific disclosures required by this and other Sections do not sufficiently enable users of the financial statements to evaluate the nature and financial effect of a combination, the reporting entity must disclosure whatever additional information is necessary to meet these objectives.

[5]See also our publication ASNPO At a Glance: Section 4450, *Reporting Controlled and Related Entities by Not-for-profit Organizations*.

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