## The webcast will start at 1 p.m. Eastern

Please note:

- Handout – You can print or download the webcast handout at http://www.capincrouse.com/webcast-mergers
- CPE – CPE certificates will be emailed to you within the next few weeks. To receive CPE credit you must respond to the polling questions, which are not available on mobile devices. Therefore, in order to receive CPE credit you must log in via a computer.
- Recording– A recording of today's webcast will be available at capincrouse.com. Click **Nonprofit Resources**, and then select **Webcast: Recorded** from the list on the right.

CAPINCROUSE LLP

# Mergers and Acquisitions

## Nonprofit Organizations

Fran Brown, Partner
7.27.17

CAPINCROUSE LLP

## Agenda

- Guidance
- Definitions
- Examples
  - Higher Education
  - Local

## Guidance

- ASU 2010-07
  - Not-for-Profit Entities (Topic 958)
    - January 2010

## Definitions

- Merger
  - Very rare
- Acquisition
  - Accounting treatment
- Shared Services

## Merger

"A transaction or other event in which the governing bodies of two or more not-for-profit entities cede control of those entities to create a new not-for-profit entity."

## Acquisition

"A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements."

## Accounting Treatment

Merger

- Applies the carryover method in accounting for a merger

Acquisition

- Applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer

## Accounting for a Merger

- NFP A and NFP B merge into new NFP C – NFP A has 3mil in assets and 2mil in liabilities and 1mil in net assets (book values). NFP B has 5mil in assets, 4mil in liabilities and 1mil in net assets.
- New NFP C – 8mil in assets, 6mil in liabilities and 2mil in net assets
- As of the date the merger becomes effective

## Accounting for an Acquisition

- Step 1 – Identify the Acquirer
- Step 2 – Identify the Acquisition Date
- Step 3 – Identify Special Items
- Step 4 – Recognize Goodwill Acquired or a Contribution Received

## Real-life Example

Adapted from a 2017 presentation with Fran Brown and
Frank Scoti, VP for Business and Finance at Hope International University

CAPINCROUSE

## Merger Process

Phase One – *Exploration*

Phase Two – *Analysis*

Phase Three – *Design*

Phase Four – *Integration*

## Merger Process

**Phase One – *Exploration***

Phase Two – *Analysis*

Phase Three – *Design*

Phase Four – *Integration*

## Exploration – Mission

Compare the mission of the two institutions, ensuring they are compatible with a common purpose.

> University A empowers students through Christian higher education to serve the Church and impact the world for Christ.
>
> College B is an institution of Christian higher education that seeks to bring glory to God by calling people to know Christ, preparing disciples with skills for ministry, and sending them out to make Christ known.

## Exploration – Principles

Collaborative discussion on guidelines will:

1. Prevent misunderstandings
2. Set the tone
3. Confirm purpose

## Merger Principles

A merger must:

1. Be in the best interest of the respective institutions and lead to greater Kingdom impact.
2. Include a mutual commitment to prayer by everyone involved — discerning the direction God is leading.
3. Fundamentally embrace the mission of both schools.

## Merger Principles (cont.)

A merger must:

4. Ensure that the merged school maintains its individual identity to the fullest extent possible, becoming a functional campus of the parent school.
5. Ultimately establish a strong and financially sustainable institution with the best personnel possible to ensure future success and mission fulfillment.

## Exploration – Rationale

An opportunity exists to bring together schools that have a common heritage and strong tradition of developing committed servant leaders who are serving churches around the world.

A merger must be mission-focused, mutually beneficial, and take advantage of the uniqueness of each institution.

## Exploration – Summary

At the conclusion of the Exploration Phase,

an executive summary provides details on

why it makes sense to move forward.

## Merger Process

Phase One – *Exploration*

**Phase Two – *Analysis***

Phase Three – *Design*

Phase Four – *Integration*

## Analysis

- Advantages
  Positive aspects, maximize opportunity
- Disadvantages
  Negative aspects, drawbacks
- Potential Risks
- Costs

## Analysis – Merger Budget

| | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|
| Accreditation Substantive Change App. Fee | | | |
| Accreditation Site Visit Expenses | | | |
| Consultant Design and Integration Phases | | | |
| Legal Fees | | | |
| Administrative & Trustee Travel | | | |
| State & Federal Compliance Fees | | | |
| Financing or Loan Fees | | | |
| Financial & Tax Review and Compliance Fees | | | |
| | | | |
| | | | |
| | | | |
| | | | |

## Analysis – Data

| | School A | School B |
|---|---|---|
| **Financial** | | |
| Current Endowment Value | | |
| Short-term Debt | | |
| Long-term Debt | | |
| DOE Composite Score | | |
| **Enrollment Management** | | |
| Current Six-Year Graduation Rate | | |
| Current Freshman-Sophomore Retention Rate | | |
| Number of Sports Offered | | |
| Number of Athletes | | |
| Annual Unduplicated Headcount | | |
| Fall Headcount | | |
| Fall FTE | | |
| Graduates | | |
| **Institutional Advancement** | | |
| Number of Individual Donors | | |
| Number of Supporting Churches | | |
| Number of Alumni on Record | | |
| Restricted Giving | | |
| Unrestricted Giving | | |
| **Human Resources** | | |
| Number of Full-Time Faculty | | |
| Number of Adjunct/Part-Time Faculty | | |
| Number of Full-Time Staff | | |
| Number of Part-Time Staff | | |

## Analysis – Costs

- Travel
- Accreditation
- Consultant, Legal Counsel, Auditor
- Technology compatibility
- Marketing & branding
- Program development

## Analysis – Advantages

- Good Stewardship
- Regional Accreditation
- Expanded Programs
- Church Leadership Development
- Financial Sustainability
- Intra-campus Exchanges
- Synergy of Blended Expertise
- Advanced Technology Infrastructure
- Enhanced Learning Resources

## Analysis – Disadvantages

- Negative reaction of alumni/constituents
- Potential employee reduction
- Some programs are too similar

## Analysis – Potential Risks

- Jeopardize Progress
- No Positive Impact on Enrollment
- Resistance to Change
- Unknown Costs
- Misunderstanding Institutional Cultures
- Lost Opportunity

## Analysis – Recommendation Criteria

There must:

- Be a full commitment by both institutions.
- Result in long-term financial stability and sustainability.
- Provide opportunity for significant growth.
- Be the ability to leverage assets to ensure future viability.
- Be compliance with all accreditation requirements, and state & federal regulations.

## Analysis – Recommendation

1. Why would we proceed?

2. Why would we not proceed?

## Analysis – Summary

The analysis summary includes data explaining the financial, academic, student, cultural and regional impact of the merger.

It makes the case for moving to the next phase or discontinuing the process and it demonstrates that due diligence has taken place.

## Merger Process

Phase One – *Exploration*

Phase Two – *Analysis*

**Phase Three – *Design***

Phase Four – *Integration*

## Design – Definitive Agreements

- Accreditation Approval
- Organizational Structure
- Trustee Representation
- Regional Advisory Councils
- Name
- Assets and Liabilities

## Design – Structure

- Facilities
- Governance
- Administration
- Organizational Chart
- Operation

## Design – Summary

The Design Phase overlaps with the integration phase. It must demonstrate due diligence and have structure in place to the fullest extent possible.

It requires sufficient clarity for approval at all appropriate agencies.

Terms must be clearly stated and legal counsel obtained for all state & local official documents.

## Merger Process

Phase One – *Exploration*

Phase Two – *Analysis*

Phase Three – *Design*

**Phase Four – *Integration***

## Integration – Operational Plans

- Academic – Curriculum, etc.
- Finance – Budget, etc.
- HR – Payroll, Policies, Handbooks, etc.
- Student Life – Athletics, etc.
- Facilities – Property, etc.
- Technology – Compatibility, etc.
- Advancement – Churches and Alumni, etc.

## Integration – Planning

- Short-term Business Plan
- Long-term Strategic Plan

## Integration – Tasks

1. Anticipate significant commitment of time and energy on the part of both institutions.
2. Begin implementation of integration plan and business plan. Develop strategic plan.
3. Review campuses for compliance with federal & state regulations and accreditation standards.
4. Conduct corporate training in all systems, processes and procedures.
5. Launch branding & marketing campaign.

## Integration – Considerations

**Business Office**

- Employee records
- Vendor records
- Chart of accounts

**Registrar**

- Institutional decisions
- Initial configuration
- Current student enrollment
- Current student course history

**Admissions**

- Validate CRM process
- Cutover date TBD

**Student Accounts**

- Ledger card transactions
- Billing methods

**Financial Aid**

- Packaging and disbursing
- Timing dependencies: merger docs, Dept. of Education

## Integration – Considerations

**Institutional Research**

- Reporting requirements
  - IPEDS
  - Clearinghouse
  - WSCUC
  - Fact Book
  - Common Data Set

**Training**

- Training for each area
- Process documentation
- Policies & procedures

**Information Systems**

- Configure ERP and Portal
- Update custom reports
- Technology for remote access
- Align technology policies & standards

**Other Areas**

- New Learning Management System
- Housing
- Student Affairs
- Advancement
- Alumni
- Others

## Integration – Summary

The integration phase will likely last up to 18 months.

It will involve staff training, curriculum revisions, technology integration upgrades, and other known and unknown changes.

## Merger of Complementary NFPs

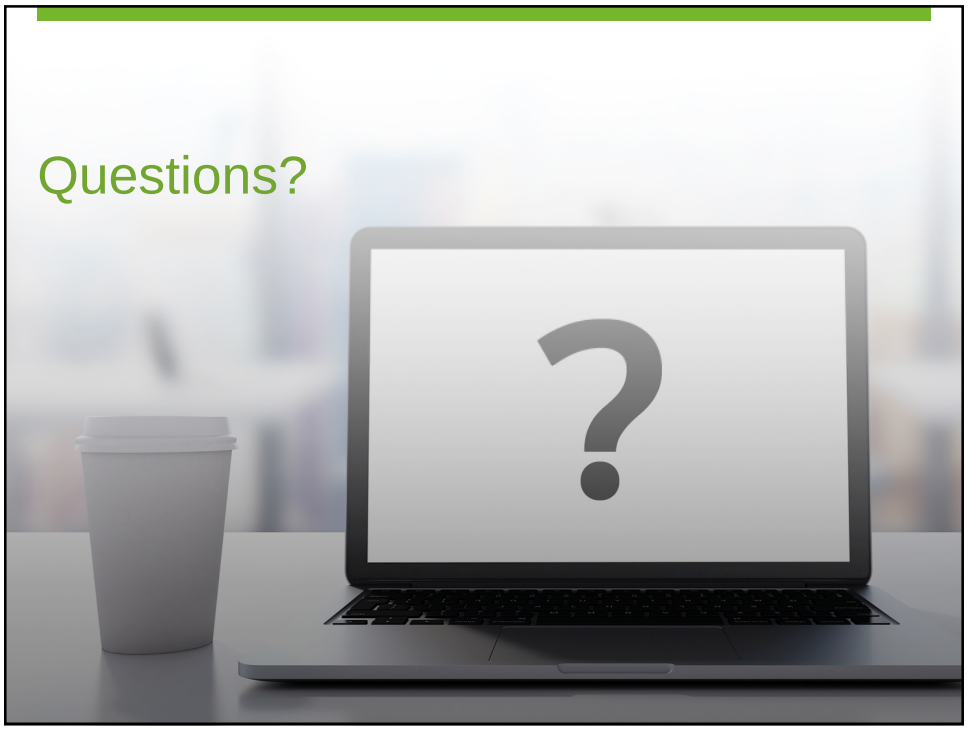
Daycare (D) was a daycare relying on government contracts. The inability to supplement with outside fundraising made it difficult to overcome the operating losses.

YMCA (Y) was a local Y that had struggled since a major building project several years ago. The building project included several classrooms that remained underutilized.

Foundation (F) was a local foundation that annually supported both organizations. F was willing to invest in the merger/acquisition process.

## Next Steps

1. Consider all options
2. Try Shared Services
3. Try Consortiums
4. Merger – Usually a takeover by a larger organization
5. Acquisition – Someone always wins —
6. Find financing
7. Hire professionals to guide the process
8. Prepare, Prepare, Prepare



Fran Brown, Partner
Professional Practice Leader - Attest
CapinCrouse, LLP

fbrown@capincrouse.com
617.535.7534

CAPINCROUSE LLP