The webcast will start at 1 p.m. Eastern

Please note:

- Handout – You can print or download the webcast handout at capincrouse.com/webcast-mergers-acquisitions
- 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.

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Mergers and Acquisitions

How to Make Them Work for Your Organization

Fran Brown, Partner
04.26.2018

CAPINCROUSE LLP

Agenda

- Definitions
- Examples
  - Higher Education
  - Local
  - Joint Venture
  - Shared Services
- Guidance

But first…

Who are you?

My Organization’s Mission Statement:

____

____

____

But first…

SWOT ANALYSIS TIME

STRENGTHS	**OPPORTUNITIES**
WEAKNESESS	THREATS

Definitions

- Merger
  - Not as common as an Acquisition
- Acquisition
- Shared Services
- Joint Venture

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."

Shared Services

Shared Services are collaborations between two or more similar (size/purpose/geography) organizations with the purpose of achieving efficiencies.

Joint Venture

"A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture (JV), each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate and apart from the participants' other business interests."

Source: Investopedia

Real-life Examples

Fran Brown and
Frank Scotti, VP for Business and Finance at Hope International University

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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.

> **Boston University** is an international, comprehensive, private research **university**, committed to educating students to be reflective, resourceful individuals ready to live, adapt, and lead in an interconnected world.

Exploration – Mission

Wheelock's Vision As a private college with a public mission, Wheelock strives to be the premier college educating people to create a safe, caring, and just world for children and families. As we have since 1888, we contribute to the vitality of families, communities, and societies by:

- Educating students who are well prepared academically and as practitioners with real-world experience — ready to be leaders and advocates, confident in their abilities, and sought after in a wide range of careers;
- Advocating for programs, policies, and laws that enhance the quality of life for children and families.

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 impact.
2. Produce a stronger, more robust version of either organization.
3. Fundamentally embrace the mission of both organizations.

Merger Principles (cont.)

A merger must:

4. Ensure that the acquired organization maintains its individual identity to the fullest extent possible, becoming a functional program of the acquiring organization.
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 organizations that have a common heritage and strong tradition of developing committed leaders who are serving 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 – Acquisition 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
- Leadership development
- Financial sustainability
- Intra-campus exchanges
- Synergy of blended expertise
- Advanced technology infrastructure
- Enhanced learning resources

Analysis – Disadvantages

- Negative reaction of 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 organizations.
- Result in long-term financial stability and sustainability.
- Provide opportunity for significant growth.
- Be the ability to leverage assets to ensure future viability.
- Be in 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, customer, 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 and 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 and state regulations and accreditation standards.
4. Conduct corporate training on all systems, processes, and procedures.
5. Launch branding and 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

Information Systems

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

Training

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

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.

Merger of Complementary NFPs

- Meeting of Board Presidents
- Meeting of Executive Directors
- Early sell to remaining Board
- Due diligence
- Regulatory issues
- Legal issues
- Merger date set
- Inform parents from Daycare
- True up of benefits
- Layoffs
- Five years later…

Joint Venture

1. Identify the business need
2. Identify potential partners
3. RFP process could help
4. Example – building a retail/residential building near your campus
5. Example – finding developer to work with on senior housing
6. MUST have legal and financial advisors to be sure it is done correctly

Shared Services

1. Identify the business need
2. Identify potential partners
3. RFP process could help
4. Example – International client runs several overseas programs

   Good at running programs, needs help raising needed gifts in kind (GIK) – finds an organization with a similar value system that raises GIK and sends to others – worked out a shared services arrangement whereby one organization raises the GIK and the other uses it where it is needed

Next Steps

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

Guidance

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

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 Treatment

Merger

Applies the carryover method in accounting for a merger

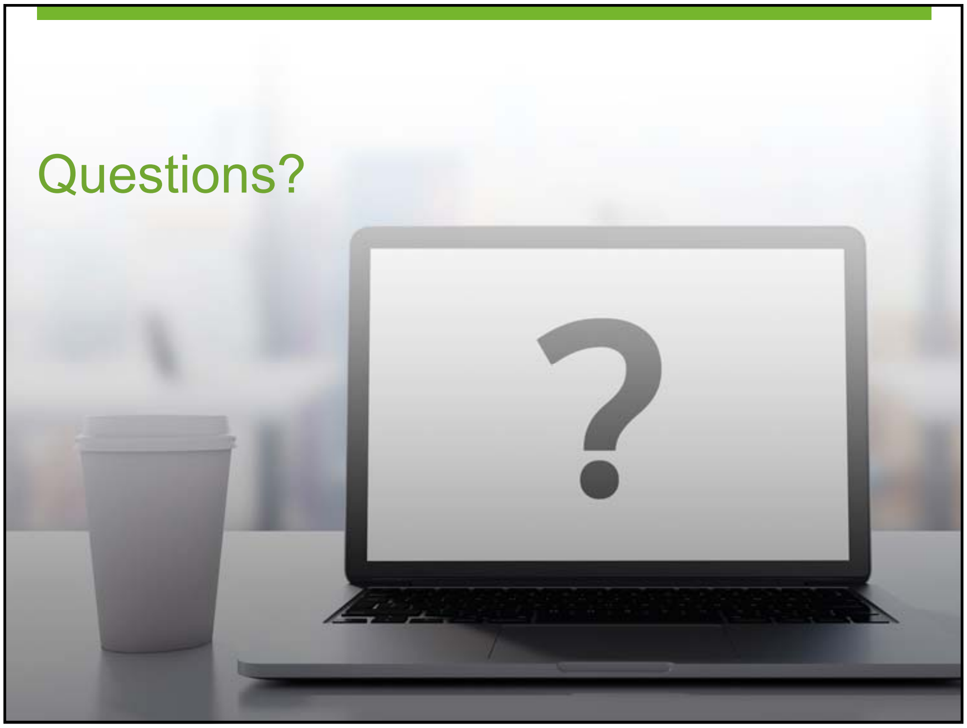
Acquisition

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

Accounting for 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

Questions?



Upcoming Webcast

Please join us! Learn more at capincrouse.com

Benchmarking for Your Nonprofit
Thursday, May 24
1 p.m. Eastern
Presented by: Dan Campbell and Martin Ramsey

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