SECTION 4449
combinations by not-for-profit organizations

Basis for Conclusions

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PURPOSE AND SCOPE

.01 This Section provides the accounting requirements for the recognition and initial measurement of a combination and the related disclosures for financial statements of not-for-profit organizations. Subsequent to the combination, a not-for-profit organization applies REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4450, which establishes the standards for presentation and disclosure of controlled entities of a not-for-profit organization.

.02 This Section applies to a combination involving two or more not-for-profit organizations that are unrelated parties or related parties (see DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4460, for the definition of related parties). This Section does not apply to:

(a) the acquisition of a for-profit enterprise by a not-for-profit organization (see BUSINESS COMBINATIONS, Section 1582 in Part II of the Handbook);

(b) a contribution of a for-profit enterprise to a not-for-profit organization (see CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410 to measure assets contributed and BUSINESS COMBINATIONS, Section 1582 to measure liabilities assumed and any goodwill, if applicable);

(c) a contribution of cash or other assets, which do not constitute a not-for-profit organization, to a not-for-profit organization (see CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410); or

(d) the formation of a joint venture (see REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4450).

.03 This Section establishes principles and requirements for how:

(a) in the case of a combination of two or more not-for-profit organizations accounted for as a merger, the reporting entity:

(i) recognizes, measures and presents in its financial statements the combined assets, liabilities and net assets of the merged entities; and

(ii) determines what information to disclose to enable the financial statement users to evaluate the nature and financial effects of the merger.

(b) in the case of a combination of two or more not-for-profit organizations accounted for as an acquisition, the acquirer:

(i) recognizes and measures in its financial statements the identifiable assets acquired and the liabilities assumed; and

(ii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the acquisition.

DEFINITIONS

.04 The following terms are used in this Section with the meanings specified:

(a) An **acquiree** is the not-for-profit organization or organizations that the acquirer obtains control of in a combination.

(b) An **acquirer** is the not-for-profit organization that obtains control of the acquiree.

(c) The **combination date** is the date on which a not-for-profit organization merges with or acquires one or more not-for-profit organizations.

(d) A **combination** is a transaction or other event involving not-for-profit organizations that is accounted for as a merger or an acquisition based on the criteria in paragraph 4449.07.

(e) **Control** of a not-for-profit organization is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

(f) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(g) An asset is **identifiable** if it either:

(i) is separable (i.e., capable of being separated or divided from the organization and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the organization intends to do so); or

(ii) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the not-for-profit organization or from other rights and obligations.

(h) An **intangible asset** is an identifiable non-monetary asset without physical substance.

(i) **Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

(j) In the case of a merger, the **reporting entity** is the combined not-for-profit organizations once the merger occurs. In the case of an acquisition, the **reporting entity** is the acquirer inclusive of the acquiree.

(k) **Transaction costs** are incremental costs that are directly attributable to the combination transaction. An incremental cost is one that would not have been incurred if the reporting entity had not undertaken the combination transaction. Transaction costs, in the context of paragraph 4449.07(b), include expenditures such as advisory, legal, accounting, other consulting fees, general administrative costs, severance costs, lease termination costs and other such costs.

DISTINGUISHING BETWEEN A MERGER AND AN ACQUISITION

.05 The accounting treatment for a combination depends on the substance of the transaction and whether there is control exercised over the other organization. Determining the appropriate accounting treatment depends on the characteristics of the transaction and whether certain criteria are met (see paragraphs 4449.06-.07).

Criteria for determining whether the combination is accounted for as a merger or an acquisition

.06 *Whether a combination is accounted for as a merger or an acquisition depends on the facts and circumstances of the transaction.*

.07 *Except for combinations of not-for-profit organizations under common control, 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, either by its own board or management or by that of the other party to the combination.

(b) 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.

(c) Except for transaction costs, no significant consideration flows to a third party of the organizations combining to form the reporting entity. 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.

(d) When entities combine, the reporting entity must encompass the purposes of each of the not-for-profit organizations subject to the combination at the combination date. While a combination may result in minor changes to the purpose of the combining not-for-profit organizations, a significant change would result in this criterion not being met.

(e) 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.

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

.08 *When two or more entities combine, and the combination meets all of the criteria in paragraphs* 4449.07*(a)-(e), it shall be accounted for as a merger in accordance with paragraphs* 4449.09-*.20. If all of the criteria are not met, the combination shall be accounted for as an acquisition in accordance with paragraphs* 4449.21-*.66.*

ACCOUNTING FOR A MERGER

Recognition principle

.09 *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.*

.10 *Except as discussed in paragraph* 4449.13*, the reporting entity is not permitted to recognize previously unrecognized assets or liabilities, such as internally developed intangible assets.*

Measurement principle

.11 *The reporting entity shall measure 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.*

.12 *The combining entities might have measured assets and liabilities using different accounting policies in their separate financial statements. The reporting entity shall make adjustments to achieve uniformity of accounting policies across the combining entities. The uniform accounting policies shall be reflected in the current and comparative combined financial statements of the reporting entity.*

.13 *Prior to the combination transaction, one or more of the combining entities might have applied the exemption in TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4433*, and/or the exemption in INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4434*, when the average of annual revenues recognized in the statement of operations for the current and preceding period of the organization and any entities it controls was less than $500,000. Once the entities combine, the exemption may no longer be applicable as the threshold might be exceeded. In these situations, the reporting entity shall apply uniform accounting policies on a:*

- *(a) retrospective basis (in accordance with ACCOUNTING CHANGES, Section* 1506 *in Part II of the Handbook); or*
- *(b) a prospective basis (in accordance with Section* 1506*) for tangible capital assets and intangible assets acquired after the combination date.*

.14 In determining whether the threshold has been exceeded, the reporting entity assesses the average of annual revenues recognized in the statement of operations for the current and preceding period by aggregating the revenues of the combining entities and any entities they control as if the entities were combined in those periods.

.15 *All transaction costs associated with the merger shall be charged as an expense during the period incurred.*

Presentation

.16 *As of the combination date, the financial statements of the merging entities shall be combined to form the financial statements of the reporting entity. The reporting entity shall present comparative information showing the combined results of the prior period as though the entities had always been combined. The comparative figures shall be marked as combined figures.*

.17 *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.*

Subsequent measurement and accounting

.18 *The reporting entity shall subsequently measure and account for the combined assets, liabilities and net assets in accordance with other Sections applicable for those items consistent with the reporting entity's accounting policies.*

Disclosure

.19 *The reporting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a combination that occurs during the current reporting period. The reporting entity shall disclose, during the reporting period in which the merger takes place:*

- *(a) the names of the combining entities, a description of their operations and that a merger occurred;*
- *(b) the combination date;*
- *(c) the primary reason(s) for the merger;*
- *(d) a summary of the principal components of the current reporting period's statement of operations, to indicate:*
  - *(i) the amounts relating to the merged entity for the period after the date of the merger; and*
  - *(ii) the amounts related to each party to the merger up to the date of the merger;*
- *(e) 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;*
- *(f) a summary of the principal components of the comparative period's statement of financial position and statement of operations for each party to the merger;*
- *(g) 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*
- *(h) the nature and amount of any significant adjustments they have made to align accounting policies.*

.20 *An organization that is party to a merger after the end of its reporting period but before its financial statements are completed shall disclose information that enables users of its financial statements to evaluate the nature of the merger. The organization shall disclose:*

- *(a) the names of the combining entities and a description of the nature of their operations;*
- *(b) the combination date; and*

(c) the primary reason(s) for the merger.

ACCOUNTING FOR AN ACQUISITION

.21 *An entity shall account for an acquisition by applying the acquisition method. If the reporting entity chooses to disclose its controlled not-for-profit organizations in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4450*, it shall identify the acquirer, determine the combination date and apply the disclosure requirements in paragraphs* 4449.62-*.66. If the reporting entity chooses to consolidate its controlled not-for-profit organizations subsequent to initial recognition, in accordance with Section 4450, the guidance in paragraphs* 4449.22-*.66 shall be applied.*

.22 Applying the acquisition method requires:

(a) identifying the acquirer;

(b) determining the combination date;

(c) recognizing and measuring the identifiable assets acquired and the liabilities assumed; and

(d) recognizing and measuring the excess consideration transferred or a bargain purchase.

Identifying the acquirer

.23 *For each acquisition, one of the combining entities shall be identified as the acquirer.*

.24 *The guidance in REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, paragraphs* 4450.04-*.08 shall be used to identify the acquirer.*

Determining the combination date

.25 *The acquirer shall identify the combination date, which is the date on which it obtains control of the acquiree.*

.26 *An acquirer shall consider all pertinent facts and circumstances in identifying the combination date. The date on which the acquirer obtains control of the acquiree may be the date on which the acquirer legally transfers any consideration, acquires the assets and assumes the liabilities of the acquiree — the closing date. However, the acquirer may obtain control on a date that is either earlier or later than the closing date. For example, the combination date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date.*

Recognizing and measuring the identifiable assets acquired and the liabilities assumed in the acquiree

<u>Recognition principle</u>

.27 *As of the combination date, the acquirer shall recognize the identifiable assets acquired and the liabilities assumed in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs* 4449.28-*.30.*

Recognition conditions

.28 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1001, at the combination date. For example, costs the acquirer expects but is not obliged to incur in the future to affect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the combination date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the acquirer recognizes those costs in its post-combination financial statements in accordance with other Sections.

.29 In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree exchanged in the combination transaction rather than the result of separate transactions. The acquirer applies the guidance in paragraphs 4449.54-.55 to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Sections.

.30 The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a brand name, license or patent, that the acquiree did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense. An identifiable asset may be associated with an operating lease if the terms are favourable relative to market terms or a liability may be associated with an operating lease if the terms are unfavourable relative to market terms.

Classifying or designating identifiable assets acquired and liabilities assumed in a combination

.31 *At the combination date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other Sections subsequently. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the combination date.*

.32 *This Section provides an exception to the principle in paragraph* 4449.31 *for the classification of a lease contract as either an operating lease, capital lease, sales-type lease or a direct financing lease in accordance with LEASES,* *Section* 3065 *in Part II of the Handbook. The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the combination date).*

Measurement principle

.33 *The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.*

.34 Paragraphs 4449.39-.45A specify the types of identifiable assets and liabilities that include items for which this Section provides limited exceptions to the measurement principle. [Former paragraph 4449.34, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, in Part II of the Handbook, retained in Archived Pronouncements.]

Exceptions to the recognition or measurement principles

.35 *This Section provides limited exceptions to its recognition and measurement principles. Paragraphs* 4449.36-*.45A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs* 4449.39-*.45A, which will result in some items being:*

(a) *recognized either by applying recognition conditions in addition to those in paragraphs* 4449.28-*.30 or by applying the requirements of other Sections, with results that differ from applying the recognition principle and conditions; and*

(b) *measured at an amount other than their acquisition-date fair values.*

[Former paragraph 4449.35, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, in Part II of the Handbook, retained in Archived Pronouncements.]

Exceptions to the recognition principle

Contingent liabilities

.36 CONTINGENCIES, Section 3290, defines a contingency as an existing condition or situation involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.

.37 *The requirements in CONTINGENCIES, Section* 3290*, do not apply in determining which contingent liabilities to recognize as of the combination date. Instead, the acquirer shall recognize as of the combination date a contingent liability assumed in a combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Section 3290, the acquirer recognizes a contingent liability assumed in a combination at the combination date even if it is not likely that a future event will confirm that an asset had been impaired or a liability incurred at the date of the financial statements. Paragraph* 4449.58 *provides guidance on the subsequent accounting for contingent liabilities.*

Donor or member relationships and lists

.38 *An organization may acquire a donor or member list externally or develop donor or member relationships, or donor or member lists, internally. The acquirer shall not recognize donor or member relationships or lists of the acquiree.*

Exceptions to both the recognition and measurement principles

Asset retirement obligations

.39 *The acquirer shall recognize and measure an asset retirement obligation associated with the assets acquired in a combination in accordance with ASSET RETIREMENT OBLIGATIONS, Section* 3110 *in Part II of the Handbook.*

Employee benefits

.40 *The acquirer shall recognize and measure a liability (or an asset, if any) related to the acquiree's employee benefit arrangements in accordance with REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 3463*.*

Indemnification assets

.41 The sellers or third parties in a combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the sellers or third parties may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the sellers or third parties will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer recognizes an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the combination date and measured at its acquisition-date fair value, the acquirer shall recognize the indemnification asset at the combination date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectability considerations are included in the fair value measure and a separate valuation allowance is not necessary.

.42 In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognized at the combination date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability (for example, one that results from an employee benefit) that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset is recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 4449.59 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the measurement principle

<u>Collections</u>

.43 *The acquirer shall measure assets of the acquiree that will be included in the acquirer's collections in accordance with COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4441*, using the acquirer's accounting policy, at either cost or nominal value in accordance with paragraph* 4441.06*. Cost is deemed to be fair value of the collection items at the combination date. Fair value may be estimated using market or appraisal values.*

<u>Assets held for sale</u>

.44 *The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the combination date in accordance with DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section* 3475 *in Part II of the Handbook, at fair value less costs to sell in accordance with paragraphs* 3475.13-*.22.*

<u>Tangible capital assets and intangible assets</u>

.45 *The acquirer may have applied, prior to the combination date, the exemptions in TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4433*, and/or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4434*, when the average of annual revenues recognized in the statement of operations for the current and preceding period of the acquirer and any entities it controls, were less than $500,000. Once the acquisition occurs, the exemption might no longer be applicable, as the threshold might be exceeded. In determining whether the threshold has been exceeded, the acquirer assesses the average of annual revenues recognized in the statement of operations for the preceding period by aggregating the revenues of the combining entities and any entities it controls. If this results in the threshold being exceeded, the capital assets and intangible assets of the acquiree shall be recognized at their fair values as at the date of the acquisition. If the threshold has not been exceeded, the exemption is still applicable and the reporting entity need not measure the fair values of the capital assets and intangible assets acquired at the date of the acquisition.*

<u>Cash surrender value of a life insurance policy</u>

.45A *The acquirer shall measure cash surrender value of a life insurance policy of the acquiree at the amount that would be immediately realized upon termination of the policy prior to the death of the insured as provided by the issuer of the policy in accordance with ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value.*

Excess of consideration transferred or a bargain purchase

.46 *The acquirer shall determine on the combination date the difference between (a) and (b) below:*

- *(a) the acquisition-date fair value of the consideration transferred; and*
- *(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Section.*

.47 *When a difference arises between the amounts in paragraph* 4449.46*(a) and paragraph 4449.46(b), it is recognized and presented separately in the statement of changes in net assets.*

Measurement period

.48 *If the initial accounting for a combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the combination date to reflect new information obtained about facts and circumstances that existed as of the combination date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the combination date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the combination date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the combination date.*

.49 The measurement period is the period after the combination date during which the acquirer may adjust the provisional amounts recognized for a combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the fair value of the identifiable assets acquired and liabilities assumed as of the combination date in accordance with the requirements of this Section.

.50 *The acquirer shall consider all pertinent factors in determining whether information obtained after the combination date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the combination date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the combination date is more likely to reflect circumstances that existed at the combination date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the combination date for an amount that differs significantly from its provisional fair value determined at that date is likely to indicate an error in the provisional amount.*

.51 The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in the amount to be separately measured and disclosed in net assets relating to paragraphs 4449.46-.47 during the period. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

.52 *During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the combination had been completed at the combination date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.*

.53 *After the measurement period ends, the acquirer shall revise the accounting for a combination only to correct an error in accordance with ACCOUNTING CHANGES, Section* 1506 *in Part II of the Handbook.*

Determining what is part of the combination transaction

.54 *The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the combination began, or they may enter into an arrangement during the negotiations that is separate from the combination. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree exchanged in the combination (i.e., amounts that are not part of the exchange for the acquiree). The acquirer shall recognize as part of applying the acquisition method only the assets acquired and liabilities assumed in the exchange for the acquiree. Separate transactions shall be accounted for in accordance with the relevant Sections.*

.55 A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree before the combination, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

(a) a transaction that in effect settles pre-existing relationships between the acquirer and acquiree;

(b) a transaction that remunerates employees of the acquiree for future services; and

(c) a transaction that reimburses the acquiree for paying the acquirer's acquisition-related costs.

<u>Acquisition-related costs</u>

.56 *Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees and general administrative costs. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received.*

Subsequent measurement and accounting

.57 *In general, an acquirer shall subsequently measure and account for assets acquired and liabilities assumed or incurred in a combination in accordance with other Sections applicable for those items, depending on their nature. However, this Section provides guidance on subsequently measuring and accounting for the following assets acquired and liabilities assumed or incurred in a combination:*

(a) contingent liabilities recognized as of the combination date; and

(b) indemnification assets.

<u>Contingent liabilities</u>

.58 *After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in a combination at the higher of:*

(a) the amount that would be recognized in accordance with CONTINGENCIES, Section 3290 in Part II of the Handbook; and

(b) the amount initially recognized.

This requirement does not apply to contracts accounted for in accordance with FINANCIAL INSTRUMENTS, Section 3856 *in Part II of the Handbook.*

<u>Indemnification assets</u>

.59 *At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the combination date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability of the indemnification asset. The acquirer shall derecognize the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.*

Financial information at different dates

.60 The presentation of consolidated financial statements when the reporting entity and the controlled entity's reporting periods do not substantially coincide is addressed in CONSOLIDATED FINANCIAL STATEMENTS, paragraph 1601.34 in Part II of the Handbook. The guidance in Section 1601 is appropriate for consolidations of both controlled profit-oriented enterprises and controlled not-for-profit organizations with reporting periods that differ from that of the reporting organization.

Disclosure

.61 *The reporting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a combination that occurs either:*

- *(a) during the current reporting period; or*
- *(b) after the end of the reporting period but before the financial statements are completed.*

.62 *The reporting entity shall disclose the following information for each material combination:*

- *(a) the name and a description of the acquiree and that an acquisition occurred;*
- *(b) the combination date; and*
- *(c) the primary reason(s) for the acquisition.*

.63 *Subsequent to initial measurement, if the reporting entity is consolidating the acquiree in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4450*, the reporting entity shall also disclose:*

- *(a) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as*
  - *(i) cash;*
  - *(ii) liabilities incurred (for example, debt);*
- *(b) a description of the arrangement and the basis for determining the amount of the payment for indemnification assets;*
- *(c) 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*
- *(d) 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.*

.64 *For individually immaterial acquisitions occurring during the reporting period that are material collectively, the reporting entity shall disclose the following information:*

- *(a) the number of organizations acquired and a brief description of those organizations; and*
- *(b) subsequent to initial measurement, if the reporting entity is consolidating the acquirees in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section* 4450*:*
  - *(i) the acquisition-date fair value of the total consideration transferred; and*
  - *(ii) a description of the arrangement and the basis for determining the amount of the payment for indemnification assets.*

.65 *If the date of an acquisition is after the end of the reporting period but before the financial statements are completed, the reporting entity shall disclose the information required by paragraphs* 4449.62-*.64 unless the initial accounting for the acquisition is incomplete at the time the financial statements are completed. In that situation, the reporting entity shall describe which disclosures could not be made and the reasons why they cannot be made.*

.66 *If the specific disclosures required by this and other Sections do not meet the objectives set out in paragraph* 4449.61*, the reporting entity shall disclose whatever additional information is necessary to meet those objectives.*

EFFECTIVE DATE AND TRANSITION

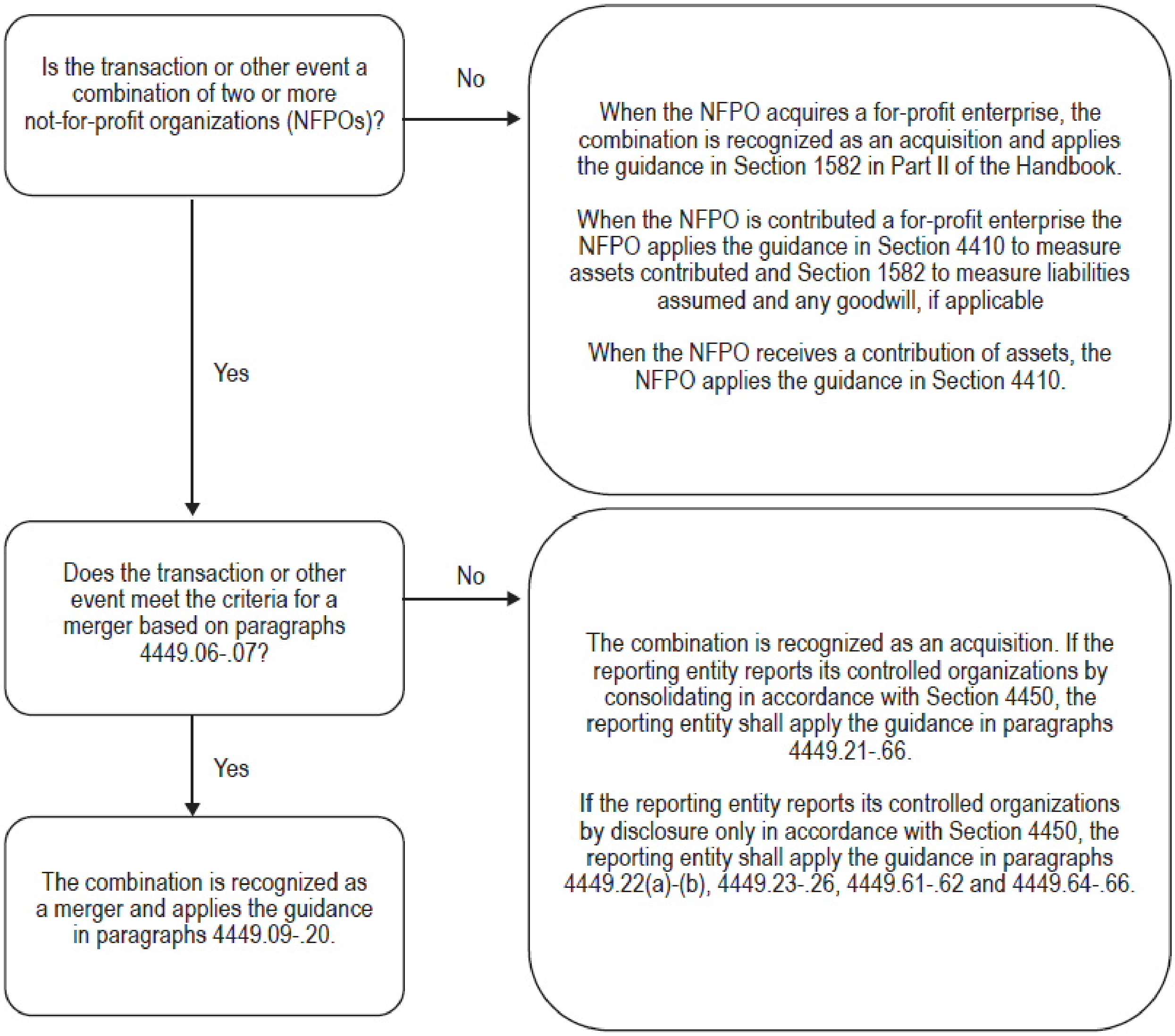
.67 This Section applies prospectively to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted. An entity applies this Section to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

.68 Amendments to paragraphs 4449.34 and 4449.35 and new paragraph 4449.45A, issued in September 2024, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted.

DECISION TREE – INITIAL MEASUREMENT OF A COMBINATION INVOLVING NOT-FOR-PROFIT ORGANIZATIONS

This Decision Tree is illustrative only.

The following Decision Tree illustrates how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.



ILLUSTRATIVE EXAMPLES

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle related to particular situations should be decided in the context of this Section.

Distinguishing between a merger and an acquisition

Example 1 – Charity A and Charity B combination

Example 2 – University combination

Example 3 – Golf club combination (member benefit organizations)

Example 4 – Charity A and Charity B combination

Disclosures

Example 5 – Merger disclosures

Example 1 – Charity A and Charity B combination

Charity A and Charity B see opportunities for collaborative efforts based on their:

(a) geographic proximity and service areas;

(b) similar missions, programs, and operating practices; and

(c) complementary financial strengths, with one having a much larger base of current contributors and unpaid volunteers and the other having a larger endowment and base of investment income.

Charity A is 30 to 40 percent larger than Charity B in terms of most individual financial measures, including income and net assets.

In February 20X0, the Boards of Directors of Charity A and Charity B authorize the formation of an Exploratory Committee to recommend whether the two charities should combine and, if so, to develop a plan for implementing a combination. The Committee consists of three Board members from Charity A and two Board members from Charity B. The Committee is also provided with administrative support from the legal counsel of each entity. Each of the five Committee members has one vote, and a recommendation of the Committee requires at least four assenting votes. Its recommendation is to be accompanied by the reasons underlying both the recommendation of the Committee and any dissenting votes.

In July 20X0, after completing its discussions, the Committee recommended, with the full support of all five of its members, that Charity A and Charity B combine under an agreement with the following key provisions:

(a) A new entity named Charity AB is to be formed; Charity A and Charity B will continue to exist until such time as deemed necessary. The assets and liabilities of Charity A and Charity B will be transferred to Charity AB. Thus, in effect, both Charity A and Charity B will no longer exist in their pre-combination forms.

(b) On the date the combination becomes effective, the new organization's expanded mission will include Charity B's research and advocacy functions as well as the charitable functions of both entities.

(c) The CEO of Charity B will be offered the position of CEO of Charity AB for a term of at least two years.

(d) The initial Board of Charity AB will consist of 15 members:

    (i) Charity A will appoint nine of the initial members, preferably from the members of its existing 25-member Board and its current CEO.

    (ii) Charity B will appoint six of the initial members, preferably from its existing 15-member Board.

    (iii) The Terms of Reference for Charity AB will provide for a maximum of 25 Board members. The Committee recommended that a search be undertaken to add six new members within a year, with each new member requiring approval by a minimum of 10 of the 15 initial members.

(e) The head office of Charity A and its underlying lease (which has eight remaining years) will be retained.

(f) A transition committee consisting of two members each from the current Boards of Charity A and Charity B, under the authority of Charity AB's CEO, will be appointed to:

    (i) Seek opportunities to sublease the headquarters space of Charity B for the remaining two-year lease term or to use that space for program activities.

    (ii) Interview existing staff and other candidates for senior management positions.

    (iii) Make recommendations about:

        (1) eliminating program and operating redundancies, including severance packages for any terminated staff;

        (2) improving the current operating policies and practices of Charity A and Charity B; and

        (3) revising employee benefit plans with the objective of adopting unified plans for Charity AB's employees without diminishing the overall benefits being offered to existing employees.

The Exploratory Committee report notes that the Committee interviewed the current CEOs of Charity A and Charity B and found both well qualified to serve as the CEO of Charity AB. However, the Committee recommended the CEO of Charity B be appointed as CEO of Charity AB. The Committee saw no need to open the CEO search to other candidates.

In August 20X0, the Boards of Directors of Charity A and Charity B tentatively approve the Committee's recommendations and appoint its members to the recommended Transition Committee. The Boards also ask their respective Nominating Committees to make recommendations to each of their Boards about the initial members to be appointed to the Board of Charity AB. In October, each Board approves the plan for their combination. The combination becomes effective on January 1, 20X1, as proposed.

Should this combination be accounted for as a merger or an acquisition?

Criterion (a) – Met

- Neither Charity A nor Charity B are characterized as the acquirer or acquiree by their Board members or management.

Criterion (b) – Met

- Charity A and Charity B have Board members represented on the Exploratory Committee.
- The Boards of Directors of Charity A and Charity B appoint the CEO of Charity AB
- The Boards of Directors of Charity A and Charity B establish the governance and management structures of Charity AB

Criterion (c) – Met

No consideration flows to a third party of Charity A or Charity B.

Criterion (d) – Met

Charity AB encompasses the purposes of Charity A and Charity B which had similar purposes before combining.

Criterion (e) – Met

There is no significant decline or planned significant decline in the client communities served, as Charity AB will continue to serve the same geographic locations Charity A and Charity B served before the combination.

On the basis of all criteria being met, it is determined that the combination is a merger.

Example 2 – University combination

For this example, assume the universities are not-for-profit organizations that apply Part III of the CPA Canada Handbook – Accounting.

University A is a large comprehensive university offering undergraduate and graduate education with research strengths in a variety of program areas. Its Faculty of Education is focused on providing programs leading to a bachelor's degree in Education and diplomas in Technical Education and Childhood Education. It also offers a master's degree in Teaching with limited success. University A has an April 30 year-end.

University B is a small university focusing exclusively on graduate studies and research in the field of development in education and teacher education. It is interested in the pursuit of education in the context of broad social issues and life-long learning while maintaining the highest standards of professional excellence. University B has an April 30 year-end.

On July 1, 20X0, both universities entered into an agreement to integrate University B with University A's Faculty of Education to form an integrated faculty of education within University A. The terms of the agreement were drafted by a six-member committee comprising four Board members from University A and two Board members from University B. The charter for the committee required that the terms of any combination agreement be unanimously approved by all committee members prior to formal approval by the Boards of Universities A and B.

In executing the terms of the agreement, University A assumed ownership of the assets and assumed the liabilities of University B. All grants and contracts were to be governed by University A's policies and procedures which were more detailed, but also be consistent with the policies and procedures of University B. All degrees were to be issued under University A and University B ceased to issue separate degrees. On July 1, 20X0, University A also took over the operations of University B's building and its related food service and parking operations. University B's employee defined benefit pension plan became a closed plan and all new employees of the integrated faculty became members of University A's defined benefit pension plan. University B's Board of Governors was dissolved. The governing body of the integrated faculty was to be a Faculty Council established in accordance with University A's practices. Its membership would include faculty, staff and students of the integrated faculty. Five Board members of University B joined the existing 40-member Board of University A. University B's senior finance team were provided with severance packages (which are material from the perspective of the combined entity). Some members of University B's senior academic leadership joined the Faculty Council. To complete the due diligence and other legal activities, costs of $1,000,000 were incurred to complete the transaction (which are material from the perspective of the combined entity).

A donor of both University A and University B who supported the integration made funds available for the next five years for severance costs, voluntary early retirements, alterations and renovations, including the cost of restructuring programs and services. Ownership of the buildings and land that was previously rented by University B from the donor was transferred to University A. When the transaction was completed, a full-page advertisement was released in national newspapers titled "It's all ABout the future! Universities join hands for a better tomorrow."

Should this combination be accounted for as a merger or an acquisition?

Criterion (a) – Met

- Although the form of the arrangement is through University A acquiring the assets and operations of University B, neither party is portrayed as the acquirer or acquiree internally by management or the Board or publicly to donors or other stakeholders, including in the full-page newspaper advertisement "It's all ABout the future! Universities join hands for a better tomorrow."

Criterion (b) – Met

- University A and University B have Board members represented on the committee that negotiated the combination agreement.
- Five Board members of University B joined the existing 40-member Board of University A.
- The universities decided to continue with the governance and management structures of University A subsequent to the combination.

Criterion (c) – Met

The costs to complete the transaction and severance costs are transaction costs that are specifically excluded in paragraph 4449.07(b). No other consideration is flowing to a third party.

Criterion (d) – Met

University A and University B had similar purposes prior to the combination. University A's purpose is retained subsequent to the combination.

Criterion (e) – Met

There is no significant decline or planned significant decline in the client communities served as University A is continuing University B's programming as previously offered.

On the basis of all criteria being met, it is determined that the combination is a merger.

Example 3 – Golf club combination (member benefit organizations)

In 20X5, news broke of a Coolville-area, members-only golf club (Club A) that was experiencing financial difficulty and was likely going to shut down. Upon hearing of this news, a Warmville-area, members-only golf club (Club B) with shared reciprocity privileges1 with Club A called a special general meeting of its members. Club B's members voted in favour of combining with Club A, including accepting a special assessment of fees to ensure that Club A is not sold to another third party.

Coolville-area golf club (Club A)

Club A is a members-only club that has existed for over 50 years. In the last five years, due to continued attrition of its membership, Club A was no longer able to cover its regular operational costs. As a result, it had levied multiple special assessments2 on its membership, which further reduced overall membership. In 20X5, following a special general meeting, Club A's members voted to search for a real estate developer or other buyer to purchase the club.

Combined Coolville-area and Warmville-area golf clubs (Club AB)

At the end of 20X5, no third parties were identified to purchase Club A. At the same time, Club B created a special committee that offered to combine Club B with Club A under the following conditions:

(a) No cash would be paid by Club B to Club A. Instead, Club B would assume the outstanding liabilities of Club A in the transaction. As a step in the transaction, these liabilities would be discharged from the funds made available for the transaction by the membership of Club B.

(b) The existing assets and employees of Club A would be transferred to Club B. Any duplicate employee functions such as administration, marketing, etc. in Club A would be terminated and severance would be arranged accordingly. The severance would be paid on the date the combination is effective and represents a material amount in Club AB.

(c) Club B's existing members would pay a special assessment and use Club B's surplus funds to complete the financing for the transaction. Club A's existing members would have the option to purchase membership in Club AB. Club B's existing members would not be required to purchase membership in Club AB.

(d) The Board composition of Club AB would include five existing members of Club B and one existing member of Club A. The new Board would then decide on whether any additional management personnel are needed beyond those in Club A that were retained in Club AB.

(e) After the completion of all administrative requirements of the transaction, Club A would be dissolved, and Club B would continue in its new form as Club AB.

Should this combination be accounted for as a merger or an acquisition?

Criterion (a) – Not Met

Club A is being offered for sale. As such, Club A is characterized as the acquiree of any party that ultimately acquires it.

Criterion (b) – Not Met

Club B prepared an offer to purchase Club A without the participation of Club A. All the terms for the execution and subsequent structuring of the combined entity were determined by Club B. Club A was not able to renegotiate the terms presented to it by Club B due to its financial distress and inability to identify another party to combine with. As a result, it did not participate in determining the terms of the combination.

Criterion (c) – Met

While the liabilities of Club A are assumed and discharged by Club B, this does not represent consideration flowing to a third party as the members of Club A are not personally liable for those liabilities. Were the members personally liable for the debts, the repayment of the debt would have been a reason for this criterion not being met because consideration is flowing to the members of Club A from Club B to discharge their third-party debts. Therefore, this criterion is met.

Criterion (d) – Met

The purposes of the legacy Club A and Club B to provide golfing activities is continuing in the new organization.

Criterion (e) – Met

The client communities served remain the same as both golf courses remain open and serving golfers in their communities.

On the basis of criteria (a) and (b) not being met, it is determined that the combination is an acquisition.

Example 4 – Charity A and Charity B combination

Charity A is a clothing bank located in a suburb of a metropolitan city. It has various programs for providing new and used clothing to individuals and families living in poverty. This includes operating a clothing-bank site, door-to-door pickup of new-and-used-clothing donations, door-to-door delivery of new and used clothing and other community-outreach programs.

Charity B is a clothing bank located in the metropolitan city. It operates three new-and-used-clothing sorting and distribution sites in the city. Its other activities are limited outreach activities to identify individuals and families in the city who require the clothing.

Both Charity A and Charity B receive the majority of their funding from the Provincial Government to sustain their operations. They also receive monetary donations directly from individuals and organizations, which accounts for approximately 25 percent of their costs.

Over the last few years, Charity A has experienced inconsistent financial results fluctuating between large surpluses and deficits. Charity B operates at nearly break even on a year-over-year basis and in some years has also generated a small surplus.

The Provincial Government advised Charity A to explore combining their operations with another similar charity. The Provincial Government suggested Charity A approach Charity B to discuss a possible combination into one charity to ensure the continuation of clothing distribution in the region. If Charity A were unable to find a partner to combine with, the Provincial Government indicated that it would cease funding Charity A's operations.

In February 20X0, the Boards of Directors of Charity A and Charity B authorized the formation of an Exploratory Committee to recommend whether the two charities should combine and, if so, to develop a plan for implementing a combination that would result in a sustainable, combined organization. The Committee consists of two Board members from Charity A, and three Board members from Charity B, with administrative support and legal counsel of each entity. Each of the five Committee members has one vote, and a recommendation of the Committee requires a majority vote. Its recommendation is to be accompanied by the reasons underlying both the recommendation of the Committee and any dissenting votes.

In July 20X0, after completing its discussions, the Committee recommends, with the full support of all five of its members, that Charity A and Charity B combine under an agreement with the following key provisions:

(a) A new entity named Charity AB is to be formed. Charity A and Charity B will continue to exist until such time as deemed necessary. The assets and liabilities of Charity A and Charity B will be transferred to Charity AB. Thus, in effect, both Charity A and Charity B will cease to exist in their pre-combination forms.

(b) On the date the combination becomes effective, the new organization's mission will remain consistent with Charity A's and Charity B's missions prior to the combination.

(c) Many of the programs Charity A currently conducts, such as the door-to-door clothing-donation pickup and delivery along with the majority of its community-outreach programs, will be terminated. Charity AB will focus primarily on operating the three clothing banks in the metropolitan area and close the existing clothing bank in the suburb. One additional clothing-bank location will be added in the metropolitan area to compensate for some of the lost coverage from cancelling Charity A's legacy programs.

(d) The initial Board of Charity AB will consist of 15 members:

   (i) Charity A will appoint six of the initial members, preferably from the members of its existing 15-member Board.

   (ii) Charity B will appoint nine of the initial members, preferably from its existing 15-member Board and its CEO.

   (iii) Charity AB's Terms of Reference will provide for a maximum of 25 Board members. The Committee recommended that a search be undertaken to add five new members within a year, with each new member requiring approval by a minimum of 10 of the 15 initial members.

(e) Charity B's head office and its underlying lease (which has five remaining years) will be retained.

(f) A transition committee consisting of two members each from the current Boards of Charity A and Charity B, with the assistance of Charity AB's CEO, will be appointed to:

   (i) interview existing staff and other candidates for senior management positions;

   (ii) terminate staff from discontinued programs and offer the staff severance packages;

   (iii) make recommendations about:

      1. improving the current operating policies and practices of Charity A and Charity B to ensure Charity AB is less likely to encounter future financial difficulties as was the case with Charity A;

      2. revising employee benefit plans with the objective of adopting unified plans for Charity AB's employees without diminishing the overall benefits being offered to existing employees.

During August 20X0, the Boards of Directors of Charity A and Charity B tentatively approved the Committee's recommendations and appointed its members to the recommended Transition Committee. The Boards also asked their respective Nominating Committees to make recommendations to each of their Boards about the initial members to be appointed to the Board of Charity AB. In October, each Board approved the plan for their combination. The combination became effective on January 1, 20X1, as proposed.

Should this combination be accounted for as a merger or an acquisition?

Criterion (a) – Met

- Neither the Board nor management of either Charity A or Charity B characterize their organizations as being the acquirer or acquiree.

Criterion (b) – Met

- Charity A and Charity B have Board members represented on the Exploratory Committee that negotiated the combination agreement.
- Charity A and Charity B appoint Board members to the new Board of Charity AB.
- The CEO of Charity B is appointed in the terms of the combination.
- Charity AB's governance structure is established in the terms of the combination.
- The Transition Committee consisting of representation from Charity A and Charity B are engaged in appointing the remaining management personnel.

Note: If the government required Charity B to combine with Charity A and Charity A had no option but to accept unfavourable terms offered by Charity B, this criterion would not be met because Charity A would not have participated in determining the terms of the combination.

Criterion (c) – Met

No consideration flows to a third party.

Criterion (d) – Met

The purposes of the legacy Charities A and B to provide clothing aid is continuing in the new organization.

Criterion (e) – Not Met

As all the clothing banks in the suburb were closed or planned to be closed due to the combination, the suburban client community is no longer being served. This reduction is not compensated by the new clothing bank opened in the metropolitan area.

While several programs of Charity A were also terminated, this represents a reduction in the Charity's activities but not a reduction in the client communities served. As such, this alone would not have been a reason for failing this criterion had the clothing banks remained open in both the metropolitan cities and the suburb.

On the basis of criterion (e) not being met, it is determined that the combination is an acquisition.

Example 5 – Merger disclosures

Assume the facts and circumstances for Example 2 apply for these disclosures.

University A

Notes to the Financial Statements

Year ended April 30, 20X1

Combination of University A with University B and the impact of aligning accounting policies

On July 1, 20X0, University A combined with University B to collectively improve operational efficiencies and enhance their teaching programs. The combined entity retained the name University A. The combination allows rapid improvement in the educational offerings for candidates pursuing an education in teaching. The combination is accounted for as a merger in accordance with Section 4449, *Combinations by not-for-profit organizations* in Part III of the CPA Canada Handbook.

The results for the year ended April 30, 20X1 are the aggregated results for the period May 1, 20X0 – June 30, 20X0 for the two universities when they were operating independently and the results of the combined entity for the period July 1, 20X0 – April 30, 20X1.

The prior year comparative figures show the aggregated results for the two universities when they were operating independently. The aggregated results include adjustments made to the comparative balances of both organizations to align the prior year accounting policies with those of the combined organization. The adjustments are as follows:

Aggregated Statement of Financial Activities, Year ended April 30, 20X0:

	University A	**University B**	**Adjustments**	**Total**
Total revenue	$XXX	$XXX	$XXX	$XXX
Total expenses	XXX	XXX	XXX	XXX
Surplus/(Deficiency) of revenue over expenses	$XXX	$XXX	$XXX	$XXX

Aggregated Statement of Financial Position, Year ended April 30, 20X0:

	University A	University B	Adjustments	Total
Total assets	$XXX	$XXX	$XXX	$XXX
Total liabilities	XXX	XXX	XXX	XXX
Fund balances:				
Externally restricted	XXX	XXX	XXX	XXX
Internally restricted	XXX	XXX	XXX	XXX
Unrestricted	XXX	XXX	XXX	XXX

Significant adjustments included in the above tables are as follows:

To reclassify the amount previously recognized as internally restricted to the unrestricted fund, the opening internally restricted fund balance was decreased by $XXX and the opening unrestricted fund balance was increased by $XXX. During the comparative period, additional appropriations of $XXX were approved from the internally restricted fund to the unrestricted fund.

To align the accounting policies for the deferral of externally restricted amounts that are received for non-endowment purposes, the opening externally restricted fund balance was decreased by $XXX and the deferred revenue liability was increased by $XXX. During the comparative period, the revenues were decreased by $XXX.

At the combination date, the principal components of the statement of financial position are as follows:

	University A	University B	Adjustments	Total
Total assets	$XXX	$XXX	$XXX	$XXX
Total liabilities	XXX	XXX	XXX	XXX
Fund balances:				
Externally restricted	XXX	XXX	XXX	XXX
Internally restricted	XXX	XXX	XXX	XXX
Unrestricted	XXX	XXX	XXX	XXX

At the combination date, no adjustments were necessary to align the accounting policies.

For the period between May 1, 20X0 and June 30, 20X0, the principal components of the statement of operations are as follows:

	University A	University B	Adjustments	Total
Total revenue	$XXX	$XXX	$XXX	$XXX
Total expenses	XXX	XXX	XXX	XXX
Surplus/(Deficiency) of revenue over expenses	$XXX	$XXX	$XXX	$XXX

Since the combination on July 1, 20X0 to the year ended April 30, 20X1, the total revenues are $XXX and the total expenses are $XXX resulting in a surplus/(deficiency) of revenue over expenses of $XXX.

Footnotes

1. For clarity, reciprocity privileges allow the members to play on the other course during the golf season. No ownership or other rights are shared by the members of one club with the other.
2. A special assessment is a one-time fee charged to members to cover a specific cost such as an operational deficit or a specific capital expenditure.