



From: Charlotte Pryor [mailto:cpryor@usm.maine.edu]
Sent: Tuesday, July 22, 2008 10:08 AM
To: Ron Bossio
Cc: Douglas Chene
Subject: RE: NFP M&A project

LETTER OF COMMENT NO. 16

Ron,

Thank you very much. I had not known that the board deliberations would be available via web-cast. I am pleased to learn about that.

I would like to ask about the response you have received to your request for field visit volunteers. Have you completed some field visits or interviews? Do you have plans for any additional ones? Are any volunteer organizations located in Northern New England?

I have found one of the comment letters to be particularly thought provoking: the one from the Technical Issues Committee of the Private Companies Practice Section of the AICPA. I share the concern that the proposed criteria could lead to structuring boards so that both orgs appeared to cede control while the substance of control remains in the hands of one or a few individuals from one of the predecessor organizations. I suspect that 'real' concession of control from two organizations to a completely new one is rare in the non-profit world, as it is in for-profit organizations.

The PCPS-TIC comments specifically focus on the situation in which: "The purpose of the combination is to prevent loss of the acquiree's services to the community and to continue its mission, which would otherwise not be possible based on the acquiree's distressed financial state." It is not clear to me whether there would be difficulties distinguishing "contribution-based charities" from those that are not "contribution-based". I am somewhat doubtful that there could be a meaningful bright-line that would appropriately distinguish such organizations in practice. In addition, what would constitute a sufficiently 'distressed' financial state? Nonetheless, I believe that the TIC is on the right track in suggesting that using ceding of control as the criteria to identify true mergers does not adequately relate to the reasons that mergers might be different in the nonprofit world than is the case with for-profit entities.

I believe that there may be many situations in which the purpose of a

combination is to make two small non-profits, which may not necessarily meet a specific definition of being in a distressed financial state, better able to provide services to the community and to further their missions. Treating one of the combining orgs as an acquirer and revaluing the acquiree's net assets could result in very different pictures of the resulting organization depending on which has older assets and which is treated as the acquirer. In such a situation acquisition accounting results can appear purely arbitrary.

We need to hone in on what makes not-for-profit organizations different from for-profit organizations such that true mergers can and do occur among them, unlike combinations of for-profit firms. This requires identifying the reasons nonprofit combinations occur that has no parallel among for-profits. Public charities receive preferential tax treatment on the assumption that society, the tax-paying public, receives a benefit commensurate with the cost of lost tax revenues (typically the provision of community services more efficiently than could otherwise be obtained). It is this public service concept, and the lack of a residual ownership interest (the residual benefit is supposed to accrue to the public benefit), that makes not-for-profits different.

I suggest the following requirements for combinations among non-profit organizations to be treated as a merger and to apply carry-over basis accounting:

- 1) No monetary consideration is paid or received or no consideration is exchanged beyond the assumption of liabilities; and either
 - 2a) The purpose of the combination is to prevent loss of one or more of the combining organizations services to the community, and to continue the organizations' missions, which would otherwise not be possible due to the financial state of one or more of the combining organizations, or
 - 2b) The purpose of the combination is to provides more services to the community than the total of the pre-combination organizati
- 3) The mission and services of all pre-combination organizations be retained by the resulting organization with no loss in public service provision.

These criteria raise additional issues, of course. How will the provision of increased services be measured and ensured? How long must the mission and services of all pre-combination organizations be retained? Nevertheless, I believe that these criteria are appropriate because they relate to the reason that nonprofit organizations exist, which is distinctly different from the *raison d'être* of for-profit entities.

Thank you for the opportunity to share my thoughts (which are mine alone and do not necessarily represent the opinion of the University of Southern Maine).

Charlotte Pryor, PhD

A brief statement of my background follows:

Provide advice to small not-for-profit entities on using QuickBooks accounting software to track revenues and costs;

Accounting faculty at the University of Southern Maine since 1999 - teach government and nonprofit accounting, accounting information systems, and managerial accounting - primary research interest focuses on cost measurement and allocation in nonprofit organizations and studying the relation between cost reporting and program evaluation; Earned a PhD in Accounting from the Pennsylvania State University in 1996;

Treasurer of the Potomac Appalachian Trail Club (a trail maintaining 501(c) 3 with revenues of ~ \$600,000) in the mid-to-late 1980's;

Worked as a budget analyst and an accounting supervisor with the National Capital Region of the National Park Service throughout the 1980's.

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