

## Strategic Alliances: Mergers and Acquisitions

In a time of diminishing funding and escalating need, it is more important than ever to look for ways to decrease the cost of fulfilling your mission while increasing your impact. One option is to merge with or acquire another nonprofit organization to strengthen your own capabilities. According to a joint publication of the Colorado Nonprofit Association and Community Resource Center,

***Weathering the Storm: Challenges and Opportunities Facing Colorado Nonprofits During Recession***, two percent of rural organizations and 16.6 percent of urban and suburban nonprofits are currently considering program or full organization mergers as a result of the economy ([www.ColoradoNonprofits.org](http://www.ColoradoNonprofits.org)).

Mergers and acquisitions have long been touted in the business community as a tool to increase efficiencies and improve the bottom line. A recent study conducted by The Bridgespan Group, *Nonprofit M&A: More Than a Tool for Tough Times*, argues that nonprofits should be “consider[ing] M&A proactively – as a way to strengthen effectiveness, spread best practices, expand reach and – yes – to do all of this more cost-effectively, making best use of scarce resources” ([www.bridgespan.org](http://www.bridgespan.org)).

There is a critical distinction between merging and acquiring, which is described by the Financial Accounting Standards Board (FASB); “In a merger, the governing bodies of two or more not-for-profit entities cede control of those entities to create a new entity. In an acquisition, one organization obtains control over the net assets of another organization or business” ([fasb.org/project/nfp.shtml](http://fasb.org/project/nfp.shtml)). This distinction determines the method of accounting used. The final FASB Statement on *Mergers and Acquisitions by a Not-for-Profit Organization* should be published in April 2009 and will incorporate the amendments to Statement 142 Goodwill and Other Intangible Assets. The Statement is the result of a process beginning back in 1999 in which FASB sought to uniformly apply standards

applicable to business mergers and acquisitions to nonprofit organizations “unless a difference is identified that justifies different accounting treatment” ([fasb.org/project/nfp.shtml](http://fasb.org/project/nfp.shtml)). Other relevant FASB statements include Statement 141(R), Statement 160, and Statement 142.

The Colorado Revised Statutes (CRS) offer applicable insight and legal guidance for nonprofits in the following sections:

- *CRS § 7-131. Merger.*
- *CRS § 7-90-203.3. Plan of merger.* A plan of merger must be approved by appropriate parties at a special meeting in accordance with CRS § 7-127-104. Notice of Meeting.
- *CRS § 7-90-203.7. Statement of merger.* A statement of merger must be filed with the Secretary of State along with any amendments to the articles of incorporation of the surviving organization.
- *CRS § 7-90-204. Effect of merger.* “Unless otherwise provided in the constituent documents or required under the organic statutes, no merging entity shall be required to wind up its affairs or pay obligations and distribute assets, and the merger shall not be deemed to constitute a dissolution or liquidation of the merging entity.”

There are many strategic alliance alternatives that may suit your organization’s needs. According to Third Sector New England, one such alternative is pursuing a fiscal sponsorship. ([www.tsne.org](http://www.tsne.org)). For more details on fiscal sponsorship, please refer to the July/August 2008 *Nonprofit Colorado* Help Desk FAQ on Fiscal Sponsorship by visiting, [www.ColoradoNonprofits.org/NonprofitColorado](http://www.ColoradoNonprofits.org/NonprofitColorado).

For a full list of recommendations on strategic alliances, visit [www.ColoradoNonprofits.org](http://www.ColoradoNonprofits.org) to download a free copy of *Weathering the Storm: Challenges and Opportunities Facing Colorado Nonprofits During Recession*.

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