SHARED SERVICES CASE STUDY

Management Agreement between Middle Georgia Community Action Agency, Inc. & Heart of Georgia Community Action Council, Inc.

This case study is based on CAPLAW's interview with Nancy Smith, Executive Director of Middle Georgia Community Action Agency, Inc. and Heart of Georgia Community Action Council, Inc., and a review of the management agreement between the two organizations and their annual reports.

Middle Georgia Community Action Agency, Inc.

Middle Georgia Community Action Agency, Inc. (Middle), located in Warner Robbins, Georgia, is a 501(c)(3) nonprofit corporation with an annual revenue of approximately $25 million. It operates a number of programs, including:

- Head Start
- State-funded pre-kindergarten
- Community Services Block Grant (CSBG) funded neighborhood service centers
- Weatherization Assistance Program
- Low-Income Home Energy Assistance Program (LIHEAP)
- Long Term Care Ombudsman funded through the federal Older Americans Act
- Emergency Food and Shelter funded by FEMA
- USDA Rural Housing Preservation Grant
- Federal Home Loan Bank's Affordable Housing Program
- HUD housing counseling
- Homebuyer education workshops
- Homelessness prevention
- Senior center programs
- Meals for seniors
- 5311 Rural Transportation Program under contract with four counties
- Transportation for clients of the Georgia Department of Human Services

Middle Georgia employs approximately 420 people. The organization serves 24 counties, including a 10-county CSGB service area, a 15-county Head Start service area and a 16-county Weatherization service area.

Heart of Georgia Community Action Council, Inc.

Heart of Georgia Community Action Council, Inc. (Heart), located in Eastman, Georgia, is a 501(c)(3) nonprofit corporation with an annual revenue of approximately $4.5 million. It operates the following programs:

- CSBG
- Weatherization
- LIHEAP
- Long-Term Care Ombudsman
- 5311 Rural Transportation Program under contract with five counties
- Emergency Food and Shelter funded by FEMA

Approximately 20 people work on Heart's programs. Its service area, which is contiguous to Middle's, comprises nine counties and is smaller and much more rural than Middle's.

Together, the two CAAs serve an area that covers 33 counties and comprises 21 percent of the state.

The CAAs' Boards of Directors

Each CAA has its own board of directors. Middle's board is composed of 15 members and Heart's is composed of 18. Each board meets six to eight times per year and exercises fiduciary responsibility over its respective CAA. Each organization's board approves the management agreement when it is up for renewal. Heart's board is responsible for overseeing Middle's performance under the management agreement.

History of the Management Agreement

The management agreement between the two CAAs has been in place since the early 1980s, shortly after the repeal of the Economic Opportunity Act and the conversion of many federally funded CAA programs, including the Economic Opportunity Act's Community Action Program, into block grants to the states. The intent behind this change was to reduce federal spending, limit the federal government's role in social programs, and transfer responsibility and authority for those programs to state and local governments.

During this period, Heart's executive director died and the organization lost its fiscal officer. Heart's funding was cut almost in half, at a time when it needed to hire its two highest paid employees. "[T]hey just didn't have the money. It was either use all of their money for the administrative functions of the [CAA] and just minimally serve the people, or look for some other arrangement," says Nancy Smith, who serves as the executive director of both CAAs. At the same time, Middle received an increase in funding. Therefore, the Heart board approached the Middle board about sharing services so that Heart could continue to assist low-income clients in its community effectively.

In 1982, the boards of the two organizations unanimously agreed that Heart would delegate the administrative and operational responsibilities of its programs by contact to Middle. The planning, policy functions, and fiduciary responsibility for all of Heart's operations and activities – including its grants and contracts – would remain with the Heart board.

How the Management Agreement Works

Staffing All of the staff, regardless of whether they provide services for Middle or Heart, are employed by Middle, are on its payroll and, if they are eligible, may participate in Middle's employee benefit plans. Middle and Heart share an executive director as well as fiscal and human resources staff. Program staff work either for Middle's programs or for Heart's, but are employees of Middle.

Executive director Nancy Smith describes how she ensures that staff understand the difference between Middle and Heart:

[B]ecause Middle has Head Start centers in the Heart area, sometimes employees don't recognize any difference between Middle and Heart. Almost once a month, we have a new employee orientation. I try to make it a point to be the first speaker on the agenda for them, and ... I [explain] the difference between Middle and Heart.

Grants Each CAA applies for and receives its own government grants. Nancy Smith explains: "[M]ost of the grant or program applications that we submit to funding sources, we just submit them in duplicate—one for Middle, one for Heart." She notes, however, that "There are times when it would be to Heart's advantage to be

included in Middle's [applications] — mainly because of the ability to leverage funds and the stronger fiscal base. And in those instances, then, the Heart ... board may say, 'Go ahead and include our counties in that application,' because they would have a better chance of success if they were included with [Middle]."

Indirect Cost Rate The only activity that has combined funding is administration. Middle has a federally negotiated indirect cost rate approved by the U.S. Department of Health and Human Services (HHS). The indirect cost rate covers the costs of the combined administration of both organizations. This rate, which is based on a percentage of direct salaries, is applied to the direct salaries of program staff, whether they work for Middle's programs or Heart's programs. When Middle submits its indirect cost rate proposal, it submits the audits of both CAAs to document the direct salaries that were spent and is very clear in its narrative about its methodology (i.e. that it combines the direct salaries of staff who work on Middle programs with those staff who work on Heart programs and applies the indirect cost rate to that combined total to fund the administrative costs of both CAAs). Over the years, HHS has approved this methodology. Both Middle and Heart's state funding sources receive a copy of the indirect cost rate agreement and have not questioned it.

Financial Management and Oversight The financial data for both CAAs is maintained in Middle's software system, which permits the segregation of each CAA's financial data. Each CAA has its own audit conducted by an independent auditor in accordance with Office of Management and Budget Circular A-133 and files its own Form 990 with the Internal Revenue Service. Each CAA carries its own insurance.

The agreement requires Middle to provide a monthly program report to the Heart board, as well as a monthly financial narrative, an aged receivables report, a balance sheet and a statement of financial position. Nancy Smith describes the information the Heart board receives:

[W]e present [the Heart board] with a financial statement that our fiscal officer and I have both signed and dated stating that it is true.... We then give them an aged accounts receivable report so that they can see that we are staying on top of getting their money in. We give them budgeted expense reports for all of the programs that they operate, and that report shows the funding level, the line items, the expenses for the months to date, with a balance [of] what's left until the end of the contract. Additionally, the auditor meets with that board prior to ... beginning the audit process, and then after he is well into it. And then he meets one more time and that is when he presents the audit to the full board of directors. ... [T]he audit ... clearly shows the amount of money that flows from the Heart corporation to the Middle corporation.

The agreement also contemplates that the Heart board will monitor and assess Middle's performance under the management agreement, which sets forth specific outcomes Middle must achieve.

Benefits of the Management Arrangement

The arrangement has resulted in lower administrative costs and increased purchasing power for both CAAs and has strengthened Heart's ability to weather cash flow fluctuations and borrow funds, thus enabling both CAAs to more effectively serve low-income people in their communities. The original agreement, according to Nancy Smith, emphasized the benefit to Heart from the arrangement – the fact that it would allow Heart to offer additional resources to its clients in the counties it served. Ms. Smith notes, however, that Middle has also benefited from the agreement, because "once we started sharing ... [administration], both agencies were getting a bargain."

The arrangement has resulted in increased purchasing power for both organizations. For example, Nancy Smith

explains: "[I]f we have a copier lease, and we can get a better deal if we have 20 copiers on it, and four of them are in Heart's center, and 16 are in Middle's center, then we will have one agreement and we will pro-rate those charges out based on the location when that bill comes in."

Increased purchasing power is particularly important in the context of health insurance. Ms. Smith observes that "with so few employees at Heart, if they were left on their own as a workplace with 20 employees and they needed to purchase health insurance, it would be extremely expensive. With them being a part of Middle, they are in a larger pool and our rates are more manageable and they don't fluctuate so much. Small agencies, [if] they have someone go to chemo—that would blow up their rates for the next year."

The arrangement has also enhanced Heart's financial position by enabling it to withstand fluctuations in cash flow and to borrow funds when necessary. According to Nancy Smith, if it were not for the arrangement with Middle, Heart would have difficulty managing its cash flow when the state is slow to reimburse expenses. The close relationship between the two CAAs has enabled Heart to borrow money when it could not have done so on its own. "[T]here was a time when [Heart] needed to borrow some money. And they couldn't borrow it on their own," Nancy Smith recalls. "The Middle board had to sign on with them to borrow money. It was for an office building that was going to house Middle's Head Start program as well as Heart's Weatherization and CSGB programs. So it was logical that both agencies would participate in the loan based on the percentage of benefit they were going to get from it."

Challenges of the Arrangement

The primary challenge of the arrangement, according to Ms. Smith, is that "[I]t is a lot of work on the administrative staff because quite often we do everything in duplicates. We have twice as many board meetings as anybody else, twice as many board members to stay in touch with and make sure they are comfortable with whatever we are doing at the time. But, so far, we have been able to [manage]. We've been doing it for so long, it's just something we do."

The Decision Not to Merge

The boards of the two organizations have discussed merging on two occasions, including after the death of Middle's long-time executive director. The boards decided not to merge for several reasons. First, they were concerned that the combination of the two organizations and their service areas would result in a very large board that would be hard to manage. Second, they worried that the surviving entity might lose its CAA designation. Finally, they believed that Heart would lose its identity and that people in that portion of the service area would not identify with the surviving entity. Nancy Smith observes that "We're very mindful of how proud the Heart board is to be its own entity" and that "[I]n the Heart of Georgia area, everything is named 'Heart of Georgia.' You've got the Heart of Georgia Regional Commission, the Heart of Georgia this and the Heart of Georgia that. So, each of the counties identifies with the Heart brand."

LESSONS LEARNED

Ms. Smith emphasizes the importance of buy-in from the boards of both organizations to the success of the arrangement. "You cannot work through this type of agreement unless you have unanimous agreement from both boards," she says.

As for CAAs considering merging, she emphasizes the importance of maintaining the passion for the Community Action mission. "Our [long-term] board members and ... employees have got passion surrounding Community Action ... [and] the intent of the legislation that created us," she explains. "I would want [CAAs considering merging] to be aware of that passion and not lose it as they combine. Because if you combine to make a new entity, you might lose that passion.... [With] a collaborative agreement like we have, we still have the passion in the Heart area, we still have the passion in the Middle area. If we had one organization that was the sum of the two, [we] might have diminished passion. And a lot of times it's that passion that makes things happen."

Additional Considerations

Careful Structuring

Before establishing an arrangement of the type outlined in this case study – where all of the operations and finances of a CAA (let's call it Organization A, or simply A) are managed by another organization (let's call it Organization B, or just B) – both organizations should take certain steps to be sure the arrangement is structured properly and that the boards of both organizations, as well as their government funding sources, understand and are on board with the arrangement.

When considering entering into this type of arrangement, each organization should identify how the arrangement will further its mission. The two organizations should agree on whether the arrangement will be short-term (for example, a year or two while the two organizations complete the process of merging) or more long-term.

It is important to work with an attorney and an outside accountant to ensure that the arrangement is structured properly and will not have adverse legal, financial or tax consequences. The arrangement should be documented in a management agreement that is consistent with state contact law and that takes into account the various requirements that apply to organizations receiving federal and state grant funds (e.g., required contract provisions, accounting system, procurement and property management standards, compliance with Office of Management and Budget circulars, prior approval for programmatic and budget changes, audit requirements, etc.). Among other provisions, the agreement should specify a term (for example, one year or three years) after which it must be re-negotiated, as well as a section on how the agreement may be terminated.

Each of the two organizations should have its own attorney review the agreement before its board approves the agreement and its board chair (or another board-authorized representative) signs it. Before the agreement is signed, both organizations should also discuss the arrangement with their government funding sources and obtain written funding source approval of the arrangement.

Effective Oversight and Financial Management

Keep in mind that Organization A's board must take a very active role in overseeing the arrangement. Because there are no paid staff independent of Organization B who report to A's board, A's board must be directly involved in monitoring the financial transactions between A and B and in ensuring that A is meeting the requirements of its government grants and contracts. If A's board members do not have the time or the expertise to do this, they should consider hiring an outside consultant or consultants on a part-time basis. The consultant(s) would: receive reports and other information from Organization B on a regular basis; meet regularly with B's staff to determine the status of A's finances and progress on grant-funded activities; regularly check the financial records B keeps for A and monitor B's work on A's contracts; and report periodically to A's board on the status of A's finances and grant deliverables and identify any problems or areas of concern.

Financial transactions between A and B should be clearly documented (for example, by having B invoice A on a monthly basis for expenses it incurred on A's behalf during the month in question), report that information in a transparent manner to A's board so that A's board can vote on whether or not to approve the transactions.

Addressing Merger Concerns

The two organizations in this case study have considered merging, but have decided not to do so because of concerns about the surviving entity losing its CAA designation, board size and branding. These concerns, however, are not insurmountable.

State CSBG funding sources are often receptive to CAAs considering mergers and in some cases will help ensure that a proposed merger will not result in a loss of designation as a CSBG-eligible entity or of CSBG funding. (The issue is trickier when two CAAs, each with its own Head Start program, want to merge. The federal Office of Head Start takes the position that, in such a case, the Head Start program of the non-surviving CAA will need to be recompeted.)

Depending on state CSBG law, when two CAAs merge, they may not need to include board representation from every county to be served by the surviving CAA. Thus, the board may not need to expand significantly, if at all. Keep in mind also that, in a large service area, the location of board meetings may be rotated so that board members who live or work far from the CAA's main office can attend more easily some of the time. If state nonprofit corporation law, state open meetings law (if it applies) and the CAA's bylaws permit, board members may be able to participate in board meetings via conference call or web conference.

Branding is often a key issue in a merger; however, it need not be a deal-breaker. For example, even if Organizations A and B were to merge and B were to be the surviving entity, B should still be able to operate under Organization A's name in A's original service area. This can be done by using a d/b/a ("doing business as") name in that area, while using B's name elsewhere.

When considering a shared services or merger arrangement, consulting with an attorney can help a CAA understand the issues and options involved and plan a course of action that will enable it to meet its objectives and fulfill its mission.

This case study was created by Community Action Program Legal Services, Inc. (CAPLAW). Visit us at www.caplaw.org.

This case study is provided for informational purposes only and does not constitute legal advice. Please consult an attorney for advice regarding your organization's individual situation.

MERGER CASE STUDY

Merger between Economic Opportunity Council of Suffolk, Inc. (EOC) and Suffolk Network on Adolescent Pregnancy, Inc. (SNAP)

This case study is based on CAPLAW's interview with Adrian Fassett, President/Chief Executive Officer of Economic Opportunity Council of Suffolk, Inc. (EOC) in Patchogue, New York, as well as a review of EOC's website and its IRS Form 990.

Economic Opportunity Council of Suffolk, Inc.

Economic Opportunity Council of Suffolk, Inc. (EOC) is a 501(c)(3) Community Action Agency (CAA) with annual revenue of approximately $9 million and about 200 employees. EOC provides the following services to low-income people in Suffolk County, on Long Island, New York:

- Family development services to help clients: improve job skills; secure higher paying, more fulfilling employment; effectively manage conflicts between family and job demands; master budgeting skills; and strengthen family relationships
- Housing services, including: affordable housing development; down payment and closing cost assistance to eligible first time homebuyers; homeownership counseling; mortgage counseling for homeowners who are having difficulty maintaining their mortgage; and reverse mortgage counseling for seniors
- Child care services at two centers and at Suffolk County Family Court
- Youth and adolescent programs – including adolescent pregnancy prevention, parenting programs for adolescent parents, a middle school after-school program, and a program that helps at-risk youth prepare for and graduate from college
- HIV/AIDS case management, prevention and outreach
- Services for people with developmental disabilities, including: Medicaid and non-Medicaid service coordination; respite/recreation services; individual support services; community habilitation services; and group day habilitation services
- Community-based community revitalization and crime prevention services funded by the U.S. Department of Justice's Weed and Seed Program

Suffolk Network on Adolescent Pregnancy, Inc. (SNAP)

Suffolk Network on Adolescent Pregnancy, Inc. (SNAP) was a 501(c)(3) organization that focused exclusively on adolescent pregnancy prevention programs in Suffolk County, NY. Prior to the merger, it had annual revenue of approximately $1.5 million and 21 employees. The merger was completed in March 2011. After the merger, EOC hired most of SNAP's staff, including its executive director. SNAP is now a division of EOC. One SNAP board member – the board chair – joined the EOC board. SNAP ceased to exist as a separate corporation.

Reasons for the Merger

According to EOC's president/CEO Adrian Fassett, SNAP was having a difficult time financially because it only provided a single type of service – adolescent pregnancy prevention. SNAP was experiencing cash flow problems and, on occasion, problems making payroll. Although SNAP probably could have survived on its own, the SNAP board felt that it would be beneficial to find a merger partner before the organization was in such dire straits that it had to merge or dissolve.

The EOC board viewed the potential merger as an opportunity for EOC to broaden its services and outreach into the public schools in Suffolk County, where SNAP operated well-respected programs. In addition, at the outset, the EOC board believed that SNAP had a $260,000 surplus and that the merger would improve EOC's overall financial condition. "[W]e thought that, financially, it wouldn't put a stress on us," says Mr. Fassett.

"Programmatically, it just made sense; it fit. It was a gap in services that [EOC] had that [the merger] would fulfill."

How Merger Talks Were Initiated

According to Adrian Fassett, who was a SNAP board member at the time, the SNAP board "had talked with some other potential partners and it didn't work out. I never brought up my agency since I thought it was a conflict of interest because I was a board member. And then I was approached by the board chair and [SNAP's executive director] about a possible merger." He notes that the two organizations were familiar with each other because they had worked together over the years and because of his service on the SNAP board.

Both organizations' boards met to discuss whether they wanted to explore the possibility of merging further. Mr. Fassett resigned from the SNAP board to eliminate the conflict of interest between his role as a SNAP board member and as the president/CEO of the organization with which SNAP was considering merging.

The Merger Process

Board Resolutions After initial merger discussions, the boards each met separately and voted to explore the possibility of merging, including conducting due diligence and forming a merger committee with representatives from both organizations. Later, after due diligence and resolution of outstanding issues by the merger committee, each board voted to complete the merger.

Due Diligence Because he had resigned from the SNAP board, Adrian Fassett could not describe the due diligence process SNAP used. He reports, however, that "[EOC] went through [SNAP's] audit reports, financial statements. We talked to their funding sources. We visited their programs. We spoke with other community partners... [W]e were very familiar with them, so there was a lot we knew about the organization already."

Merger Committee "Then we started discussing what the merger would look like if it did take place – would we keep all their staff, would we keep their executive director, those type of things," Mr. Fassett explains. The SNAP and EOC boards formed a merger committee which included some SNAP board members, some EOC board members, and executive staff from each organization. The merger committee's goal was to iron out issues in areas such as governance, staffing, policies and procedures, personnel policies, and employee benefits. "We were able to do that smoothly … in one meeting," he notes.

Government Grants and Contracts Of transferring SNAP's government grants and contracts and getting funding source approval, Mr. Fassett observes, "That was actually the easiest part. We got approval from all government funding agencies before the state [i.e., the New York Attorney General, the New York Supreme Court and the New York Department of State] approved the merger … The funding sources were the easiest issue, and we thought it would be a big deal. We had no problem with any of them." "One of the reasons for that," he explains, "is that we had a prior relationship with [SNAP's] funding sources already. They knew our agency and our work, too. So that was simple, we had not one problem with a funding source."

Communication Throughout the merger process, both organizations communicated regularly with their staff. "Internally, both agencies had agency-wide meetings with their staff to explain what they were doing, and we had updates every three months with our staff," Adrian Fassett recalls. "On the outside it was pretty well known … that we were contemplating [the merger] … it was in the paper," he says. "Then when the merger was completed,

we had a big community dinner and night out where we invited politicians, other community-based organizations [and] partners."

Working with Professionals EOC worked with an attorney and its accounting firm on the merger. The attorney drafted the plan of merger and filed the certificate of merger with the state to effectuate the transaction. EOC's accounting firm worked with EOC to ensure that SNAP's books were in order and were transitioned over properly to EOC's financial software system.

Merger Costs The primary expense associated with the merger was about $15,000 in legal fees, which was paid out of SNAP's unrestricted surplus funds. EOC's accounting firm worked on a pro bono basis.

Integration of the Two Organizations

Much of the work of integrating the two organizations actually took place before the merger was finalized. Adrian Fassett explains that "physically, programmatically, and financially, we did the integration before the merger actually became effective." The integration was overseen by a transition team, consisting of EOC's management team plus SNAP's former executive director and finance director.

Board Composition EOC made one seat on its board available for one of SNAP's board members. SNAP designated its board chair to serve on the EOC board.

Staffing EOC took on all but two of SNAP's employees. It hired SNAP's executive director, who had founded SNAP and is well-respected and well-connected in Suffolk County, to manage its SNAP division. It also brought on SNAP's fiscal staff to augment EOC's finance department, as well as most of SNAP's program staff. Despite the pre-merger integration of most aspects of SNAP into EOC, SNAP's employees were not brought onto EOC's payroll until the merger was finalized.

While he was a board member of SNAP, Adrian Fassett had made recommendations to SNAP regarding its employee benefits based on EOC's benefit plans. Thus, SNAP's benefit plans were similar to EOC's and administered by the same company and moving SNAP's employees onto EOC's benefit plans proved relatively simple.

Facilities and Equipment SNAP was able to negotiate out of its leases for facilities and equipment with no penalty based on the fact that it would be merging into EOC. Before the merger was complete, SNAP staff moved out of SNAP's facilities and into EOC's.

Finances EOC began integrating SNAP's financial data into its accounting software prior to the merger. This task was made easier by the fact that SNAP used the same accounting software as EOC, based on a recommendation Adrian Fassett had made years earlier in his capacity as a SNAP board member. Initially, SNAP was treated as a separate entity in EOC's accounting system. Eventually, however, SNAP's finances were integrated into EOC's as a separate division of EOC. SNAP had a $50,000 line of credit secured by its receivables, which was transferred to EOC.

Merger Benefits

There have been both programmatic and financial benefits to EOC from the merger, according to Adrian Fassett. First, it has enabled EOC to expand its programs and outreach into the public schools in its service area. SNAP brought to the merger its "well-respected programs in all the school districts in the community," he notes. As a result, he says, EOC has been able to "bring in some additional resources into our programs. And the schools have opened up new partnerships, so it has worked well." He provides the following example: "Through our adolescent pregnancy prevention programs, we do assessments of families and make referrals to our family development program ... [T]hat [has] helped us as far as growing our family development program, and it [has been] a tremendous asset to the program ... the school superintendents really love[] that piece of it. It was a value-added bonus there." Second, the merger has provided additional funding and finance staff for EOC.

Presumably, the merger has also benefited SNAP by enabling it to continue its programs within an organization that has a broader range of programs and is more financially secure.

Overall, Adrian Fassett says of the merger that "It has been very successful. And with funding issues and the way money is now, that $1.5 million dollars really helped out my agency and the programs are wonderful."

Merger Challenges

There were three main challenges to the merger. First, SNAP's surplus turned out to be smaller than EOC had originally thought. Second, it took longer than anticipated to obtain approval of the merger from the state. And, third, integrating the two organizations' cultures took more effort than anticipated.

A closer examination of SNAP's books revealed that SNAP had a surplus of only about $72,000 and not $260,000. Adrian Fassett explains that "Once we had agreed to go ahead with the merger and the train had left the station and was going down the track, we had started combining our operations before the merger." "When we started combining their books onto our books," he recalls, "we found out their auditing firm had made a $90,000 mistake. So their $260,000 surplus was not really $260,000. Then we found another misstatement, so it came out that their surplus was only about $72,000. But at that point it was past the point of no return."

Another hurdle was the fact that the state was slow to approve the merger. In New York, mergers of nonprofits formed for charitable purposes must be approved by the Attorney General, the New York Supreme Court, and the New York Department of State; funding sources or licensing agencies whose approval or consent is required must also sign-off on the transaction. One thing that slowed the approval process, according to Mr. Fassett, was the fact that an attorney from the state "picked up that ... my agency had started doing childcare and ...we didn't have the right certification with the state in terms of nonprofit status. So we had to re-file our status for our nonprofit standing before they could go ahead and approve the merger."

"The most challenging issue we faced was corporate culture," Adrian Fassett recalls. "SNAP was a predominantly Caucasian organization with all Caucasian management, and my agency was a predominantly minority agency with all minority management. Their corporate culture was totally different, more laid back." He observes that "it took a good year and a half, almost two years to get this culture thing worked out."

Lessons Learned

Merging with an organization with which your CAA already has a solid relationship facilitates the process – from initiating merger talks through integration.

Communicate with the funding sources of both organizations early and often during the merger process.

Conduct thorough due diligence, especially financial due diligence, before beginning to integrate the two organizations. It is important to get a complete and accurate picture of a merger partner's financial position, especially whether it has any hidden liabilities such as unpaid payroll taxes or outstanding legal claims, before getting "past the point of no return."

Before merging, have an attorney check that both organizations are up-to-date on all of their corporate, tax and other legal filings and that those filings have been done correctly.

Most importantly, don't underestimate the importance of organizational culture. "Cultural integration begins with cultural awareness and sensitivity – and fostering these should be an important element of the entire merger process, from assessment and negotiations through integration," merger consultants LaPiana Associates explain in *The Nonprofit Mergers Workbook Part II: Unifying the Organization after a Merger*. "No matter how successful other integration efforts may be, if issues around organizational culture are not considered and attended to, the merger will not achieve its potential."[1]

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Footnote:

1. LaPiana Associates, Inc., *The Nonprofit Mergers Workbook Part II: Unifying the Organization after a Merger*, p. 79.