

FASB Update

Annual Non-Profit CPE Training

Presenter: Amy C. Lewis, CPA

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Objectives

- Economic and Industry Developments
- Accounting Issues and Developments
- On the Horizon

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A Mixed Economy

- Market rebound
- GDP increasing [#1](#)
- Jobless claims remain high [#2](#)
- Federal Reserve rates remain low [#3](#)
- Bailout repayments
- Foreclosures increasing
- U.S. Treasury bills discount rate is at lowest rate since 1929

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NFP Challenges

- Contributions are flat, but the demand for services is increasing
- Value of endowments have decreased substantially
- NFPs forced to reduce workforce or programs/services
- Lack of affordable lines of credit
- Increased competition for a smaller pool of contributions
- Increase in number of delayed or uncollectible receivables

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NFP Challenges (cont.)

- Corporate giving decreased by an estimated 4.5% in 2008
- In-kind giving continues to increase
 - More than 1/3 of all corporate giving is in-kind
 - Organizations need to ensure that they account for the gift appropriately

NFP Challenges (cont.)

- Operating reserves – “the portion of ‘unrestricted net assets’ that nonprofit boards maintain or designate for use in emergencies to sustain financial operations in the unanticipated event of significant unbudgeted increases in operating expenses and/or losses in operating revenue”

Source: Nonprofit Operating Reserves Initiative (NORI) Workgroup

NFP Challenges (cont.)

- Giving
 - International
 - Texting
 - Cyber donations
- Retiring workforce
- Red Flags Rule

FASB Developments

- The Codification of U.S. GAAP
- NFP Mergers & Acquisitions
- Accounting for Uncertainty in Income Taxes
- Fair Value Measurement
- Subsequent Events
- Other

FASB 168/FASB ASC 105

The Codification of U.S. GAAP

- Effective for periods ending after 9/15/09
- FASB ASC became the sole source of authoritative U.S. GAAP for nongovernmental entities, in addition to guidance issued by the SEC
- Separates guidance into two levels: authoritative and non-authoritative

The Codification of U.S. GAAP (cont.)

- All new standards will be issued as *Accounting Standards Updates*
 - Sequentially numbered (ex: 2010-19) #5
- Use generic references as opposed to specific references
 - "as required by the *Derivatives and Hedging* topic of the *FASB Accounting Standards Codification*"

The Codification of U.S. GAAP (cont.)

- Changes to references will be noted in:
 - Financial statement notes
 - Engagement letter
 - Management representation letter
 - Legal letter
 - Audit programs
 - Accounting policy & procedures manuals

NFP Mergers & Acquisitions

- Effective for mergers occurring on or after 12/15/09
- Effective for acquisition dates on/after the beginning of the first annual period beginning on/after 12/15/09
- Codified through ASU No. 2010-07 primarily as FASB ASC 958-805 and 958-810

NFP Mergers & Acquisitions (cont.)

- FASB statements made applicable to NFPs with this statement
 - No. 142 (goodwill)
 - No. 160 (noncontrolling interest)

NFP Mergers & Acquisitions (cont.)

- Merger
 - All parties cede control
 - Accounted for using **carryover method**
- Acquisition
 - Acquirer obtains control
 - Most NFP combinations likely to be acquisitions
 - Accounted for using **acquisition method**

NFP Mergers & Acquisitions (cont.)

- Goodwill
 - IF acquiree operations are NOT predominantly supported by contributions & investment returns, then GOODWILL:
 - Equal to excess consideration transferred over net amounts recognized
 - Evaluate at least annually for impairment
 - IF acquiree operations ARE predominantly supported by contributions & investment returns, then SEPARATE CHARGE IN STATEMENT OF ACTIVITIES:
 - Equal to excess consideration transferred over net amounts recognized
 - Transition guidance for previously recognized goodwill
- "Negative" goodwill = contribution revenue

NFP Mergers & Acquisitions (cont.)

Merger

- No one party dominates the negotiations
- All assets & liabilities are absorbed into a newly formed entity
- The creators of the merged entity cease to exist as autonomous entities
- No one holds financial interests in the new entity

Acquisition

- One entity appoints significantly more of its governing board or retains significantly more of its key employees
- One entity retains its bylaws and/or other policies
- One entity has more financial strength than the other

Accounting for Uncertainty in Income Taxes

FIN 48: two-step process

- Recognition – More likely than not, a tax position will be sustained upon examination
- Measurement – the amount of benefit to recognize in the financial statements
 - Increase/decrease income taxes payable/refund receivable
 - Increase/decrease deferred tax asset/liability

Accounting for Uncertainty in Income Taxes (cont.)

FIN 48: tax position defined:

- A decision not to file a tax return
- An allocation or a shift of income between jurisdictions
- The characterization of income or a decision to exclude reporting taxable income in a tax return
- A decision to classify a transaction, entity, or other position in a tax return as tax-exempt

Accounting for Uncertainty in Income Taxes (cont.)

- FIN 48: effective dates:
 - Original – period beginning after 12/15/06
 - For nonpublic enterprises that aren't a consolidated entity of a public enterprise that applies U.S. GAAP – delayed until 12/15/08

Accounting for Uncertainty in Income Taxes (cont.)

- ASU 2009-06 was issued to address three questions relative to FIN 48:
 - Is the income tax paid by the entity attributable to the entity or its owners?
 - What constitutes a tax position for a pass-through entity or a tax-exempt not-for-profit entity?
 - How should accounting for uncertainty in income taxes be applied when a group of related entities comprise both taxable and nontaxable entities?
- ASU 2009-06 also eliminates some disclosures for nonissuers

Accounting for Uncertainty in Income Taxes (cont.)

- ASU 2009-06 is effective:
 - Entities currently applying FIN 48
 - Interim & annual periods ending after 9/15/09
 - Entities deferring FIN 48
 - Upon adoption of standard

Fair Value Measurement

- Fair value defined: “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”

Fair Value Measurement (cont.)

- Increased guidance needed
 - ASU No. 2009-05, “*Measuring Liabilities at Fair Value*”
 - ASU No. 2009-12, “*Investments in Certain Entities that Calculate Net Asset Value per Share*”
 - ASU No. 2010-06, “*Improving Disclosures about Fair Value Measurements*”

Subsequent Events

- Requires the disclosure of the date through which an entity has evaluated subsequent events
 - SEC filers and other public entities (including NFPs with publicly traded conduit debt) – when FS are issued
 - All others – when FS are available to be issued (after all internal signoffs)

Subsequent Events (cont.)

- Must evaluate events to determine if they should be recognized
 - Events providing additional evidence about conditions existing at BS date – RECORD
 - Long-term pledges receivable
 - Events providing evidence about conditions NOT existing at BS date – DISCLOSE
 - Sale of bond/stock after BS date
 - Changes in quoted market prices


Other FASB Developments

- Endowments & UPMIFA (FSP 117-1)
- Derivatives Disclosures (FASB 161)
- Accounting for Losses Due to Fraud
- Exposure Draft on Credit Quality and Credit Losses

On the Horizon

- FASB/IASB
- Going concern
- Other
 - Disclosure of certain loss contingencies
 - Disclosure framework
 - Investment properties
 - Accounting for casino jackpots
 - Accounting for a loan modification

Questions????



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Resources

- AICPA Non-Profit Conference
Washington, D.C.
June 17 & 18, 2010
Session 2/38
- AICPA Webcast:
Audit Risk Update for NFPs
June 23, 2010
- AICPA 2010 Not-for-Profit Entities
Industry Developments Audit Risk
Alert
- Grant Thornton 2009 National
Board Governance Survey for Not-
for-Profit Organizations
- 2007 Tropman Reports: Nonprofit
Mergers
- NORI Workgroup: A Whitepaper –
Maintaining Nonprofit Operating
Reserves
- Federal Trade Commission
Fighting Fraud with the Red
Flags Rule – A How-to Guide
For Business

Email links for the above available upon request.

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