

# Foundation Accounting Update February 2014

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# Learning Objectives

At the end of this learning session, you will be able to:

- Latest activities of the Not-for-Profit Advisory Committee (NAC)
- New Requirements Issued or Pending by the FASB
- Private Company Council Update

# Latest Activities of the NAC

- Net asset classification
- Liquidity
- Statement of Functional Expense
- Financial statement formats
- Statement of cash flows

# Not-for-Profit Financial Reporting: Financial Statements – Net Asset Classification

- Generally agreed with the FASB decisions on the net asset classification requirements
- Concerns whether the two-class net asset classification scheme would preclude entities from presenting additional information
- FASB staff clarified that NFPs would not be precluded from going beyond the minimum requirements

# Not-for-Profit Financial Reporting: Financial Statements – Financial Statement Formatting

- Mixed views on a one-statement versus two-statement approach.
- Urged adoption of the “dynamic presentation”
- Benefits of the detailed roll-forward presenting activities that change each of the components within net asset classes.
- Concerns of disclosure overload.

# Not-for-Profit Financial Reporting: Financial Statements – Liquidity

- Notions of liquidity and asset availability are blurred
- Communications about liquidity solely through presentation/disclosures about NFP's net assets is impractical
- Current practices often do not meet the current U.S. GAAP
- Education may be necessary to close the gap

# Not-for-Profit Financial Reporting: Financial Statements – Cash Flow Statement

- Poor alignment between the operating cash flows and operating measures
- Aligning the proposed intermediate measure of current operations with cash flows from operations would be a significant improvement

# Accounting Standards Updates and other FASB Initiatives

- ASU 2013-04 - Obligations resulting from certain joint and several liability arrangements
- ASU 2013-06 Not-for-Profit Entities
- Going Concern



# ASU 2013-04 - Obligations resulting from certain joint and several liability arrangements

- Provides guidance on obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date
- Applies to debt arrangements, other contractual obligations, and settled litigation and judicial rulings
- Currently there is diversity in practice Some entities record the entire obligation
- Other entities record less than the entire obligation, such as an amount corresponding to the proceeds received

# Required Disclosures

- For co-borrowing arrangements disclose
  - Nature of arrangement
  - Total outstanding
  - Carrying amount
  - Recourse provisions
  - How recorded (including changes)

# ASU 2013-6 Not-for-Profit Entities

- Specifies the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate
  - party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity

# Amendments of the ASU

- Recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity.
- Services should be measured at the cost
- If measuring a service at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either
  - the cost recognized by the affiliate for the personnel providing that service or
  - the fair value of that service

# Presentation Guidance

- Health Care Entities should report as an equity transfer
- For other recipients - No presentation guidance
- All recipient not-for-profit entities - report the corresponding decrease in net assets/creation of an asset resulting from the use of services similar to other such expenses or assets

# How does this improve GAAP?

- Similar recognition and measurement bases for services received from personnel of an affiliate that
  - directly benefit the recipient NFP entity and
  - for which the affiliate does not charge the recipient NFP

# Effective Dates

- Prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter.
- May apply the amendments using a modified retrospective approach
  - All prior periods presented upon the date of adoption should be adjusted
  - No adjustment should be made to the beginning balance of net assets of the earliest period presented.
- Early adoption is permitted

# Going Concern Accounting

- Exposure draft issued
- Significant focus on disclosure
- Requires substantial doubt consideration and disclosure for public companies



# What is Substantial Doubt?

- When information about existing conditions and events, after mitigating factors, indicates that it is known or probable that an entity will not meet its obligations as they become due within 24 months of F/S date

# Period to Assess for Disclosure

- Entities inability to meet its obligations
  - More likely than not in 12 months or;
  - Known or probable in 24 months

# Private Company Council Proposals – Users of NFP Financial Statements

- Intangible assets subsumed into goodwill under the proposal are not decision useful
  - donor lists
  - customer relationships
- Information on goodwill not decision-useful
  - Amortize goodwill as its value decreases over time
  - Some support a direct write-off approach
- Settlement value method for certain interest rate swaps
  - Reduce costs and complexity
  - Helpful for many smaller NFPs that have swaps

# FASB Projects

- Revenue Recognition
  - Issued final March 2014
- Leases
  - Debate continues
- Financial Instruments
  - Anticipated issued final 2014

# QUESTIONS?



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# TABLE TOPICS

## Tax

Program and mission related investments

Benefit corporations and other alternative structures

Expenditure responsibility requirements

Granting to charitable vs. non-charitable organizations

Fundraising events

Charitable solicitation registrations

# TABLE TOPICS

## Contributions

Difference between exchange transactions and contributions

What is a restricted contribution and what is required for documentation

How to disclose restricted contributions within your financial statements

Valuation of contributions and acceptance of gifts

Special events and fundraising efforts

# TABLE TOPICS

## Internal Control

What impact has the updated COSO framework had on your foundation?

What concepts do you have the most difficulty implementing?

Do you think there are areas where you have implemented controls that aren't justified by the risk?

How do you communicate the risk analysis with governance and with your own staff?

Do you have any unique controls in risk areas that you would like to share with the group?



# TABLE TOPICS

## Investments / PRIs

Common fair value disclosure errors

Tips on fair value disclosures

What items go in a fair value disclosure?

Types of program related investments

Recording of program related investments

# TABLE TOPICS

## Split Interest Agreements

Review various types of trusts and annuity transactions

How to account various types of trusts and annuity transactions

Financial statement disclosures