

Accounting and Tax Standards Update

Cathy Clarke
Terry Fraser
Karen Gries
Heidi Tatro

Speaker Biography

Cathy J. Clarke, CPA, Partner, CliftonLarsonAllen LLP

Cathy Clarke is a national audit and assurance quality partner at CliftonLarsonAllen LLP. Her primary responsibilities include being a technical resource for the audit and assurance practice and quality review of assurance and accounting engagements.

Throughout her career, Cathy has served a variety of clients in numerous industries, including an emphasis in nonprofit organizations and health care entities. Her background includes experience in conducting and issuing audit opinions on financial statements. She is a key resource in the firm on non profit issues including HUD and Single Audit. She is a Certified Public Accountant licensed in Minnesota. Cathy is the co-chair of the AICPA's Not for Profit Expert Panel.

Karen Gries, CPA, Partner, CliftonLarsonAllen LLP

Karen Gries is a partner and provides tax compliance and consulting services to exempt organizations. Her experience includes providing a broad range of tax services to a variety of tax-exempt organizations across various sub-industries including public charities and private foundations, higher education, and social welfare, etc.

Karen is a member of the American Institute of Certified Public Accountants and Greater Washington Society of Certified Public Accountants. Karen currently serves on the Internal Revenue Service Advisory Committee on Tax Exempt and Government Entities (ACT).

Speaker Biography

Heidi Tatro, CPA, Manager, CliftonLarsonAllen LLP

Heidi Tatro is a manager in the public sector group at CliftonLarsonAllen LLP. She has seven years of experience in public accounting and has extensive experience in serving large, complex organization. She specializes in the nonprofit area serving foundations, associations, and other nonprofit organizations. She has extensive knowledge in the area of investment reporting and has audited complex investment portfolios with assets in excess of \$1 billion and is familiar with all investment types including securities lending and hedges. She is a member of the American Institute of Certified Public Accountants and the Minnesota Society of Certified Public Accountants.

Speaker Biography

Terry M. Fraser, CPA, Partner, CliftonLarsonAllen LLP

Terry has worked extensively with the nonprofit community for 35 years, primarily in the charitable and grants making organization area. She served as one of fifteen on the AICPA Not-for-Profit Committee that wrote the accounting and audit guide for nonprofits issued in 1995. She served on the AICPA Nonprofit Conference Steering Committee selecting topics and speakers each year for the conference in Washington, DC for six years. Terry also has significant experience in dealing with audit compliance issues and the wide variety of challenges faced by the nonprofit industry.

Terry is a graduate of Saint Cloud State University, a past board member of the Minnesota Society of Certified Public Accountants (1985-1991) and past chair of the Not-for-Profit Committee. She is a member of the FASB Not-for-Profit Resource Committee and served as the firm's liaison to the Government Audit Quality Center. Currently, she is a member of the Greater Washington Society of Certified Public Accountants, and the American Institute of Certified Public Accountants.

She is a frequent speaker at nonprofit conferences and seminars on such topics as OMB 133 compliance audits, cost allocation, joint costs, reading financial statements and current technical updates. In addition, she has been a contributing author or technical reviewer on a number of publications, including *Budgeting Your Way to Financial Stability* and *All the Way to the Bank*.

Accounting & Tax Topics

Fair Value Considerations

Gifts In Kind

Program Related Investments

Horizon Issues

Fair Value

Fair Value Accounting Guidance

ASU 2011-4: Fair Value Measurement

Fair Value Resources

Fair Value Tax Considerations

Fair Value Accounting Guidance

Fair Value achieved in 3 ways:

1. ASC 958-320: Investments - Debt and Equity Securities (former FAS 124)
2. ASC 825-10: Financial Instruments (former FAS 159)
3. ASC 958-325: Investments – Other

ASC 958-325: Investments – Other

Foundations shall report other investments using one of the following measures:

- a. Fair Value
- b. The lower of cost or fair value

The same measurement attribute shall be used for all other investments excluding those for which the NFP elected FAS 159

Includes:

- Investments in real estate
- Mortgage notes that are not debt securities
- Venture capital funds
- Partnership interests
- Oil and gas interests
- Equity securities that do not have a readily determinable fair value

ASU 2011-04 Fair Value Measurement

- What changes are within this new release?
 - Purpose to conform US GAAP and IFRS
 - Clarifies that best use and valuation premises is relevant to nonfinancial assets
 - Requires disclosures for what factors are the unobserved inputs for determining level three valuations
 - Clarifies considerations of premiums and discounts if relevant.

ASU 2011-04 (con't)

- Additional disclosures:
 - Level 3 category
 - ◇ The valuation processes used
 - ◇ Sensitivity of the FV measurement (Only for public entities)
 - ◇ Reporting entities use of a nonfinancial asset at other than the assets highest and best use
 - ◇ Categorization by level for items not measured at FV but for which fair value is required to be used (Only for public entities)
 - Also clarifies that transfers between Level 1 and 2 are not required except for public entities.
- When is it effective?
 - Periods beginning after December 15, 2011, typically calendar year 12/31/2012, limits early adoption

Fair Value Resources - AICPA

- Alternative Investments Practice Aid
 - Being updated for changes in accounting
 - Being updated for NAV considerations
- Financial Reporting Whitepaper: Measurement of Fair Value for Certain Transactions of Not-for-Profit Entities
 - Unconditional Promises to give cash or other financial assets
 - Beneficial interests in trusts
 - Split-interest agreements

Fair Value Tax Considerations

- Accounting vs. tax presentation
 - Realized vs. unrealized gains/losses
- Complexities associated with alternative investments
 - Unrelated business income
 - ◇ Continued focus within IRS FY 2013 EO Work Plan
 - State and local tax compliance
 - Foreign tax filings

Gifts in Kind

Accounting Guidance

Public Scrutiny

Tax Considerations

Gifts In Kind Accounting Considerations

- Accounting guidance: ASC 958-605
 - Contributions received shall be measured at their fair values.
- EITF 12-B *“Personnel Services Received from an Affiliate for Which the Affiliate Does Not Seek Compensation”*
 - Still pending in EITF
 - Meant to provide consistency
 - Roadblock relates to services provided by For Profit affiliates.

Gifts in Kind Public Scrutiny

- Principal or Agent
 - Impacts revenue recognition

- Fair Value
 - Pharmaceuticals
 - Prohibited from selling in US
 - AIDS medication, example

Gifts in Kind Tax Considerations

- Gifts in kind and non-cash contribution reporting differs from GAAP presentation
- In kind contributions
 - Donated services, use of space or equipment
- Non-cash contributions
 - Tangible property
- Remember Forms 8282/1098-T filing requirements
- Donor acknowledgement considerations

Gifts in Kind Tax Considerations

- EO continued examination of charities that participate in “Gifts in Kind” programs
 - Charities sending non-cash items to domestic or foreign organizations
 - IRS coordinating with foreign regulators
- Revocation of 501(c)(3) status of two organizations due to excessive private benefit and lack of charitable activities
- Additional potential examinations

Program Related Investments

Accounting Guidance

New Credit Receivable Disclosure

Tax Considerations

PRI Accounting Guidance

New Chapter in updated AAG Not-for-Profit Entities

- Loans, Equity Interest, Guarantees
- Further the NFP mission
- Production of investment return secondary
- Forgiveness
- Impairment
- Disclosures

ASU 2010-20: Disclosures of Credit Quality of Financing Receivables and Allowance for Credit Losses

- What is a Financing Receivable?
 - Loans
 - Trade receivables
 - Notes Receivable
 - Lessor's leveraged agreements
 - Sales-type leases
 - Direct financing
- Excludes:
 - Trade receivables with maturities less than a year
 - Unconditional Pledges to give
 - Acquired beneficial interests or the transferor's beneficial interest in transferred financial interests

ASU 2010-20 (con't)

- What disclosures are added?
 - Allowance for credit losses should be by portfolio segment.
 - Information to allow the reader to evaluate the extent management monitors credit quality
 - Information about credit quality indicators
- When is the standard effective? For periods ending after December 15, 2011 for Non-public Entities

PRI Tax Considerations

- IRS issued proposed regulations offering guidance to private foundations engaged in PRIs
- Do not change the rules and regulations or replace existing examples
- Provides for additional examples to illustrate investments that qualify as PRIs

Horizon Issues

FASB NFP Advisory Committee

FASB Foundation Accounting Topics

FASB Projects & Exposure Drafts

AICPA AAG, Not for Profit Entities

Tax Considerations

Not for Profit Advisory Committee (NAC)

- Established in October 2009
- Provide focused input and feedback to FASB board on current/proposed technical agenda projects
- Assist FASB in communicating with NFP sector
- 15 members with mix of backgrounds
- Members agreed that NFP's are most similar to public entities
- Two main projects
 - NFP Financial Statements
 - Other NFP Financial Communications

NAC – NFP Financial Statement Project

- Reconsider net asset classifications
 - Donor Restrictions Expanded to include Other Restrictions
 - Reduce Net Asset Classes to 2 (Donor Restricted and Other)
- Improve Liquidity Information
 - Disclosure on Limits and/or Demands on Assets
 - Add emphasis on ability to spend to N/A Classes
- Improve Reporting of Financial Performance
 - Standard Operating Measure on Statement of Activities
 - Required Functional Statement for All NFP's
- Stream-line and Improve NFP Specific Disclosures

NAC – Other NFP Financial Communications

- Enhanced Financial Reporting needed for NFP's
- Management Commentary explaining Financial Results/ “Telling the Story”
- Line of Business Reporting
- Questions:
 - Required disclosure or best practice
 - If FASB standard created, how specific should framework be

FASB's Foundation Related Accounting Topics

- EITF 12-A *“Not-for-Profit Entities: Classification of the Sale of Donated Securities in the Statement of Cash Flows”*
- EITF 12-B *“Personnel Services Received from an Affiliate for Which the Affiliate Does Not Seek Compensation”*
- EITF 12-D Liabilities – *“Obligations resulting from Joint and Several Liability Arrangements”*

On-going FASB Projects

- Lease
- Revenue Recognition
- Financial Instruments Project – to be re-exposed
- Disclosure Framework
- Accounting for Financial Instruments: Liquidity and Interest Rate Disclosures
- Not-for-profit Financial Reporting:
Financial Statements

FASB/IASB Lease Project

- Revised proposal expected in 4th quarter of 2012
- Final draft expected in 2013
- Effective date likely not until 2015 (or later)
- Right of use accounting model for both lessees and lessors
- Short term leases (maximum term < 12 months) excluded from standard
- Asset must be specifically identified in contract
- Impact on financial ratio's and debt covenants

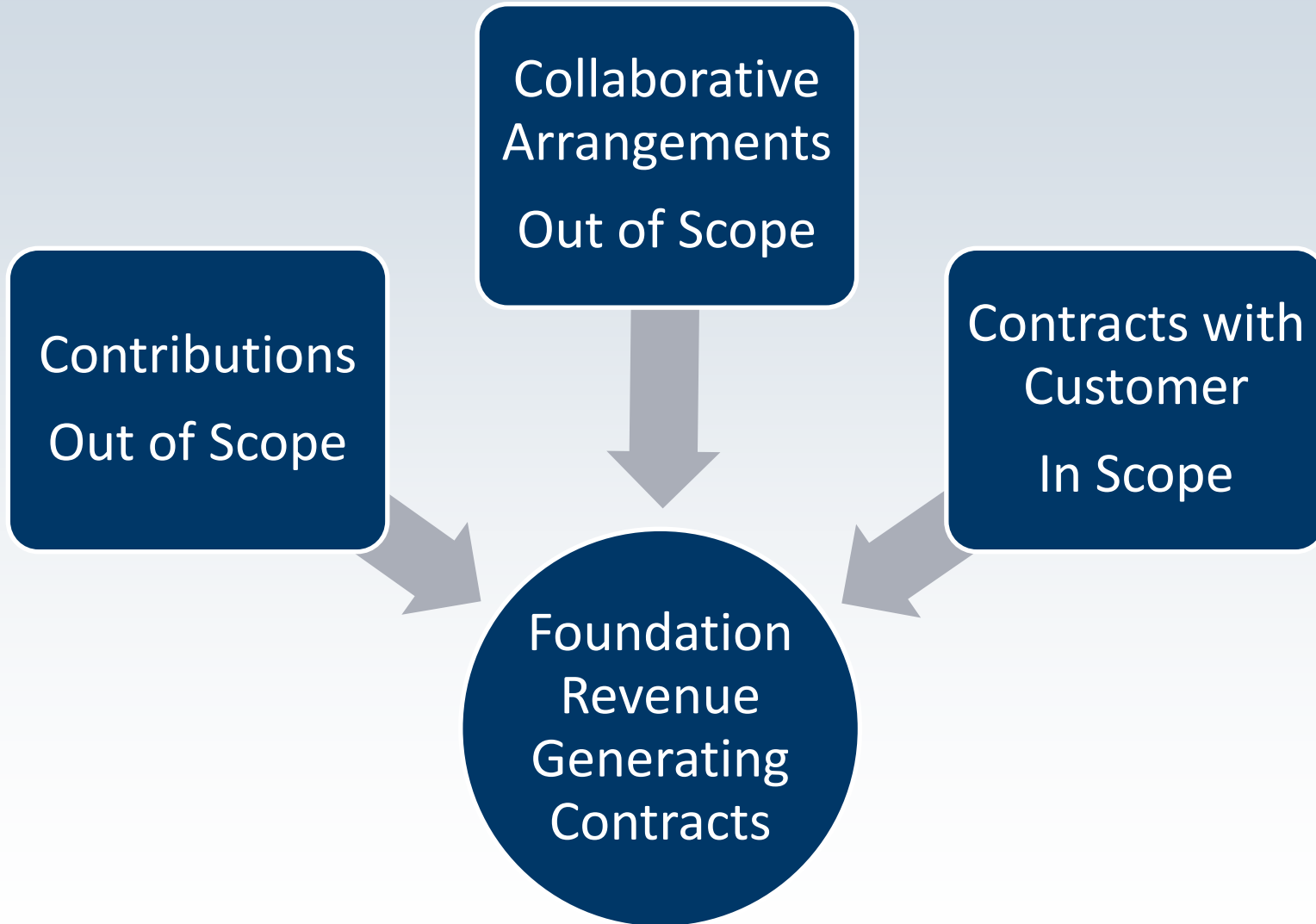
Proposed Lessee Accounting

- Initially recognize a right to use asset and corresponding liability at the net present value of lease payments
- Amortization of right to use asset is straight line
- Amortization of liability based on lease type
- Financing leases
 - Lessee acquires and consumes more than an insignificant portion of the underlying asset (e.g. computer lease)
 - Amortization of liability using effective interest method
- Other leases
 - Amortization of liability using straight line method

Proposed Lessor Accounting

- Still under redeliberation
- Financing leases
 - Recognize a lease receivable
 - Derecognize portion of asset consumed so only residual asset remains on books
 - Recognize profit on transfer of right to use asset
 - Accrete residual asset
- Other leases
 - No recognition of assets
 - Accounting similar to existing operating lease

FASB/IASB Revenue Recognition Project



FASB/IASB Revenue Recognition Project

- Foundation's would recognize revenue from contracts with customers when it transfers promised goods or services to customers.
- Exception from onerous performance test for Foundation contracts with customers when entered into for social or charitable benefit
- Key Changes
 - Added disclosures, limited for non public entities
- Effective date not earlier than periods beginning after January 1, 2015 with minimum one year delay for non public entities

AICPA Audit & Accounting Guide, *Not for Profit Entities*

- First significant re-write of guide since 1996
- Working draft of accounting topics in guide released on August 15
- Comments due by October 15
- Expect issuance of final by March 2013
- Updates include:
 - Expanded section on reporting relationships with other entities
 - New sections on reporting and measuring noncash gifts
 - Expanded section on municipal bond financing
 - Chapter on programmatic investments and microfinance loans
 - New guidance on reporting the expiration of donor restrictions
 - Expanded discussion regarding legal and regulatory environ.

Issues referred to FASB in Guide Revision Impacting Foundations

Issue	Question	FASB Action Taken
Reporting the Contribution Portion of Charitable Gift Annuities	Should state law requirements regarding required levels of annuity reserves impact the net asset classification?	Net Asset Classification being address in NAC Financial Report, Financial Statements Project
Reporting Investment Expenses	How should investment expenses be presented and disclosed?	Reporting Investment Expenses being address in NAC Financial Report, Financial Statements Project
Recognition of Beneficial Interest in Trusts Held by Others when Information to Measure is Unavailable	How should an entity report a BIT when fair value information is not readily available?	Added to list of technical corrections to codification

Issues referred to FASB in Guide Revision impacting Foundations

Issue	Question	FASB Action Taken
Subsequent Measurement of Other Investments	Should ASC 958-325-35 be updated to be consistent for all NFP's?	Added to FASB's Accounting for Financial Instruments Project
Statement of Functional Expense	Should the statement be required by more donor supported organization?	Added to NAC's Financial Reporting, Financial Statements Project
Classification in Cash Flow Statement of Gifts of Securities Immediately Sold	If donated securities are immediately converted to cash, where should proceeds be classified?	EITF 12-A "Not-for-Profit Entities: Classification of the Sale of Donated Securities in the Statement of Cash Flows"
Employee Services Contributed by an Affiliate	Should definition of contributed service ASC 958-605-25-17 be expanded so it is more consistently applied?	EITF 12-B, "Not-for-Profit Entities: Personnel Services Received from an Affiliate for Which the Affiliate Does Not Seek Compensation."

Horizon Tax Considerations

- Donations directly to single-member LLC now allowed for charitable contribution purposes.
 - IRS Notice 2012-52 (July 31, 2012)
<http://www.irs.gov/pub/irs-drop/n-12-52.pdf>
- Partnership reporting within the Form 990
 - Schedule K1 vs. book reporting of income and expense
 - Balance sheet presentation

IRS FY 2012 Annual Report and FY 2013 Work Plan

- Questionnaires sent to approximately 3,700
- Resulted in approximately 800 organizations incorrectly classified as community foundations
- Questionnaire responses along with Form 990 data used to select certain community foundation examinations
 - Organizations where donors appeared to exercise significant control over investing and grant making decisions
 - Fees earned from providing administrative, clerical, or grant-related services to unrelated organizations as related (UBI consideration)

IRS FY 2012 Annual Report and FY 2013 Work plan

- Continued project to determine tax compliance by large private foundations
 - Determining whether the foundation continues to meet the 501(c)(3) requirements and rules for PFs
 - Many entities with foreign investments and overseas grants
- Resulted in additional taxes/penalties
 - Excise tax on net investment income
 - UBI
 - Taxable expenditures
 - Employment taxes

Questions?

Cathy Clarke

Cathy.Clarke@CliftonLarsonAllen.com

612-376-4535

Karen Gries

Karen.Gries@CliftonLarsonAllen.com

703-825-2164

Terry Fraser

Terry.Fraser@CliftonLarsonAllen.com

703-825-2144

Heidi Tatro

Heidi.Tatro@CliftonLarsonAllen.com

612-397-3123