

Not-for-Profit Audit Guide and A&A Standards Update



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Catholic Charities USA FRC Institute
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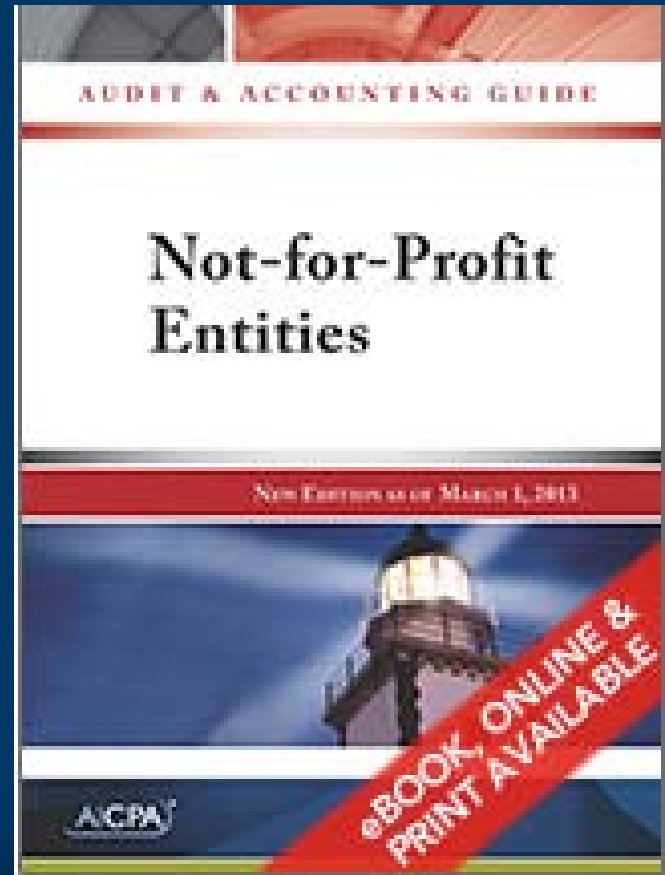


Agenda

- AICPA's New Overhauled NFP A&A Guide
- FASB NFP Standards Update
- FASB Not for Profit Advisory Council

Learning Objectives

- AICPA's New Overhauled NFP A&A Guide
 - Be aware of the new Guide, understand specific new accounting guidance, equipped with tools to do further research
- FASB NFP Standards Update
 - Understand specific new NFP accounting standards
- FASB Not for Profit Advisory Council
 - Understand the two main NAC projects
- Healthcare Industry Update



Focus of the NFP Guide

- Not-for-profit entities
- GAAP-basis financial statements
- Audited financial statements

Issuance of Overhauled 2013 Guide

- The AICPA has issued a comprehensive revision of the Audit and Accounting Guide *Not-for-Profit Entities* in the spring of 2013
 - Financial Reporting Executive Committee (FinREC)
 - Not-for-Profit Entities Expert Panel
 - Not-for-Profit Guide Task Force
- First revision, other than annual conforming changes, since the Guide was released in 1996

Source of New Guide Content

- Considered over 100 questions that had been asked by members who called the AICPA Help Line
- Authoritative guidance from FASB Codification
- Non-authoritative guidance from FinREC conclusions
- Incorporated relevant nonauthoritative AICPA literature
 - NFP-related Technical Questions and Answers (TIS) section 6140
 - AICPA White Paper on Fair Value Measurement
 - Alternative investments TIS section 2220.18–.27

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- Chapter 13 – Expenses, gains, and losses
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Chapter 3, *Financial Statements, the Reporting Entity, and General Financial Reporting Matters*

- Significantly expanded guidance on interests in related entities
 - Summary chart of examples that reference to sections of both the Guide and the FASB ASC
 - ◇ NFP entities
 - ◇ For-profit entities
 - ◇ Special-purpose leasing entities

Excerpt from Exhibit 3-2

Relationship	Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Reference	Discussion in This Chapter
The reporting entity controls another NFP through a majority voting interest in its board and has an economic interest in that other entity.	Use the guidance in FASB ASC 958-810-25-3.	Paragraphs 3.67–.69
The reporting entity controls an NFP through a form other than majority ownership, sole corporate membership, or majority voting interest in the board of the other entity and has an economic interest in that other entity.	Use the guidance in FASB ASC 958-810-25-4.	Paragraph 3.70
The reporting entity has control over another NFP or an economic interest in the other, but not both.	Use the guidance in FASB ASC 958-810-25-5.	Paragraph 3.71

Chapter 4, *Cash, Cash Equivalents, and Investments*

- Significantly expanded guidance on common investments by NFPs
 - Summary chart of examples that reference to sections of both the Guide and the FASB ASC

Excerpt from Exhibit 4-1

Relationship	Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Reference	Discussion in This Chapter
Relationships With Entities Held for Investment		
<p>The reporting entity owns 50 percent or less of the common voting stock of an investee and the reporting entity neither controls nor can exercise significant influence over the investee's operating and financial policies. The stock is an equity security that has a readily determinable fair value.</p>	<p>FASB ASC 958-320-35-1</p>	<p>Paragraph 4.17</p>
<p>The reporting entity owns 50 percent or less of the common voting stock of an investee and the reporting entity neither controls nor can exercise significant influence over the investee's operating and financial policies. The stock does not have a readily determinable fair value.</p>	<p>FASB ASC 958-325-35</p>	<p>Paragraph 4.37</p>

Chapter 5, *Contributions Received and Agency Transactions*

- Receipt of resources by a NFP --- a contribution or an exchange transaction?
 - Flowchart (Table 5-1)
 - When elements of both are present, divide the transaction in two, measuring exchange first
- Examples
 - Membership dues
 - Grants

Chapter 5, *continued*

- Grants
 - Use Table 5-1 to determine if grant is contribution or exchange based on the facts and circumstances
 - If contribution - consider if any conditions exist, consider donor restrictions
 - If exchange – determine revenue recognition
 - NFP should establish accounting policy for grants so they are accounted for consistently
 - Government grants
 - ◇ Apply the above guidance
 - ◇ FASB Not-for-Profit Advisory Committee topic

Chapter 5, *continued*

- Recognition and Measurement of Contributions
 - Contributed fundraising material, informational material, or advertising, including media time or space
 - Below-market interest rate loans
 - Administrative costs of restricted contributions



Chapter 5, *continued*

- Contributed Fundraising Material, Info Material, or Advertising, Including Media Time or Space
 - Examples –public service announcements, radio advertising time, newspaper print space
 - Donated asset, not a donated service –
 - ◇ Record contribution even if the asset would not typically needed to be purchased if not provided by donation
 - FinREC recommends: Recognize a contribution if NFP has active involvement in determining and managing the message and use of the materials; otherwise not a contribution

Chapter 5, *continued*

- Below-Market Interest Rate Loans
 - No or low-interest loan of funds is a contribution to the NFP
 - Record contribution revenue and interest expense for fair value of the contribution
 - ◇ Fair value typically estimated at difference between market rate interest and actual interest
 - Related party status doesn't impact recording
 - Recognition of contribution/interest different for long-term loan vs. due-on-demand loan

Chapter 5, *continued*

- Example 1 – Long-term loan from a foundation
 - On 1/1/2013 NFP receives 0% interest loan of \$200,000 payable 12/31/2015
 - Market interest rate is 6%

Chapter 5, *continued*

Record receipt of loan -

1/1/2013	DR Cash	\$200,000
	CR Loan payable *	(167,924)
	CR Contribution revenue **	(32,076)

* *calculated at PV of \$200K at 6% over 3 years*

** *donor restricted, release over term of loan*

Record annual interest (similar entries also booked at 12/31/2014 and 12/31/2015)

12/31/2013	DR Interest expense	\$10,075
	CR Loan payable	(10,075)

Record repayment of loan

12/31/2015	DR Loan payable	\$200,000
	CR Cash	(200,000)

Chapter 5, *continued*

- **Example 2 – Due on demand loan from a foundation**
 - On 1/1/2013 NFP receives 0% interest loan of \$200,000, due on demand, repaid 12/31/2015
 - Market interest rate is 6%

Chapter 5, *continued*

Record receipt of loan -

1/1/2013	DR Cash	\$200,000
	CR Loan payable	(200,000)

Record annual interest and contribution (same entry also booked at 12/31/2014 and 12/31/2015)

12/31/2013	DR Interest expense	\$12,000
	CR Contribution revenue	(12,000)

Record repayment of loan

12/31/2015	DR Loan payable	\$200,000
	CR Cash	(200,000)

Chapter 5, *continued*

- Loans - Other issues
 - Gov't loans at below-market interest rates
 - ◇ First consider whether loan has contributory intent (contribution vs. exchange transaction)
 - ◇ Reference FASB ASC 835-20-15-3 by analogy (imputing interest) – the following type of loans are exempt from interest imputation rules:
 - *Transactions where interest rates are affected by the tax attributes or legal restrictions prescribed by a governmental agency (for example, industrial revenue bonds, tax exempt obligations, government guaranteed obligations, income tax settlements)*

Chapter 5, *continued*

- Loans - Other issues

- Forgivable loans

- ◇ Determine if there is contributory intent
 - ◇ Determine if conditions on the contribution exist
 - ◇ Is forgiveness automatic, is it dependent on lender's action, or is it dependent on borrower's actions?

****** *See Chapter 8 for corresponding accounting by the lender for making this contribution*

Chapter 5, *continued*

- Administrative Costs of Restricted Contributions
 - Policy of designated a certain % of restricted gifts to offset the costs of raising and administering those gifts
 - ◇ Example – Policy that 5% of contributions to scholarship fund go to pay administrative costs; so \$95 of a \$100 gift is restricted for the scholarship fund
 - Policy needs to be effectively communicated to or from the donor prior to receipt of the contribution
 - ◇ If not, then 100% of gift should be donor restricted

Chapter 6, *Split Interest Agreements and Beneficial Interests in Trust*

- Beneficial interest in a trust held by another entity –
Questions:
 - What if NFP isn't notified about trust until years after it is created?
 - What if NFP is unable to obtain information to verify it is named as an irrevocable beneficiary?
 - What if NFP is unable to obtain information to measure the beneficial interest?

Chapter 6, *Split Interest Agreements and Beneficial Interests in Trust*

- Answers:
 - NFP generally needs the following information in order to record beneficial interest in the trust:
 - ◇ Copy of executed trust document, statement from the trustee, or other information to verify existence
 - ◇ Sufficient information about the trust in order to value it (e.g. trust assets, payout rate/amount, age of life beneficiaries)
 - Make reasonable efforts to obtain necessary information

Chapter 6, *Split Interest Agreements and Beneficial Interests in Trust*

- Answers, continued:
 - Recognize beneficial interest in the trust and contribution revenue in the first year the necessary information becomes available.
 - Should not record a prior period adjustment if the NFP made, and continues to make, reasonable efforts to obtain necessary information

Chapter 8, *Programmatic Investments* (NEW)

- Programmatic investments are any investment by an NFP that meets the following two criteria:
 - Its primary purpose is to further the tax exempt objectives of the NFP.
 - The production of income or the appreciation of the asset is not a significant purpose (that is, an investor seeking a market return would not enter into the investment).
- Similar to *program-related investment*, IRS Sec. 4944(c).

Chapter 8, *continued*

- Specific examples discussed in the chapter:
 - Loans
 - ◇ Low or no interest loans
 - ◇ Forgivable loans
 - Guarantees
 - ◇ Guarantee provided without commensurate return
 - Equity investments
 - ◇ Often no contribution element

Chapter 8, *continued*

- Core Considerations
 - Determine when the initial transaction occurs whether the investment is programmatic
 - If there is a contribution element, report it as contribution expense
 - Use GAAP for similar financial instruments, except for the contribution element, if any
 - Significance of the investments and the quantitative and qualitative risks determine the type of financial statement presentation and the extent of disclosures

Chapter 10, *Debt and Other Liabilities*

- New section on tax-exempt (municipal bond) debt based on the AICPA Audit and Accounting Guide *Health Care Entities*
- Expanded discussion of credit enhancements, debt extinguishments, debt modifications, and classification

Chapter 11, *Net Assets and Reclassifications of Net Assets*

- Significantly expanded guidance on expiration of restrictions
 - Using restricted contributions first
 - Promises to give, including implied time restriction on multi-year pledges
 - Gifts of long-lived assets or gifts for their purchase
 - Donor restricted endowment funds
 - Restrictions met in the same year as the contribution was received

Chapter 11, *continued*

- Expiration of restrictions on promises to give
 - By specifying future payment dates donors indicate that their gift is to support activities in each period in which a payment is scheduled (i.e. an implied time restriction)
 - Time restrictions lapse when the receivable is due; gift becomes available for the donor-specified purpose
 - If gift is for the construction or purchase of a specific long-lived asset, the donor supports activities of the period in which that asset is constructed or placed in service, even though the payment dates extend beyond that period

Issues referred to FASB in Guide Revision

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

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?	ASU 2012-5 "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."

FASB NFP Standards Update

ASU 2012-05 Classification of the Sale of Donated Securities in the Statement of Cash Flows

- Effective years beginning after 6/15/2013; early adoption permitted

- Classify cash receipts from the sale of donated securities that upon receipt are directed for sale and for which the NFP has the ability to avoid significant investment risks and rewards through near immediate conversion into cash as operating or financing activities in the statement of cash flows, rather than as investing activities
 - Financing if restricted to a long-term purpose, e.g., endowment or plant,
 - Otherwise report as operating cash flow

ASU 2013-04: Joint and Several Liability Arrangement

- Effective Fiscal Years beginning after December 15, 2013 (Public)
- Effective Fiscal Years ending after December 15, 2014 (nonpublic)

ASU 2013-04: Joint and Several Liability Arrangement

- Requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following:
 - The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors
 - Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

ASU 2013-06 Donated Services Received From Employees of an Affiliate

- Expenses related to all personnel services that are regularly performed for the recipient NFP, for which the donor doesn't seek reimbursement, should be recognized in the NFP's stand-alone financial statements
- Contributed services criteria (i.e. specialized skill; provided by individuals possessing the skill; would typically need to be purchased if not provided by donation) would no longer be applied when reimbursement isn't sought

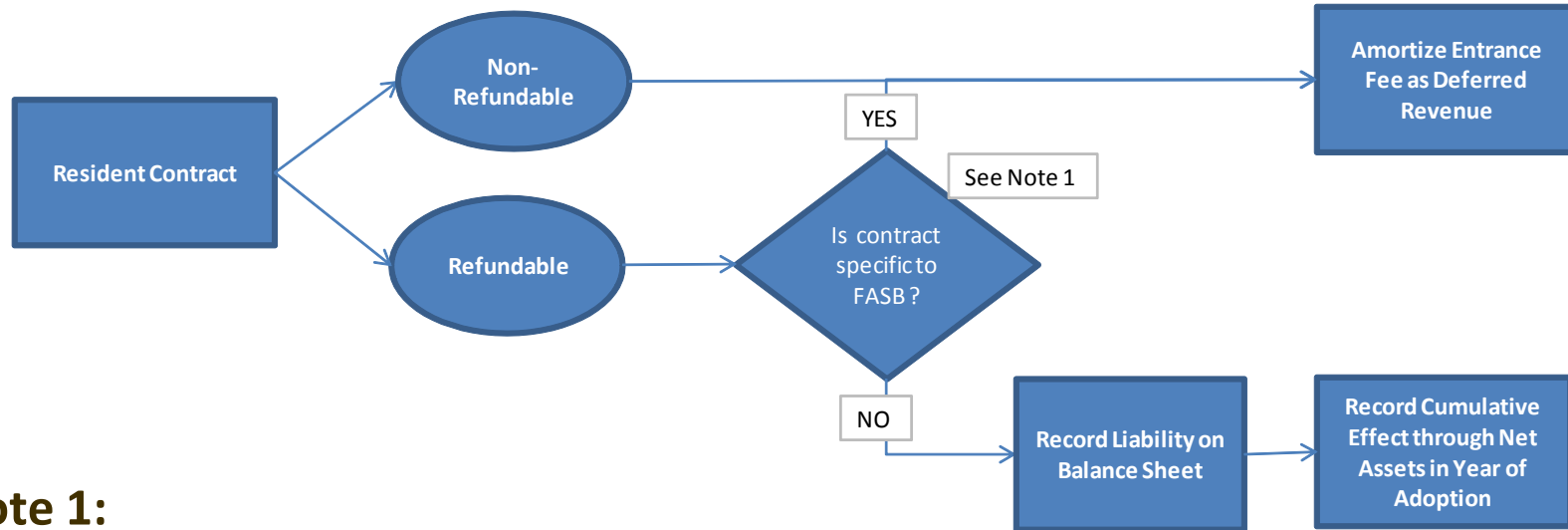
ASU 2013-06 Donated Services Received From Employees of an Affiliate

- Contribution measured at cost or fair value?
 - Final ASU likely to recommend cost, with option to elect to use FV if cost data not available
- Effective Fiscal Years Beginning After June 15, 2014 (early adoption is permitted)

ASU 2012-01:CCRC Entrance Fee Accounting

- Effective Fiscal Period Beginning after December 15, 2012 (Public, including conduit bond obligors)
- Effective Fiscal Period Beginning after December 15, 2013 (Nonpublic)

Refundable Entrance Fees Decision Tree



Note 1:

*Refundable advance fees should be accounted for as deferred revenue and amortized **only** when the contract between a resident and a CCRC stipulates that a portion of the fees will be refunded to current residents (or their designees), and **only** to the extent of the proceeds of the re-occupancy of the contract holder's unit.*

Additional ASUs to Consider That Are Effective This Year

- ASU 2011-04 / Fair value – additional changes to disclosures
- ASU 2011-07 / Health care entities – patient service revenue & bad debt
- ASU 2011-09 / Multi-employer plans disclosures



Not-for-Profit industry update

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

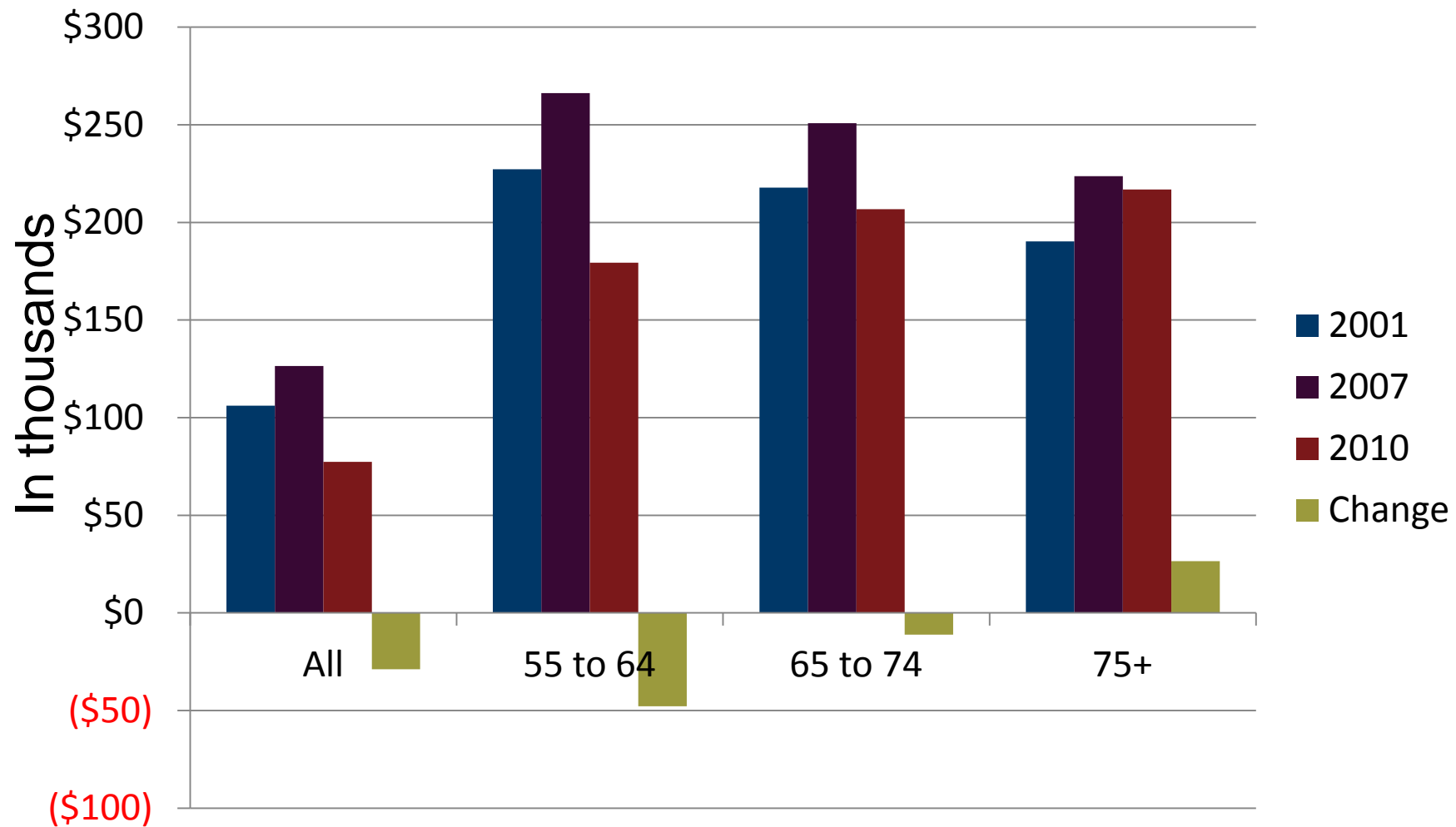


Health care industry update



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Median Family Net Worth

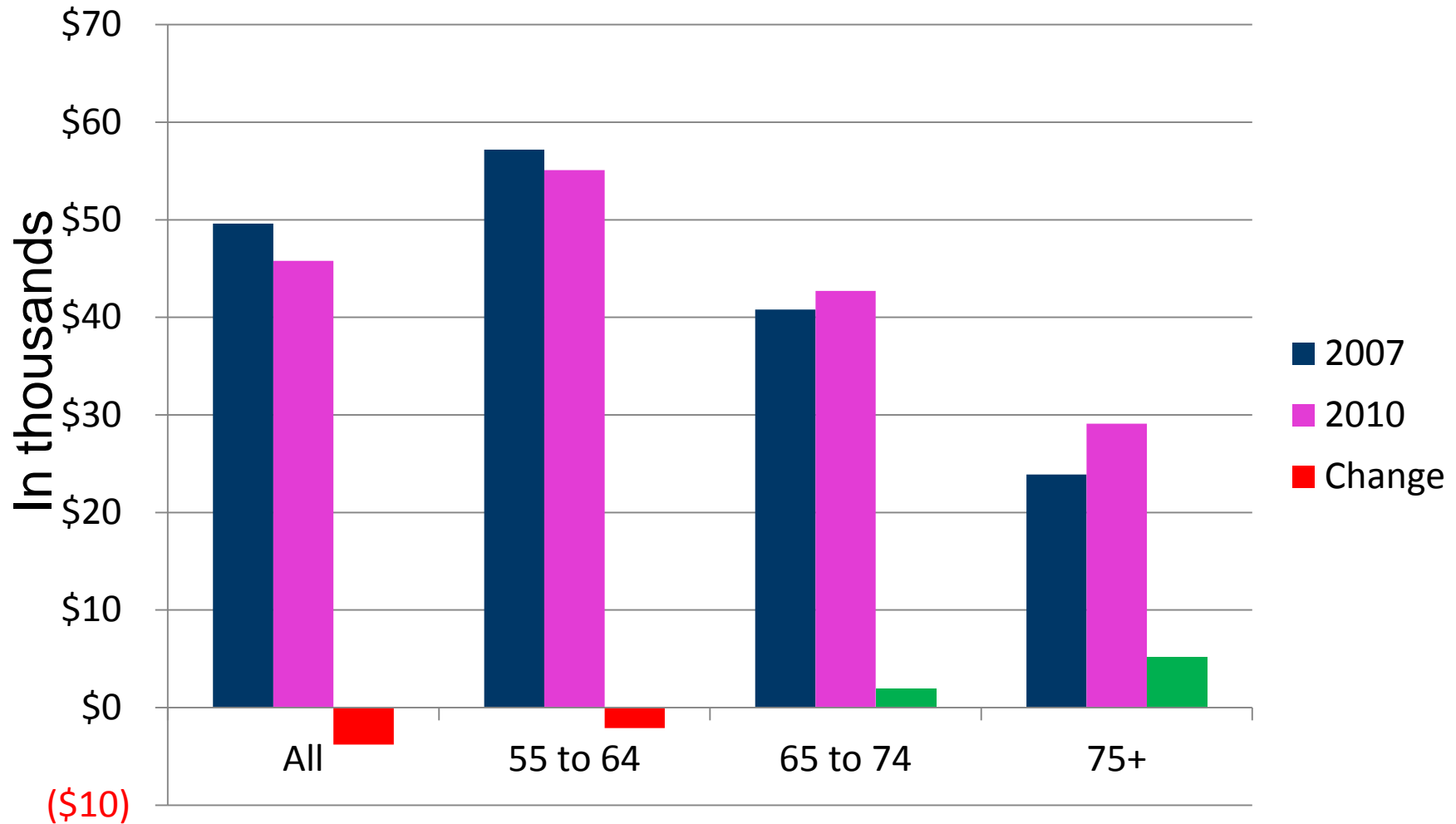


Source: Board of Governors, Federal Reserve System, June 2012



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Median Family Income



Source: Board of Governors, Federal Reserve System, June 2012

Declines in Net Income and Net Worth: Confidence in Savings



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Confidence in Having Enough Money to Live Comfortably Throughout Retirement, 2007-2011

	2007	2008	2009	2010	2011
Very confident	27%	18%	13%	16%	13%
Somewhat confident	43	43	41	38	36
Not too confident	19	21	22	24	23
Not at all confident	10	18	22	22	27



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993-2011 Retirement Confidence Surveys.

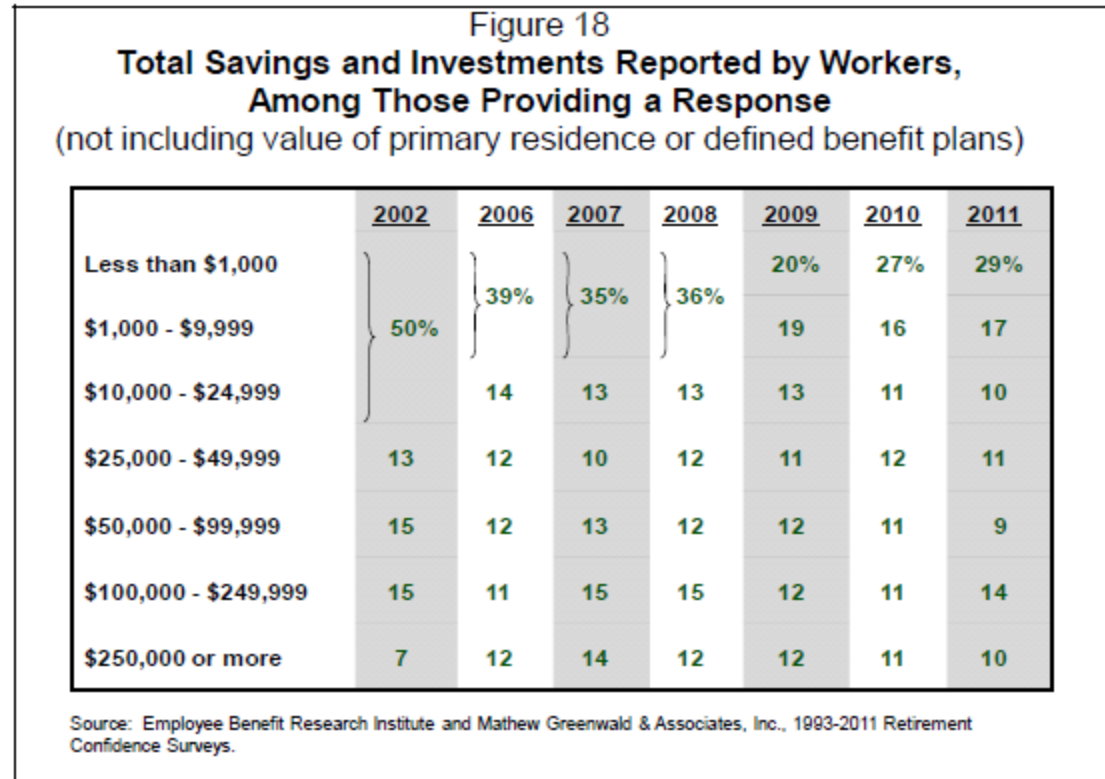
Additionally, 31% of those who said they have not saved for retirement feel very or somewhat confident that they will have a comfortable retirement. (from 2010 survey)

Source: 2011 Retirement Confidence Survey Fact Sheet *Saving for Retirement in America*, March 2011, Employee Benefit Research Corporation



Declines in Net Income and Net Worth: Estimated Savings

- 56% of workers reported savings of less than \$25,000
- Older workers tend to have saved more
- However – 54% of retirees had saved less than \$25,000

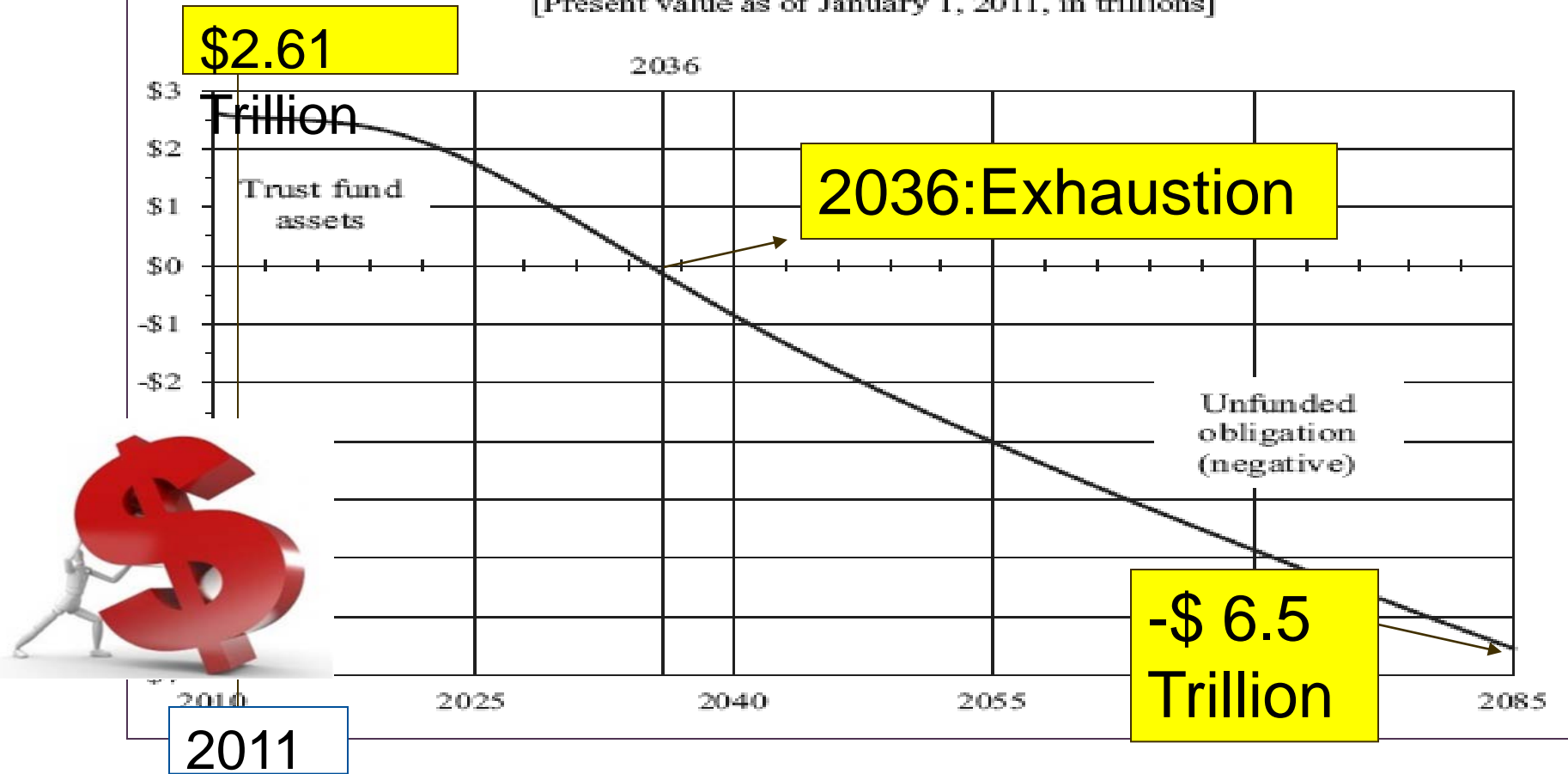


In 2010, Social Security Began Paying More in Benefits than is Collected in Taxes



2010 – 2036 Social Security Always Pays More Benefits Than Taxes Collected

Figure II.D4.—Cumulative Scheduled OASDI Income Less Cost, From 1937 Through Selected Years [Present value as of January 1, 2011, in trillions]



KEY TRENDS IMPACTING AGING SERVICES

1. Payment reform will focus on **increasing value and lowering total costs.**
2. Referral sources are instituting changes in **preparation for different payment models.**
3. Hospitals will experience **significant financial strains** over the next 5 – 7 years.
4. **Health Care Reform legislation** is creating opportunities for aging services providers.

Reformed Health System – Service Delivery

- Home care
- SNF
- Assisted Living
- Hospital
- Physician office
- Group visits
- Self management
- RN, Care Coach
- Online/social networking (e.g. diabetes group)
- Telehealth monitoring

Chronic Care

Primary Care

Acute Care

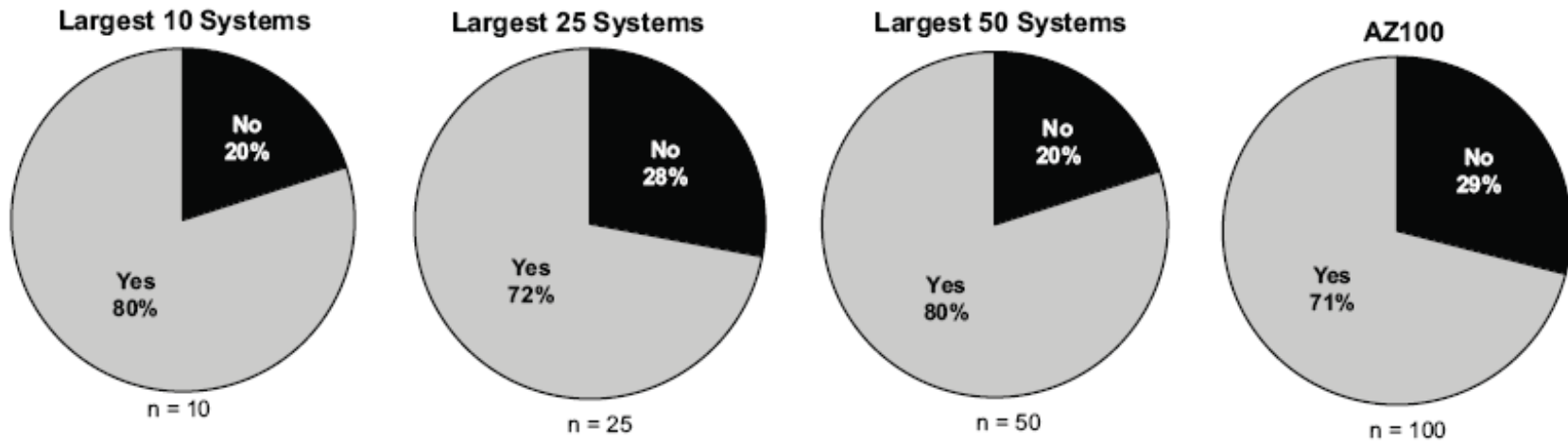
Wellness

- Hospital
- SNF
- At Home
- Telehealth

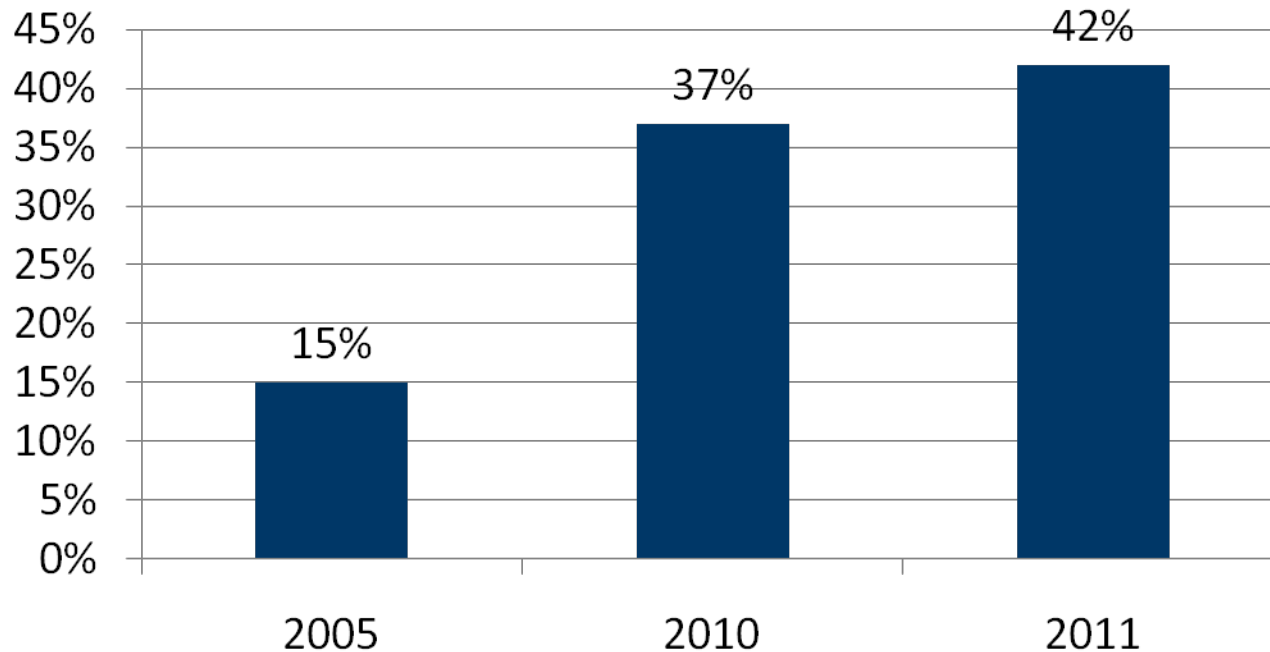
- Health risk assessment
- Independent senior housing
- Adult day programs
- Community clinic for vaccines
- Local fitness center
- Smoking cessation program
- Weight loss program
- Personal wellness coach
- Senior Center
- Online social networking groups/tools
- Labs, diagnostics

An increasing number of the largest Senior Living organizations are offering some form of home and community based services

4-18a PERCENTAGE OF AZ 100 THAT OFFER HCBS



Leading Age Members Offering H&CBS



- 600 Adult Day
- 216 Home Health
- 100 Hospice
- 85 private duty
- 50 meals on wheels
- 59 congregate meals
- 32 PACE
- 91 transportation
- 5 AAAs



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