University of Mississippi

eGrove

Industry Guides (AAGs), Risk Alerts, and Checklists

American Institute of Certified Public Accountants (AICPA) Historical Collection

2010

Not-for-profit entities-- accounting issues and risks : strengthening financial management and reporting; Financial Reporting Alert

American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_indev

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation

American Institute of Certified Public Accountants (AICPA), "Not-for-profit entities-- accounting issues and risks : strengthening financial management and reporting; Financial Reporting Alert" (2010). *Industry Guides (AAGs), Risk Alerts, and Checklists*. 1176.
https://egrove.olemiss.edu/aicpa_indev/1176

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Industry Guides (AAGs), Risk Alerts, and Checklists by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

Not-for-Profit Entities:

Accounting Issues and Risks – 2010

Strengthening Financial Management and Reporting

0292210

Financial Reporting Alert

AICPA® American Institute of CPAs

aicpa.org | cpa2biz.com

AICPA®

FRA 2010_cover.indd 1

6/3/2010 11:11:13 AM

Not-for-Profit Entities:

Accounting Issues and Risks – 2010

Strengthening Financial Management and Reporting

Financial Reporting Alert

10491-344

AICPA®

FRA 2010_titlepg.indd 1 6/3/2010 11:10:41 AM

Copyright © 2010 by
American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please visit www.copyright.com or call (978) 750-8400.
1 2 3 4 5 6 7 8 9 0 AAP 1 9 8 7 6 5 4 3 2 1 0

Notice to Readers

This Financial Reporting Alert is intended to provide accountants practicing in not-for-profit organizations with an overview of recent economic, technical, regulatory, and professional developments that may affect financial management and reporting.

This document has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.

Christopher Cole, CPA, CFE, CFF
Technical Manager
Accounting and Auditing Publications

Acknowledgments

The AICPA is grateful to the following individuals for their essential contributions in creating this publication.

Tom Guinan, CPA
James A. Kieft, CPA
Jason Little, CPA
Drew Paluf, CPA
Deanna Ponsler, CPA
Jason Schroeder, CPA
Ann Strasser

FRA-NFP-FM.indd 4

6/3/10 9:29:58 AM

Table of Contents

How This Alert Helps You 1

Understanding the Current Economic Environment to Assess Risks for Your Entity 2

Economic, Legislative, and Regulatory Developments 3
- The Current Economy 3
- Key Economic Indicators 4
- The State of NFPs 6

Legislative and Regulatory Developments 9
- The American Recovery and Reinvestment Act of 2009 9
- Uniform Prudent Management of Institutional Funds Act 13
- IRS Activities 18
- New Filing and Audit Requirements for Employee Retirement Income Security Act-Covered Section 403(b) Employee Benefit Plans 25
- Red Flags Rule 25

Financial Management Issues and Developments 27
- Strategies to Navigate the Current Business Environment 27
- Assessing Liquidity Risk 28
- Succession and Talent Management Planning 29
- Considering Outsourcing 31
- Enterprise Risk Management 33
- Internal Control and Processes 33
- Financial Statement Disclosures 36

Accounting Issues and Developments 37
- NFP Mergers and Acquisitions 37
- FASB Statement No. 168 38
- Accounting for Uncertainty in Income Taxes 40
- Subsequent Events 41
- Reporting Costs Paid by One NFP on Behalf of Another in Circumstances in Which the NFPs Are Affiliates 43
- Fair Value 44
- Accounting for Losses Due to Fraud 51
- Exposure Draft on Credit Quality and Credit Losses 51
- Convergence With International Financial Reporting Standards 51
- Private Company Financial Reporting 54

FRA-NFP-FM.indd 5 6/3/10 9:29:59 AM

Recent Accounting Standards Updates, Pronouncements, and Related Guidance ...55

Audit and Attestation Issues Affecting Your Entity's Audit or Attest Engagement 60
Audit and Attest Issues for Nonissuers 60

On the Horizon 63
Accounting Pipeline 63

Resource Central 65
Publications 65
AICPA Resource: Accounting and Auditing Literature 66
Continuing Professional Education 66
Webcasts 68
Member Service Center 69
Hotlines 69
Conferences 69
Services for AICPA Members in Business, Industry, and Government 70

Appendix—Additional Internet Resources 72

How This Alert Helps You

This alert is intended to help you better understand the relevant economic and regulatory factors that affect your financial reporting and identify issues that could result in the material misstatement of your entity's financial statements.

The current economic crisis makes financial management more challenging than ever. This Financial Reporting Alert (alert) is designed to be used by members of a not-for-profit entity's (NFP) financial management team and audit committee to identify, understand, and address current accounting and regulatory developments affecting the entity, especially those that are the result of the current economic crisis. It is intended to help you achieve a more robust understanding of the current economic environment in which your entity is operating. This alert is also an important tool to help you identify the significant risks that may result in the material misstatement of your entity's financial statements. To help you understand relevant industry, economic, and regulatory factors affecting your financial management and reporting, the AICPA also offers industry- and topic-specific publications that can be used in conjunction with this alert. These alerts can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com. You should refer to the full text of pronouncements as well as the full text of any rules or publications that are discussed in this alert.

Certain accounting guidance referenced in this alert has been codified into the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC). On June 30, 2009, FASB issued FASB Statement No. 168, *The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, which is codified in FASB ASC 105-10. On the effective date of this statement, FASB ASC became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). At that time, FASB ASC superseded all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC became nonauthoritative. See the discussion of FASB Statement No. 168 in the "Accounting Issues and Developments" section of this alert.

FRA-NFP01-Pages.indd 1 5/26/10 9:40:36 AM

Understanding the Current Economic Environment to Assess Risks for Your Entity

Your entity's financial statements will be subject to specific risks of material misstatement arising from the current economic situation. The nature of your entity, the degree of regulation, or other external forces affecting the entity will vary, but this alert is designed to help you better assess these risks in order to develop appropriate controls.

It is important for members of an entity's financial management or audit committee to have a sufficient understanding of the entity and the current environment in which it operates. This understanding will help you perform not only adequate risk assessment, but also opportunity assessment. A proper risk assessment will assist you in understanding the risk that your entity's financial statements may be misstated. Understanding how the following things affect your entity will provide a basis for your risk and opportunity assessments:

- Current economic conditions
- Nature of the industry in which your entity operates and how it is changing
- Industry, regulatory, and other external factors
- Current, past, and projected financial performance of the entity
- Objectives and strategies and the related business risks that may result in a material misstatement of the financial statements
- Internal control within your entity, which includes the selection and application of accounting policies

Your entity's financial statements are subject to specific risks of material misstatement arising from the nature of the entity, the degree of regulation, or other external forces affecting the entity (for example, political, economic, social, technical, and competitive forces). Just as the external environment changes, the conduct of your entity's business also is dynamic: business strategies and objectives change in response to external developments. Business risks result from (*a*) significant conditions, events, circumstances, actions, or inactions that could adversely affect your entity's ability to achieve its objectives and execute its strategies or (*b*) the setting of inappropriate objectives and strategies. An understanding of business risks increases the likelihood of identifying, correcting, and preventing risks of material misstatement in your financial statements. Most business risks eventually will have financial consequences and, therefore, an effect on the financial statements. However, not all business risks give rise to risks of material misstatement.

FRA-NFP01-Pages.indd 2 5/26/10 9:40:36 AM

Understanding and properly addressing, as necessary, the matters presented in this alert will help you better assess risks of material misstatement of the entity's financial statements and implement appropriate controls that will strengthen the integrity of your financial management and reporting.

Economic, Legislative, and Regulatory Developments

Determine how current economic conditions and recently issued regulations and guidance affect your entity.

The Current Economy

December 2009 may have brought the beginning ripples of a wave of global economic recovery. Although many key indicators, such as unemployment, are still uncomfortably high, 2009 ended with rising commodity prices, a jump in new factory orders that caused the largest expansion in production in 3 years, and an increase in U.S. auto sales that approached prerecessionary levels. Further, after experiencing overall considerable decline in the stock market through March 2009, the markets have rebounded substantially. In March 2009, the S&P 500 and the Dow Jones Industrial Average reached their 12-year lows, and NASDAQ closed at its lowest point since October 2002. By early April 2010, all 3 had increased in value by at least 66 percent from March 2009 lows. The Dow Jones Industrial Average also was positioned to break 11,000, which hadn't occurred since September 2008; to many on "Main Street," this would be a significant milestone. Some key occurrences that exhibit the mixed state of the economy include the following:

- U.S. real gross domestic product (GDP), the broadest measure of economic activity, decreased for four consecutive quarters beginning with the third quarter of 2008. On the other hand, the last two quarters of 2009 showed positive and increasing real GDP.
- The number of jobless claims remains high.
- The Federal Reserve has maintained the federal funds interest rate at a historically low level.
- Numerous financial institutions that received bailouts from the government were able to repay a substantial portion of the funds they received during 2009. Reports have indicated that the government has yielded a profit thus far on these financial institution bailouts.

- Millions of households owe more on their mortgages than their homes are currently worth. The number of residential home foreclosures generally continues to increase; however, the fourth quarter of 2009 showed a decrease from the third quarter of 2009, which may be attributable to borrowers and servicers pursuing alternative solutions.
- The demand for the safety of U.S. Treasury bills has increased at a staggering rate, which drove the discount rate for three-month Treasury bills to 0.005 percent in early December 2009. This was the lowest rate since the securities began being auctioned by the Treasury in 1929.
- The Treasuries-Over-Euro-Dollar Spread reached 4.63 percent in October 2008, a historic high, before returning to a more typical 0.21 percent by year-end 2009.

Key Economic Indicators

These key economic indicators further illustrate the severity of the recent recessionary period experienced by the United States.

The GDP measures output of goods and services by labor and property within the United States. It increases as the economy grows or decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 3.2 percent in the first quarter of 2010 (advance estimate) and 5.6 and 2.2 percent, respectively in the fourth and third quarters of 2009. Real GDP for the second quarter of 2009 decreased 0.7 percent. This data indicates a turnaround in the economy because in the first quarter of 2009 and the fourth quarter of 2008, real GDP decreased 5.5 percent and 6.3 percent, respectively.

For the year ended in March 2010, the unemployment rate fluctuated between 8.6 percent and 10.1 percent. An unemployment rate of 10.0 percent represents approximately 15.3 million people. Since the start of the recession in December 2007, the number of unemployed persons has increased by as much as 7.8 million, or 5.1 percentage points. However, between November 2009 and March 2010, the rate has either remained constant or decreased.

The Federal Reserve decreased the target for the federal funds rate more than 5.0 percentage points to less than 0.25 percent, where it remained through the first quarter of 2010. The Federal Reserve noted in its March 16, 2010, press release that "economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period." The press release also described the ongoing improvements in the

FRA-NFP01-Pages.indd 4 5/26/10 9:40:36 AM

functioning of financial markets and the expiration of most of the Federal Reserve's special liquidity facilities without market strain.

Consumer Price Index Trends

The U.S. Department of Labor Bureau of Labor Statistics (BLS) annually publishes its Consumer Price Index for all Urban Consumers (CPI-U). The CPI-U is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI-U is the most widely used measure of inflation and is sometimes viewed as an indicator of the effectiveness of government economic policy. It provides information about price changes in the nation's economy to government, business, labor, and private citizens and is used as a guide when making economic decisions. The table that follows shows the U.S. city annual average CPI-U for the past 5 years. The baseline measurement is 1982–84=100.

Year	*Annual Average Consumer Price Index for all Urban Consumers*	*Change From Prior Year*
2009	215.9	2.7%
2008	210.2	0.1%
2007	210.0	4.1%
2006	201.8	2.5%
2005	196.8	3.4%

Interest Rates for Below Market Rate Loans

The IRS issues the blended annual applicable federal rate each year to provide guidance in relation to Internal Revenue Code (IRC) Section 7872(e)(2). The term *forgone interest* means, with respect to any period during which the loan is outstanding, the excess of

a. the amount of interest, which would have been payable on the loan for the period, if interest accrued on the loan at the applicable federal rate and was payable annually on the day referred to in IRC Section 7872(a)(2), over

b. any interest payable on the loan properly allocable to such period.

This rate is a useful guide in evaluating interest rates and determining imputed interest for below market rate loans. The following table provides the blended annual rate for each of the previous five years as determined by the IRS.

Year	*Blended Annual Rate*
2009	0.82%
2008	2.80%
2007	4.92%
2006	4.71%
2005	3.11%

The State of NFPs

The NFP sector continues to play a large role in the world economy. Currently, 1.5 million NFPs are registered with the IRS. Contributions to these entities in 2008 exceeded $307 billion, whereas total revenues in the sector approached $2 trillion, and assets topped $4.2 trillion, as of October 2009. According to U.S. Department of Labor (DOL) statistics, 26.8 percent of the population, or 63.4 million people in the United States, did volunteer work for NFPs, which is up slightly from 2008.

The Philanthropic Giving Index, established by the Center on Philanthropy at Indiana University, measures trends and expectations in United States charitable giving. The index showed a 9.8 percent increase during 2009, which reflects the moderating economy during that period.

NFPs face daunting challenges during this economic downturn. Although contributions to NFPs are flat, demand for the services they provide is increasing. The value of endowments, which some entities rely on for support, may have decreased substantially (in some cases, to a point below historic cost), thereby reducing or eliminating much needed funding. As a result, some NFPs may be forced to reduce their workforce, cut back programs and services, or borrow to fund operations. Of particular concern is a lack of availability of affordable lines of credit; increased competition for a smaller pool of contributions; maintaining effective internal controls with a reduced staff; and an increase in the number of delayed or uncollectible pledges, grants, or accounts receivable.

Governance and Accountability

Since the enactment of the Sarbanes-Oxley Act of 2002, a number of accounting fraud cases have come to light. Some attribute the increase to improved detection as a result of the stringent internal control testing requirements and other provisions of the law, such as whistle-blower hotlines. Although only the whistle-blower and document retention provisions currently apply to both publicly held companies and NFPs, discussions are ongoing regarding transparency and the role of governance in NFPs. One result of these discussions is the focus on disclosure of information about the governing board and policies of

NFPs in the redesigned IRS Form 990, Return of Organization Exempt from Income Tax, which is still required to be available for public inspection.

Grant Thornton recently issued their 2009 survey of 465 top level representatives of religious, social and human services, cultural, and health care entities; educational institutions; and trade and professional associations across the country. According to the survey, a significant percentage of NFPs that participated in the survey have made changes to their policies with the goal of improving governance and accountability. The policies that the majority are rewriting or establishing include conflict of interest, investment, code of ethics, records retention, whistle-blower, gift acceptance, review of tax filings, and new board member policies. More than half of those surveyed also have developed a policy that requires board review of the entity's IRS Form 990 prior to submission.

Corporate Sponsors

Corporate giving decreased by an estimated 4.5 percent in 2008, which represents $14.5 billion, or 5 percent, of all charitable giving. However, in-kind giving continues to increase. More than one-third of corporate giving is in-kind. In some circumstances, resources received from corporations are advertising or sponsorship arrangements rather than straightforward monetary contributions, and often, strings are attached to the transfer. Specifically, the corporation may require goods or services in exchange for those funds, such as naming rights; discounted access to services; and advertisement of the company, among others. Because these transactions may be considered exchange transactions, contributions, or both, NFPs must be sure that the transactions are properly recorded in their books.

Funding Administrative Costs

Foundations, corporations, and individuals may have different priorities when it comes to selecting an NFP to support. Some may consider the entity's mission, its reputation, the number of people served, or even who else supports it. One factor that frequently receives significant consideration is the percentage of each dollar that is spent on programs. Many donors have the perception that the biggest impact they can make with their contribution is by supporting only programmatic activities. Accordingly, operating expenses, such as the accounting department, maintenance and utilities, and the executive management staff, often must be supported by unrestricted dollars. Some entities follow policies for cost allocations, charges, assessments, or assignments that result in some amount of program-restricted contributions being used for operating expenses. NFPs should be careful to understand the administrative allocation process and whether paying for overhead costs with restricted contributions complies with donor stipulations. In addition, some NFPs are more frequently requesting funding for organizational administration either as a component of, or in addition to, their requests for program funding.

Operating Reserves

As NFPs begin to look to the future, one lesson learned from the past is that maintaining an adequate operating reserve is essential. During 2008, the Nonprofit Operating Reserves Initiative (NORI) Workgroup issued a white paper in which they defined *operating reserves* as "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 revenues." As the recession, which began in 2007, grew deeper in 2008 and the first half of 2009, the support of NFPs decreased drastically, and the endowments held by NFPs saw unprecedented erosions of principal. Many NFPs came to the realization that they were operating with very little cash on hand to pay expenses and payroll. As a result, many NFPs made substantial reductions in staff and program services in an effort to conserve funds.

NFPs should now be more aware than ever of the need for an adequate operating reserve fund. Operating reserve levels are dependent upon the facts and circumstances of each organization. At a minimum, NFPs should have a reserve policy based on the assessment of its specific reserve needs. The policy should include the following:

- A minimum operating reserve ratio or formula that the NFP will use to determine the amount of the reserve under normal circumstances (the NORI white paper recommends a minimum of three months operating expenses)
- Guidelines on how operating reserves will be invested
- Guidelines on the frequency of measurement and reporting
- A plan for replenishing operating reserves if they fall below the established minimum

The NORI white paper is available at www.nccs2.org/wiki/images/3/3c/OperatingReservesWhitePaper2009.pdf.

Cyber Donations

The Internet has become the quick and easy means of providing and accessing information. It also has become a tool to expand the audience of NFPs in a way that appeals to younger and more technologically savvy donors. The Internet has thousands of websites for NFPs, and most of them provide an opportunity for a person to contribute. Many of these entities make use of services, such as PayPal, that permit donors to charge online donations to credit or debit cards. The money is then placed in an account similar to a bank account in the NFP's name, and a fee is deducted. At some future time, the money is then electronically transferred to another bank account, as specified by the NFP. This may be an area that is worthy of attention because the NFP's internal controls that are

FRA-NFP01-Pages.indd 8 5/26/10 9:40:37 AM

required for these accounts may be different from those for deposit accounts at brick and mortar banks. For example, the NFP may have controls regarding who is authorized to sign checks but may not have controls in place to safeguard usernames and passwords for accounts that allow transactions to be initiated through the Internet. One recent twist in both online and embedded giving is the advent of charity gift cards. The recipient of the gift card goes to the card's website and designates which of the listed charities is to receive the donations. Some sites charge an administrative fee at the time of purchase, but others charge the administrative fee when the card is redeemed.

Decline in Contributions to Colleges and Universities

According to a study conducted by the Council for Aid to Education, contributions to colleges and universities in the United States declined 11.9 percent to $27.85 billion in 2009. The study states that the level of contributions for current operations has been tied, historically, to changes in U.S. GDP. From the second quarter of 2008 to the second quarter of 2009, GDP declined 2.4 percent. During that same period, contributions designated for college and university operations declined just 0.7 percent. However, contributions for capital purposes, including endowments, real property, buildings, and equipment, seem to follow the trend of the U.S. stock market. The study indicates that this trend is the result of the fact that such gifts often are made in the form of appreciated securities. For the year ending July 2009, the New York Stock Exchange Composite Index declined 28.5 percent, and gifts designated by donors for capital purposes declined by 25 percent.

Legislative and Regulatory Developments

The American Recovery and Reinvestment Act of 2009

The U.S. government has taken unprecedented actions to prevent worsening economic conditions, including passing the American Recovery and Reinvestment Act of 2009 (the Recovery Act) in February 2009. The result of this action on the economy has not been fully realized to date, and many economists are concerned that further financial support may be necessary before an economic recovery is possible.

The Recovery Act is designed primarily to combat the rising unemployment trends, put more money in the hands of consumers, and reduce the likelihood that state and local governments will need to raise taxes significantly. According to the White House press release, the legislation will do the following:

- Create or save 3.5 million jobs
- Provide direct tax relief to working and middle class families

FRA-NFP01-Pages.indd 9 5/26/10 9:40:37 AM

- Double the U.S. renewable energy generating capacity over three years
- Stimulate private investment in renewable energy through tax credits and loan guarantees
- Invest $150 billion in U.S. infrastructure projects
- Provide funds to U.S. state and local governments to support health and education programs

Many of the provisions of this legislation took effect immediately in an effort to stimulate consumer spending and boost the economy. The total cost of spending in the Recovery Act is $787 billion, $300 billion of which is federal assistance being passed down to states, local governments, and NFPs. These funds will, in most cases, be subject to single audit requirements. Recovery Act funds are intended to supplement existing federal programs, create new programs, or provide broader fiscal relief. The federal funds are being distributed in a number of ways. In some cases, the funds will be passed directly to states or institutions of higher education and spent at that level. In other cases, direct recipients of Recovery Act funding will pass the funds through to subrecipients, such as local governments or NFPs.

Recipients and subrecipients of Recovery Act funds are subject to additional compliance requirements. For example, they generally are required to clearly distinguish Recovery Act funds from non-Recovery Act funds. The separate reporting of Recovery Act funds is needed in order to meet the transparency and reporting provisions of the Recovery Act. This is an important issue for NFPs to understand and consider when Recovery Act funds are received. Additionally, under Section 1512, "Reports on Use of Funds," of the Recovery Act, significant ongoing reporting responsibilities exist for recipients and first-tier subrecipients who receive Recovery Act funds. (*First-tier subrecipients* are those who receive an award directly from a recipient who received the award directly from the federal government.) Standard data elements that are required to be reported have been established by the Office of Management and Budget (OMB) and are discussed in more detail in the following section. Recipient reporting is due within 10 days of each calendar quarter, beginning with the September 30, 2009, quarter-end. Detailed reporting instructions are available at www.FederalReporting.gov. However, complying with this reporting requirement may be a challenge for many NFPs.

On the federal side, the OMB is responsible for developing government-wide guidance for carrying out programs and activities enacted in the Recovery Act to assist in accountability of Recovery Act funds. The OMB has issued several memorandums related to Recovery Act funds, with more guidance expected. The OMB is notifying auditors of compliance requirements that should be tested for Recovery Act awards through the compliance supplement and subsequently issued addendums (see the following section for a summary

FRA-NFP01-Pages.indd 10 5/26/10 9:40:37 AM

of the guidance issued to date). The OMB will be issuing addendums to the compliance supplement as necessary to keep the Recovery Act requirements current.

The Recovery Act and subsequent related guidance also imposes provisions that require federal agencies to take steps beyond standard practice. These provisions relate to reporting, information collection, budget execution, risk management, and specific actions related to award type. Federal agencies also are required to incorporate specific terms and conditions for Recovery Act funds into federal grant awards. The language includes a requirement that reporting has to be detailed per the instructions in Section 1512 of the Recovery Act. Note that if a federal agency's award terms and conditions are more stringent than those imposed under the Recovery Act, then the agency's terms and conditions would not need to be modified as a result of the Recovery Act.

Each agency receiving Recovery Act funds has an inspector general (IG) who is responsible for overseeing how the agency's federal funds are spent and who works with the agency to minimize fraud, waste, and abuse. The IGs have additional responsibilities related to Recovery Act funds. For example, the IGs will use risk assessment techniques, when data is available, to identify high risk programs and nonfederal entities to be targeted for priority Office of the Inspector General (OIG) audits, inspections, and investigations with faster turnaround reporting. It is expected that, because single audits currently are not required to be completed until nine months after the end of an entity's fiscal year, these OIG audits will be completed and reported on more of a real time basis. The IGs also will perform audits and inspections of their respective federal agencies, as related to the awarding, disbursing, and monitoring of Recovery Act funds, to determine whether safeguards exist to ensure funds are being used for their intended purposes.

Federal agencies are expected to use the single audit process as a means of promoting accountability for Recovery Act funds. OMB guidance issued to date states that federal agency IGs should reach out to the auditing profession and provide technical assistance and training. In addition, the IGs are expected to perform follow-up reviews of single audit quality with an emphasis on Recovery Act funds. These reviews are likely to occur for years ending between June 30, 2010, and June 30, 2011. Their purpose is to ensure that single audits are properly performed and improper payments and other noncompliance are fully reported. The results of these quality control reviews will be reported publicly on www.recovery.gov.

Further, to monitor these funds on behalf of the federal government, a Recovery Accountability and Transparency Board (board) was created to coordinate and conduct oversight of funds distributed under this law. The board, currently comprising 13 members, includes IGs and an appointed chairman. To facilitate a transparent process and ensure accountability of Recovery Act funds, the board maintains the following website: www.

FRA-NFP01-Pages.indd 11
5/26/10 9:40:37 AM

recovery.gov. This website is intended to play an important role in the transparency initiatives going forward.

Finally, the U.S. Government Accountability Office (GAO) is charged with playing an important role in promoting the accountability and transparency of Recovery Act funds. These responsibilities include conducting bimonthly reviews on how funds are used by selected states and localities and reviewing specific areas of funding. In addition, the GAO is responsible for reviewing quarterly reports filed by fund recipients and, in consultation with the Congressional Budget Office, commenting on fund recipients' report estimates of the number of jobs created and retained by projects and activities supported by Recovery Act funds.

The complete effects of the Recovery Act, as well as other government interventions, will not be known for some time; however, the primary goal is to increase market confidence and liquidity. A comprehensive look at the Recovery Act and its effect on single audits follows.

The Effect of the Recovery Act on Single Audits

Since the issuance of the Recovery Act, the OMB has issued several forms of guidance targeted at various stakeholders (for example, federal awarding agencies, award recipients, and auditors) to assist with the implementation of Recovery Act monies. Additional guidance is expected in the future. The following guidance has been issued:

- *OMB Circular A-133 Compliance Supplement Addendum #1* (dated June 30, 2009) supplements the *2009 OMB Circular A-133 Compliance Supplement* and should be used in conjunction with other parts and appendixes of the 2*009 OMB Circular A-133 Compliance Supplement* in determining the appropriate audit procedures to support the auditor's opinion on compliance for each major program with expenditures of Recovery Act awards (www.whitehouse.gov/omb/assets/a133_compliance/arra_addendum_1.pdf).
- The *2009 OMB Circular A-133 Compliance Supplement*, issued on May 26, 2009 (and dated March 2009), features a new appendix VII, "Other OMB Circular A-133 Advisories," which includes information and guidance for auditors on the Recovery Act and its implications on audits performed under OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (www.whitehouse.gov/omb/circulars_a133_compliance_09toc/).
- Bimonthly GAO Recovery Act reporting (www.gao.gov/recovery/).
- OMB memorandum M-09-10, "Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009," issued February 18, 2009 (www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-10.pdf).

FRA-NFP01-Pages.indd 12 5/26/10 9:40:38 AM

- OMB memorandum M-09-15, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009," issued April 3, 2009 (www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-15.pdf).
- OMB memorandum M-09-21, "Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009," issued June 22, 2009 (www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-21.pdf).
- OMB memorandum M-09-30, "Improving Recovery Act Recipient Reporting," issued September 11, 2009 (www.whitehouse.gov/omb/assets/agencyinformation_memoranda_2009_pdf/m09-30.pdf).
- Office of Federal Procurement Policy memorandum, "Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance with FAR Clause 52.204-11," issued September 30, 2009 (www.whitehouse.gov/omb/assets/recovery_act/OFPP_RecoveryReviewGuidance.pdf).
- FederalReporting.gov "Recipient Reporting System Webinars" (www.federalreporting.gov/federalreporting/downloads.do#webinars).
- OMB memorandum M-10-03, "Payments to State Grantees for their Administrative Costs for Recovery Act Funding—Alternative Allocation Methodologies," issued October 13, 2009 (www.whitehouse.gov/omb/assets/memoranda_2010/m10-03.pdf).
- OMB memorandum M-10-05, "Improving Compliance in Recovery Act Recipient Reporting," issued November 30, 2009 (www.whitehouse.gov/omb/assets/memoranda_2010/m10-05.pdf).
- OMB memorandum M-10-08, "Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates," issued December 18, 2009 (www.whitehouse.gov/omb/assets/memoranda_2010/m10-08.pdf).

Because additional guidance will be issued by the federal government on an ongoing basis, auditors should watch the OMB website at www.whitehouse.gov/omb/recovery_default.

Uniform Prudent Management of Institutional Funds Act

In July 2006, the National Conference of Commissioners on Uniform State Laws (NCCUSL) approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and recommended it for enactment by the legislatures of various states. UPMIFA is designed to replace the existing Uniform Management of Institutional Funds Act (UMIFA), which was approved by the NCCUSL in 1972. The purpose of UMIFA was

FRA-NFP01-Pages.indd 13 5/26/10 9:40:38 AM

to provide uniform and fundamental rules for the investment of funds held by charitable institutions and the expenditure of funds donated as endowments to those institutions. The principles behind those rules were as follows:

- Assets would be invested prudently in diversified investments that sought growth, as well as income.
- Appreciation of assets could prudently be spent for the purposes of any endowment fund held by a charitable institution.

Since its creation, UMIFA has been enacted in 47 states. In response to the increasing size and complexity of charitable endowments held in investments, UPMIFA was created based on the same principles. As of April 2010, UPMIFA has been enacted in 44 states and the District of Columbia and is pending legislation in 4 additional states.

In August 2008, FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which was codified in FASB ASC 958-205 and is effective for fiscal years ending after December 15, 2008. The FSP

- provides guidance on the net asset classification of donor-restricted endowment funds for NFPs that are subject to an enacted version of UPMIFA.
- improves disclosures about an NFP's endowment funds (both donor restricted and funds functioning as endowment), regardless of whether the NFP is subject to UPMIFA.

The first, and perhaps most significant, question the FSP addresses is how UPMIFA's elimination of the historic dollar value threshold—the amount below which an NFP could not spend under UMIFA—affects net asset classification. The FSP requires an NFP to classify a portion of a donor-restricted endowment fund (other than a term endowment) as permanently restricted net assets. That portion is equal to the amount of the fund (*a*) that must be retained permanently, in accordance with explicit donor stipulations, or (*b*) that, in the absence of such stipulations, the NFP's governing board determines must be retained permanently under the relevant law. The NFP would be required to disclose its interpretation of the law. Ongoing discussions among NFPs, accountants, attorneys, and regulators in the various individual states may lead to a consensus in those states determining what must be retained permanently under the law. Preliminary results subsequent to the implementation of the standard suggest that maintaining historic dollar value as permanently restricted is the prevailing practice in order to maintain consistency with an institution's gift and financial records, as well as uniformity between institutions, and

FRA-NFP01-Pages.indd 14 5/26/10 9:40:38 AM

to assist users of financial statements, such as boards of directors, donors, credit providers, bond rating agencies, underwriters, and regulatory reporting agencies. However, if a governing board determines that the law requires maintenance of purchasing power of a donor's gift, the NFP would increase permanently restricted net assets to the extent that the purchasing power of a dollar decreases or decrease permanently restricted net assets to the extent that the purchasing power of a dollar increases. (This typically would be done by adjusting permanently restricted net assets by an appropriate inflationary factor, such as the consumer price index [CPI] or higher education price index [HEPI].)

In contrast, an NFP would not subsequently decrease permanently restricted net assets because of investment losses or organizational spending from the endowment but would, instead, decrease temporarily restricted net assets, if available, or unrestricted net assets. The guidance on investment losses and spending is consistent with the guidance previously provided on investment losses in paragraph 12 of FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, which was codified in FASB ASC 958-205-45-22. FASB did not change that guidance, noting that permanently restricted net assets should reflect the amount for which an NFP has a permanent fiduciary duty and not the amount that it has on hand at a financial statement date because of cumulative investment and spending decisions.

The FSP also addresses whether two other provisions in UPMIFA's endowment spending guidelines impose temporary (time) restrictions on the portion of a donor-restricted endowment fund that would otherwise be considered unrestricted net assets:

- A provision that "unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution."
- An optional provision for a rebuttable presumption that spending more than 7 percent of endowment market value is imprudent. (Some states have included this provision, whereas others have not.)

The FSP requires NFPs to apply the guidance previously provided in Emerging Issues Task Force (EITF) Topic No. D-49, "Classifying Net Appreciation on Investments of a Donor-Restricted Endowment Fund," which is included as an appendix to the FSP and codified in FASB ASC 958-205-45-35. EITF Topic No. D-49 stresses that not all legal restrictions on the use of particular assets result in restricted net assets for accounting purposes, only those that extend donor restrictions. An example of the latter would be a requirement to maintain the purchasing power of a donor's endowment gift. Laws that refer to actions entirely within the purview of a governing board, such as acting to appropriate funds or exercising prudence, do not, in and of themselves, extend donor imposed restrictions.

FRA-NFP01-Pages.indd 15 5/26/10 9:40:38 AM

The other key provisions of the FSP focus on improving endowment disclosures both for donor-restricted and board-designated endowment funds. Aiming to improve transparency about endowments in an era of increased public scrutiny, the FSP focuses on disclosures in the following areas:

- Net asset classification (especially how that is affected by a governing board's interpretation of relevant law)
- Spending policies
- Investment policies (especially their relationship with spending policies)
- Net asset composition and changes therein (especially the relationship of endowment spending to endowment size and growth)
- Reconciliation of beginning and ending balances of the endowment in total and by net asset class

The Definition of *Endowment*

During the implementation of FSP FAS 117-1, an issue arose regarding a difference in the definition of *endowment* as defined by UPMIFA when compared with the definition as defined by the FSP.

The definition of *endowment* under UPMIFA is, "an institutional fund or part thereof that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. The term does not include assets that an institution designates as an endowment fund for its own use."

Under FSP FAS 117-1, the definition of *endowment* is

> [a]n established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide a permanent endowment, which is to provide a permanent source of income, or a term endowment, which is to provide income for a specified period. The portion of a permanent endowment that must be maintained permanently—not used up, expended, or otherwise exhausted—is classified as permanently restricted net assets. The portion of a term endowment that must be maintained for a specified term is classified as temporarily restricted net assets. An organization's governing board may earmark a portion of its unrestricted net assets as a board-designated endowment (sometimes called funds functioning as endowment or quasi-endowment funds) to be invested to provide income for a long but unspecified period. A

FRA-NFP01-Pages.indd 16 5/26/10 9:40:38 AM

board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets.

These differences are important to understand in order to differentiate between the legal obligations under UPMIFA compared with the accounting treatment of endowments under the FSP. Endowments as defined under the FSP, which include gifts covered by UPMIFA, include a much broader definition of endowments for accounting and disclosure purposes. In addition, excluded from both preceding definitions are endowment pledges, as well as funds held in trust by others. However, a study conducted by the National Association of College and University Business Officers found that many institutions included endowment pledges and funds held in trust by others in their disclosures to reconcile endowment assets to total permanently restricted net assets.

Determining Whether to Restate Net Assets

Upon implementation of FSP FAS 117-1, additional investigation was performed by management, sometimes at the request of their auditors, about the nature of donor imposed restrictions on endowment gifts. The initial classification of certain gifts was most likely performed during the initial implementation of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made* (codified primarily in FASB ASC 958-605), and No. 117, *Financial Statements of Not-for-Profit Organizations* (codified primarily in FASB ASC 958-205). In some cases, during the implementation of the FSP, it was determined that the original classification of certain gifts may have been recorded incorrectly, thereby resulting in possible restatement of net assets by category.

Reporting of Underwater Endowments

Due to the precipitous decline in the stock markets during late 2008 and early 2009, many NFPs experienced a decline in the value of certain endowment investments below historic dollar value of the original gift, resulting in what is commonly known as *underwater endowments*. Some institutions had previously reported cumulative gains on a pooled fund basis rather than maintaining records of cumulative gains or losses for individual gifts. Underwater endowments should be reported based upon individual gifts rather than a collective pool. Accordingly, several institutions had to recreate historical records to allocate cumulative gains and losses between gifts to determine the value of underwater endowments on individual gifts.

Adopting FSP FAS 117-1 May Require the Revision of Board Policies

Due to the timing of the adoption of UPMIFA in particular states (for example, June 30, 2009, in Illinois), many financial statements were prepared with the appropriate accounting and disclosures required by FSP FAS 117-1; however, NFP boards may not have evaluated the necessary changes in institutional policies to acknowledge the new law under UPMIFA. NFP boards may find it appropriate to review their institutional policies

FRA-NFP01-Pages.indd 17 5/26/10 9:40:38 AM

with legal counsel to ensure they are responsive to the changes in the law, as well as the increased responsibility of boards to comply with UPMIFA.

Reporting Amounts as Released From Restriction

Under FSP FAS 117-1, in the absence of interpretation of appropriated for expenditure by legal or regulatory authorities (for example, court decisions or interpretations by state attorneys general), appropriation for expenditure is deemed to occur upon approval for expenditure, unless approval is for a future period, in which case appropriation is deemed to occur when that period is reached. Approval for expenditure must be a documented process that is applied consistently across the entity. In addition, if the fund also is subject to a purpose restriction, the reclassification of the appropriated amount to unrestricted net assets would not occur until that purpose restriction also has been met, in accordance with the provisions of FASB ASC 958-205-45-9. The determination of when an institution deems amounts as appropriated may have an effect on the timing of recognizing net assets as released from restriction.

Endowment Records Management

UPMIFA defines a gift instrument as being a *record*, which is information inscribed on a tangible medium or stored electronically, including an institutional solicitation, under which property is given. Thus, UPMIFA makes it clear that a gift instrument must be in writing but expands the definition to include e-mail. Governance documents, such as by-laws, may be part of the gift instrument. A record is part of the gift instrument, however, only if the donor and charity were, or should have been, aware of its terms. Institutions would be well served to define record retention policies for endowment records to cover the broader definition of *gift instrument* under UPMIFA.

IRS Activities

E-Postcard Required for Small Exempt Entities

Beginning in 2008, exempt entities with gross receipts under $25,000 must make an annual electronic filing with the IRS using Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ. The e-Postcard is due in 2010 for tax years beginning on or after January 1, 2009. If an entity that is required to file fails to do so for three consecutive years, it will lose its tax-exempt status. For more information and a link to the e-Postcard, go to www.irs.gov/charities/article/0,,id=169250,00.html.

Form 990 Changes for Tax Year 2009

IRS Form 990 has been revised for tax year 2009 (which will be filed in 2010) to modify and clarify certain reporting requirements. Some of the changes include the following:

- An explanation that significant changes in program services or to the NFPs' organizational documents are reported on Form 990 rather than in a letter to the Exempt Organizations Determinations office.
- More detailed questions that trigger the need to complete Schedules D, F, H, K, and L of Form 990.
- A reminder to complete Schedule O, as required.
- A definition of *conflict of interest* with regard to compensation arrangements.
- Clarification of reporting the five highest compensated employees in Section A and the definition of *key employee*.
- An explanation of when and how compensation from an unrelated organization to the NFP's officers, directors, trustees, and key employees must be reported.
- New glossary definitions for *audit*, *fair market value*, and *principal officer*.
- Reporting if the NFP's financial statements include a footnote addressing its liability for uncertain tax positions.
- Hospitals must now complete all parts of Schedule H.
- Clarification for reporting certain transactions with interested persons and related organizations.

The IRS also has a variety of resources for NFPs and practitioners to use to gain an understanding of the requirements of Form 990. More information, an electronic version of Form 990, and the related schedules are available at www.irs.gov/charities/article/0,,id=214479,00.html.

New Health Insurance Tax Credit for Exempt Organizations

Effective for tax year 2010, many small businesses and tax-exempt organizations that provide health insurance coverage to their employees now qualify for a special tax credit. Included in the health care reform legislation, the Patient Protection and Affordable Care Act, approved by Congress and signed by President Obama on March 23, is a credit designed to encourage small employers to offer health care coverage for the first time or maintain the coverage they have.

To be eligible for the credit, a qualifying employer must cover at least 50 percent of the cost of health care coverage for some of its workers, based on the rate for single person coverage. A qualifying employer also must have less than the equivalent of 25 full time workers (for example, an employer with fewer than 50 half time workers may be eligible) and must pay average annual wages below $50,000 per full time equivalent (FTE) position.

FRA-NFP01-Pages.indd 19 5/26/10 9:40:39 AM

The credit is worth up to 35 percent of a small business's premium costs (25 percent for NFPs) in 2010. On January 1, 2014, this rate increases to 50 percent (35 percent for NFPs) but is subject to a phaseout. The credit phases out for entities with average wages between $25,000 and $50,000 and for entities with the equivalent of between 10 and 25 full time workers.

IRS Guidance for NFPs

Included in the frequently asked questions (FAQs) are some answers specifically for NFPs. They include information about the maximum credit that can be claimed by an NFP. For tax years 2010–13, the maximum credit for a tax-exempt qualified employer is 25 percent of the employer's premium expenses that count toward the credit in a qualifying arrangement and are subject to a cap, based on the average premium in each state. However, the amount of the credit cannot exceed the total amount of income and Medicare (that is, hospital insurance) tax the employer is required to withhold from employees' wages for the year and the employer share of Medicare tax on employees' wages.

The FAQs provide the following example for the calculation of the credit for an NFP. For the 2010 tax year, a qualified NFP employer has 10 FTEs with average annual wages of $21,000 per FTE. The employer pays $80,000 in health care premiums for those employees (which does not exceed the average premium for the small group market in the employer's state) and otherwise meets the requirements for the credit. The total amount of the employer's income tax and Medicare tax withholding, plus the employer's share of the Medicare tax, equals $30,000 in 2010.

The credit is calculated as follows:

1. Initial amount of credit determined before any reduction: $20,000 (25 percent × $80,000)
2. Employer's withholding and Medicare taxes: $30,000
3. Total 2010 tax credit: $20,000 (the lesser of $20,000 and $30,000)

For a tax-exempt employer, the credit is a refundable credit, so even if the employer has no taxable income, the employer may receive a refund (so long as it does not exceed the income tax withholding and Medicare tax liability).

For more information and to determine if an NFP qualifies for the Small Business Health Tax Credit, go to www.irs.gov.

FRA-NFP01-Pages.indd 20 5/26/10 9:40:39 AM

New Employment Tax Credits for Exempt Organizations

Two new tax benefits are now available to NFPs hiring workers who were previously unemployed or only working part time. These provisions are part of the Hiring Incentives to Restore Employment (HIRE) Act that was enacted into law in March 2010.

Employers who hire unemployed workers after February 3, 2010, and before January 1, 2011, may qualify for a 6.2 percent payroll tax incentive, in effect exempting them from their share of Social Security taxes on wages paid to these workers after March 18, 2010. This reduced tax withholding will have no effect on the employee's future Social Security benefits, and employers would still need to withhold the employee's 6.2 percent share of Social Security taxes, as well as income taxes. The employer's and employee's share of Medicare taxes also would still apply to these wages.

In addition, for each worker retained for at least one year, NFPs may claim an additional general business tax credit up to $1,000 per worker when they file their 2011 income tax returns.

New hires filling existing positions also qualify but only if the workers they are replacing left voluntarily or for cause. Family members and other relatives do not qualify.

In addition, the new law requires that the employer get a statement from each eligible new hire certifying that he or she was unemployed during the 60 days before beginning work or, alternatively, worked less than a total of 40 hours for someone else during the 60-day period. The IRS currently is developing a form that employees can use to make the required statement.

Employers claim the payroll tax benefit on the federal employment tax return they file, usually quarterly, with the IRS. Eligible employers will be able to claim the new tax incentive on their revised employment tax form for the second quarter of 2010. Revised forms and further details on these two new tax provisions will be posted on www.irs.gov.

Department of the Treasury and IRS Issue Priority Guidance Plan for 2010

Fiscal year 2010 priorities are addressed through a flexible and interdisciplinary array of new tools that focus on enforcement of the tax law and improving customer service. Priorities include the following:

- Issuing guidance on program-related investments of private foundations
- Developing regulations on new excise taxes for donor-advised funds

- Issuing regulations on church tax inquiries and examinations
- Issuing guidance for deferred compensation plans for NFPs
- Guidance on charitable lead trusts and charitable remainder trusts
- A further focus on transparency and governance by tax-exempt entities
- Continued implementation of the online compliance guide, known as a *cyber assistant* (which is used to generate IRS Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, at a reduced user fee)

Additional information on these and other topics is available at www.irs.gov/charities/article/0,,id=215962,00.html.

Exempt Entity Abusive Tax Avoidance Transactions

Tax-exempt entities, by definition, generally are exempt from federal income tax under various provisions of the IRC. However, some are directly involved in abusive tax avoidance transactions (ATATs). In addition, because they are tax-indifferent, tax-exempt entities are, at times, used by for-profit entities as accommodation parties in these transactions. Identifying and responding to ATATs involving tax-exempt entities is critical to the IRS objective of discouraging and deterring noncompliance within tax-exempt and government entities.

As a result of provisions included in the Tax Increase Prevention and Reconciliation Act of 2005, the Treasury Department and IRS have issued proposed and temporary regulations under IRC Section 4965, which impose excise taxes and disclosure requirements with respect to prohibited tax shelter transactions to which tax-exempt entities are parties. The regulations provide (*a*) rules regarding the form, manner, and timing of disclosure obligations and (*b*) return requirements accompanying the payment of excise taxes. The deadline for submitting comments on the proposed regulations has passed. IRS guidance addresses the following issues under this legislation:

- Which entities and individuals are subject to excise tax under the new provisions and which taxes and penalties may apply
- Who is a party subject to the new provisions and the treatment of proceeds of transactions received before the effective date of the new provisions
- Disclosure and filing requirements

Additional information is available at www.irs.gov/charities/article/0,,id=172158,00.html.

Prohibition Against Political Activities

The prohibition against political campaign activity has been in effect for more than half a century and bars certain tax-exempt entities from engaging on behalf of, or in opposition to, political candidates. However, these entities can engage in advocating for or against issues and, to a limited extent, ballot initiatives or other legislative activities.

The IRS's goal is to educate the leadership of these entities to help them stay within the legal boundaries. In this regard, IRS Revenue Ruling 2007-41 outlines a number of scenarios to help charities and churches understand the ban on political campaign activity and actions that may arise.

In addition to the revenue ruling, the IRS has other helpful information for churches and charities on its website at www.irs.gov/charities/index.html. For example, IRS Publication 1828, *Tax Guide for Churches and Religious Organizations*, contains a discussion of the law affecting political campaign activity by churches and religious institutions.

Violation of the law can result in imposition of an excise tax or, in extreme cases, a loss of tax-exempt status.

Internet-Based Workshop for Exempt Entities

The IRS has an Internet-based version of its popular Exempt Organizations Workshop covering tax compliance issues confronted by small and midsized tax-exempt entities.

The free online workshop, "Stay Exempt—Tax Basics for Exempt Organizations," consists of the following five interactive modules on tax compliance topics for exempt entities:

- Tax-Exempt Status. How can you keep your 501(c)(3) exempt?
- Unrelated Business Income. Does your entity generate taxable income?
- Employment Issues. How should you treat your workers for tax purposes?
- Form 990. Would you like to file an error-free return?
- Required Disclosures. To whom do you have to show your records?

Users can access this new training program at www.stayexempt.org. Users can complete the modules in any order and repeat them as many times as they like. The online training website does not require registration, and its visitors will remain anonymous. The workshop can be found at www.stayexempt.org/Virtual-Workshop.aspx.

FRA-NFP01-Pages.indd 23 5/26/10 9:40:39 AM

Fast Track Settlement Program

In December 2008, the IRS announced an opportunity for entities with issues under examination by the Tax Exempt and Governmental Entities Division (TE/GE) to use Fast Track Settlement (FTS) to expedite case resolution. The TE/GE FTS will enable TE/GE entities that currently have unresolved issues in at least one open period under examination to work together with TE/GE and the Office of Appeals (Appeals) to resolve outstanding disputed issues while the case is still in TE/GE jurisdiction. TE/GE and Appeals will jointly administer the TE/GE FTS process. TE/GE FTS will be used to resolve factual and legal issues, and it may be initiated at any time after an issue has been fully developed but before the issuance of a 30-day letter or its equivalent. TE/GE FTS will be available to taxpayers for a pilot period of up to 2 years, beginning in December 2008. Upon completion of the 2-year pilot period, TE/GE and Appeals will evaluate the program, consider necessary adjustments, and determine whether to make the program permanent. More information is available at www.irs.gov/irb/2008-48_IRB/ar14.html#d0e2519.

Resource Materials—Compliance Initiatives for Tax-Exempt Entities

The Exempt Organizations Division of the IRS has made materials available that were used in, or which discuss, its compliance initiatives, including limited liability company projects, community foundations, bond compliance, hospitals, and executive compensation. You can find this material at www.irs.gov/charities/article/0,,id=162493,00.html.

Listing of Published Guidance—2010

Readers should be aware that the IRS website contains a digest of published guidance for tax-exempt entities issued in 2010 at www.irs.gov/charities/content/0,,id=202419,00.html. The published guidance includes treasury regulations, revenue rulings, revenue procedures and notices, and announcements of recently published issues of interest to tax-exempt entities.

The IRS website also contains an archive that presents digests of IRS-published guidance of interest to tax-exempt entities for the years 1954-2009. The archived guidance can be found at www.irs.gov/charities/article/0,,id=151053,00.html. Additionally, the IRS has a useful tool for NFPs to assist them in maintaining their tax-exempt status through compliance with IRS requirements. The publication *Compliance Guide for 501(c)(3) Public Charities* is available at www.irs.gov/pub/irs-pdf/p4221pc.pdf.

Changes to Student Loan Programs

Included in the provisions of the new Health Care and Education Reconciliation Act of 2010, enacted March 2010, are substantial changes to the existing student loan programs that could be significant to higher education institutions. The law includes a

significant investment in the Pell Grant Program and other student aid and higher education programs. To fund the additional Pell Grants, this new law eliminates the Federal Family Education Loan Program (FFELP) and prohibits new FFELP loans from being disbursed after July 1, 2010. More information about the law is available at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h4872enr.txt.pdf.

New Filing and Audit Requirements for Employee Retirement Income Security Act-Covered Section 403(b) Employee Benefit Plans

Beginning in 2009, employee benefit plans sponsored by charitable entities and schools under IRC Section 403(b) and covered under the Employee Retirement Income Security Act of 1974 (ERISA) were subject to the same reporting and audit requirements as Section 401(k) plans. Section 403(b) plans also are commonly known as *tax-shelter annuity plans*. Under DOL regulations issued in November 2007 amending the filing requirements for Form 5500, Annual Return/Report of Employee Benefit Plan, ERISA-covered Section 403(b) plans with 100 or more participants generally are required to file audited financial statements beginning with their 2009 Form 5500 filing. Section 403(b) plans with fewer than 100 participants are eligible to use abbreviated reporting forms without audited financial statements. The DOL estimates that approximately 7,000 Section 403(b) plans are subject to the new audit requirements, and another 9,000 Section 403(b) plans will be eligible for the waiver. The DOL regulations were published in the November 16, 2007, *Federal Register* and are available at www.dol.gov/ebsa/regs/fedreg/final/20071116.pdf. The AICPA Employee Benefit Plan Audit Quality Center (www.aicpa.org/InterestAreas/EmployeeBenefitPlanAuditQuality/Pages/EBPAQhomepage.aspx) and Expert Panel have formed a joint task force to develop resources to help members with these audit requirements.

Red Flags Rule

In October 2007, the Federal Trade Commission (FTC) issued the Red Flags Rule for financial institutions and creditors to fight identity theft. The rule sets out how certain businesses and organizations must develop, implement, and administer their identity theft prevention programs. These programs must include the following four basic elements, which, together, create a framework to address the threat of identity theft:

- The program must include reasonable policies and procedures to identify the red flags of identity theft that may arise in the day-to-day operation of your business. *Red flags* are suspicious patterns or practices or specific activities that indicate the

possibility of identity theft. For example, if a customer has to provide some form of identification to open an account with an entity, an ID that looks like it might be fictitious would be a red flag.

- The program must be designed to detect the red flags that have been identified. For example, if an entity has identified fake IDs as a red flag, it must have procedures in place to detect possible fake, forged, or altered identification.
- The program must spell out appropriate actions to take when red flags are detected.
- The program must address how the program will be reevaluated periodically to reflect new risks from this crime because identity theft is an ever-changing threat.

The program must state who is responsible for implementing and administering it effectively. Because employees have a role to play in preventing and detecting identity theft, the program also must include appropriate staff training. The program also must address the manner in which contractors will be monitored when outsourcing or subcontracting functions of operations that would be covered by the rule.

The Red Flags Rule applies to financial institutions and creditors. The rule requires a periodic risk assessment to determine if the entity has covered accounts. A written program needs to be in place only if the entity has covered accounts. It is important to look closely at how the rule defines *financial institution* and *creditor* because the terms apply to groups that typically might not use those words to describe themselves. For example, many NFPs and government agencies are creditors under the rule.

The Red Flags Rule does not name specific types of organizations that must comply; however, for NFP organizations, compliance requirements are based on the types of accounts that the institution has with its customers and clients. Examples include (*a*) payment plans for tuition at a college or university or (*b*) club dues of an NFP that are allowed to be paid in installments. Because of their creditor status in these situations, the Red Flags Rule applies.

The FTC suspended enforcement of the new Red Flags Rule until June 10, 2010. After June 10, 2010, any instance of identity theft exposes the NFP organization to an FTC investigation.

More information and a document outlining specific requirements of the Red Flags Rule can be found at http://ftc.gov/redflagsrule.

FRA-NFP01-Pages.indd 26 5/26/10 9:40:40 AM

Financial Management Issues and Developments

Discover insight and advice from business and finance professionals to guide you in difficult economic conditions.

Operating in this current economic environment produces various challenges for your entity and requires steps to meet those challenges, including managing liquidity, maintaining and improving controls and risk management, and providing increased transparency to donors and lenders through financial statement disclosures. The following are considerations that may help you plan your short- and long-term business strategies during these trying times.

Strategies to Navigate the Current Business Environment

Entities across the country are feeling the shock from the collapse of the global financial markets. NFPs are searching for strategies on how they can maintain revenue levels during these difficult times. The AICPA Business and Industry Executive Committee has assembled a list of key considerations when reviewing your business strategies.

One important rule that must be followed in situations such as this is don't panic. Rash decisions often result in undesired consequences.

After paying attention to the first rule, it is critical to review your cash management practices and implement steps to improve them. Some items to consider include the following:

- Doing nothing may be the best action to take. Make sure your overall cash position and anticipated cash needs are in line with your business's short-term needs, goals, and risk tolerance level.
- Check the safety of any cash deposits you have. Have you considered a Certificate of Deposit Account Registry to spread the risk for short- to medium-term cash you may have invested in certificates of deposit?
- Focus on your broader cash flow planning situation. What are your cash flow needs for the next 90-120 days? Or 120-180 days? Do you have sufficient cash reserves for the next 30-60 days?

FRA-NFP01-Pages.indd 27 5/26/10 9:40:40 AM

- Check with your lenders on the status of your credit lines. Are you in compliance with the terms? Will your bank renew the commitments at similar amounts, rates, and terms?
- Closely monitor your accounts receivables. Look for any new patterns of slow payments and follow up immediately.
- Control what you can in your situation. Can you reduce spending in any areas to reduce the burden on your cash flow needs?
- Review all of your insurance coverage. Pay particular attention to coverage you have with those companies that have weak balance sheets. Be careful not to surrender a policy because securing new coverage might require underwriting that can affect your coverage.

Your employees also are going to be concerned about the effect of the economy on the health of the entity, the likelihood of continued employment, and the effect on retirement or other benefit plans in which they participate. Regardless of how challenging the particular circumstances of your entity may be, communicating effectively and keeping employees informed about issues with the potential to affect them personally will pay dividends in productivity in the short term and loyalty in the long run.

Assessing Liquidity Risk

Cash flow is essential to any entity. The previous section pointed out several questions that you should consider regarding liquidity. Whether you need to pay your employees, purchase goods or equipment, pay utility bills, or fund program costs, every entity needs access to working capital. During this time of economic uncertainty, banks and other sources of financing have severely curtailed or even eliminated many lending programs and lines of credit that are essential to NFPs. In some cases, these restrictions are due to tighter lending policies by the bank; in others, it is because the bank's own access to credit is limited. To plan for or avoid an illiquid situation, ask these questions to determine where your risks lie:

- Does your entity rely on a single lender or group of lenders? Have they shown any signs of financial distress?
- After a review of financial covenants in your debt agreements, are you in jeopardy of default?
- Are any of your key donors, grantors, or suppliers showing signs of financial distress or an inability to meet their commitments?

FRA-NFP01-Pages.indd 28 5/26/10 9:40:40 AM

- Are the economic assumptions that existed at the time supplier and grant agreements were created still valid? If not, is modification possible?
- Are there concerns about your entity's key insurance providers or their ability to pay claims?
- What role is financing going to play in your plans for future capital improvements, mergers and acquisitions, or other long term investments? Are these still viable business options?
- After a thorough review of your investment portfolio
  - is it possible that you will have trouble accessing or liquidating any investments?
  - have any of your investments been significantly or permanently impaired?
  - are any of your investments now of higher risk than your investment policy allows?
- How will your strategy to survive economic challenges create additional demands on your cash? For example, downsizing the workforce, discontinuation of program services, or benefit plan changes will likely require cash to implement.

Line of Credit Renewals

Entities frequently rely on lines of credit or short term loans from their local bank to finance operations or capital purchases. This year, many entities will receive an unpleasant surprise when it is time to renew these loans. The renewal of a line of credit is considered to be a new borrowing transaction that results in the reassessment of the risk that the borrower represents to the bank. The result of this reassessment of the borrower's creditworthiness is often higher interest rates and less friendly loan terms due to the tightening of the bank's lending policies. Therefore, it is very important to meet with your lenders to discuss upcoming renewals even when your entity is doing business as usual.

Succession and Talent Management Planning

One of an NFP's largest costs is often wages and benefits. Conversely, an entity's largest asset is often its workforce and the knowledge and expertise of those individuals. Interestingly, during this economic recession, entities also are faced with a rapidly aging workforce. As a result of the struggle to prepare top talent to fill positions left vacant by an aging workforce, businesses and firms across the United States have employed succession planning measures that strategically address maintaining the strength of the organization while balancing the replacement of critical organization leaders. Experts indicate that you should not abandon your entity's succession plan, but rather now is the time to implement such a plan.

FRA-NFP01-Pages.indd 29 5/26/10 9:40:40 AM

If layoffs loom in your entity's future, it's time to implement your succession and talent management plan. "This is the time to keep your exceptional performers and their successors while cutting the average and (should they exist) below average employees," said Bill Reeb, CPA, CITP, of the Succession Institute.

Regardless of whether your NFP is considering a layoff, if you don't already have a plan in place, Reeb recommends focusing on the leadership roles you need to fill rather than the employees you need to replace. The goal is not to replace personalities because that is not possible. Instead, clearly indicate the key roles and responsibilities of the positions in your succession plan. In addition, identify the authorities and limitations of those positions. Doing so allows you to internally develop and groom replacements (the preferred route) or seamlessly enlist a successor from outside the entity.

In assessing your entity's talent, it is important to keep in mind who will be leading the entity when the economy rebounds. In fact, Reeb explains that the succession planning process may bring to light the numerous management mistakes of the past, such as incomplete performance reviews that result in undeserved raises and bonuses. In assessing your succession needs, the goal is to determine and retain talented employees.

Should your entity have to perform layoffs, several other key things should be kept in mind besides your succession plan, including the following:

- Plan early and carefully for a layoff (or potential future layoff). Make such decisions strategically and in consideration of the worst case scenario. Carefully consider the timing, especially when operating in a cyclical business, and forecast what resources are needed and when.
- Determine who your key employees are and tell them. Without making promises, communicate to those employees that they are identified as key talent. Explain the steps you are taking to try to keep them on during the turmoil. A business's survival depends on the commitment of its top performers. But an entity must demonstrate its commitment to those performers in return. Plan for what to do without these critical employees if they are wooed away by an entity that is actively recruiting.
- Be considerate and respectful. Layoffs always come with hurt feelings and stress, and the employees you keep may have difficulty adjusting to the changed environment. During the layoff and after, it's important to make certain the experience is as respectful and humane as possible. With advance planning, an entity can provide training for possible future redundant employees to help position them for another job. And it goes without saying, if you can provide outplacement services for those laid off, by all means, do. Outplacement services can help encourage laid-off employees to broaden their network, find their next position, or even tap into a new career.

- In the aftermath, keep remaining employees engaged. As with any situation, a layoff provides both challenges and opportunities. Consider how to use these moments to challenge your remaining employees and engage them in projects where they might have otherwise missed. One way to keep remaining employees motivated is to offer them training in a new skill or involvement in cross-departmental projects so they feel a part of the strategy to get the entity back on track. Providing the opportunities for potential triumphs makes employees feel valued and safe—a combination for success.

Considering Outsourcing

As a result of the economic downturn, many entities find themselves at a decision point on whether to retain or hire employees to perform certain services or to contract with an outside service provider. Risks and benefits are associated with both options. When assessing your choices, consider the following:

- How will a long term service contract affect your business strategy?
- Is there an opportunity to restructure the workload of existing employees to meet your service needs?
- Does the service provider have strong corporate governance and internal control policies and procedures, including controls over your confidential information?
- How does the quality of employee-provided services compare with that of the outside service provider?
- How will employee turnover at the service provider affect your business?
- Have you developed a contingency plan if the service provider cannot deliver as promised or goes out of business?
- How does the training, payroll, and benefits cost of employee-provided services compare with the cost of the service contract?
- Would using a service provider allow you to avoid the cost of a significant capital purchase?
- Does the service provider give you a significant advantage in terms of access to cutting edge talent, technology, or industry best practices?

It is critical to perform rigorous due diligence consistent with, or in excess of, the process of hiring an employee to ensure you have the information required to fully assess the risks and benefits to your entity. When assessing which of your entity's functions and related controls will be outsourced, it is useful to know that many service organizations engage an

FRA-NFP01-Pages.indd 31 5/26/10 9:40:41 AM

auditor to issue a report on a service organization's controls for use by user organizations and their auditors. Because these audits are performed in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, as amended (AICPA, *Professional Standards*, AU sec. 324), they are commonly referred to as SAS 70 reports. SAS No. 70, as amended, is not applicable to every control provided by the service organization. It is applicable only if the services provided are part of your entity's information system and the related controls are included in the scope of the auditor's examination. A service organization's services are part of your entity's information system if they affect any of the following:

- The classes of transactions in your entity's operations that are significant to your entity's financial statements
- The procedures, both automated and manual, by which your entity's transactions are initiated, authorized, recorded, processed, and reported from their occurrence to their inclusion in the financial statements
- The related accounting records, whether electronic or manual; supporting information; and specific accounts in the financial statements involved in initiating, authorizing, recording, processing, and reporting your entity's transactions
- How your entity's information system captures other events and conditions that are significant to the financial statements
- The financial reporting process used to prepare your entity's financial statements, including significant accounting estimates and disclosures

The guidance in SAS No. 70, as amended, is not relevant to situations in which

- the services provided are limited to executing your entity's transactions that are specifically authorized by you, such as the processing of checking account transactions by a bank or the execution of securities transactions by a broker.
- the audit of transactions arising from financial interests in partnerships, corporations, and joint ventures, such as working interests in oil and gas ventures, when proprietary interests are accounted for and reported to interest holders.

A SAS 70 report is intended to provide information about the controls at a service organization that may be relevant to your entity's internal control as it relates to your entity's financial statements. A careful review of this report can help you to determine where control risk exists and what actions, if any, should be taken by the service provider to modify their controls to ensure that they intersect seamlessly with those of your organization.

FRA-NFP01-Pages.indd 32 5/26/10 9:40:41 AM

Enterprise Risk Management

To meet the challenges and risks in today's business environment, many entities have turned to a process called enterprise risk management (ERM). The purpose of ERM is to address processes, procedures, and risk on an entity-wide basis to enable management to holistically understand the business risks that the entity faces. Some characteristics of the ERM model include strengthening communication; additional training, including cross-training, process, and internal control improvement; and entity-wide participation.

Once implemented, managers of individual business units can make appropriate decisions based on an understanding of the risks that each business unit encounters and how those risks affect other units and the entity as a whole. The purpose of this process is not to reduce business risk but, rather, to provide, identify, and assess risk at the business unit level and provide senior management with the knowledge needed to effectively evaluate risks across the entire organization and to then plan appropriate strategies to achieve the entity's business objectives. Additional information about ERM can be obtained from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) website at www.coso.org/-ERM.htm.

Examples of risks that could affect your entity and be identified and mitigated through the application of ERM strategies include the following:

- Limited availability of funding and more competition for a smaller pool of funds
- Availability of specialized skills labor
- Rising cost and limited availability of short term financing and liquidity issues
- Government regulations
- Intellectual property theft and data security

Internal Control and Processes

As mentioned in the previous section of this alert, entities should focus on controls during this economic period. NFP managers and directors have long sought ways to better control the organization they manage. A system of internal control is put in place to keep the organization on course toward budgetary goals and achievement of its mission and to minimize surprises along the way. An effective system of internal control, especially over financial reporting functions, enables you to deal more effectively with rapidly changing economic and competitive environments, shifting program demands and priorities, and

FRA-NFP01-Pages.indd 33 5/26/10 9:40:41 AM

restructuring for future growth. Internal control promotes efficiency, reduces risks of asset loss, and helps ensure the reliability of financial statements and compliance with laws and regulations.

Management Objectives

Internal control includes techniques used by management to achieve its objectives and meet its responsibilities in the following three distinct categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The first category addresses an entity's basic business objectives, including performance and budgetary goals and safeguarding of resources. The second relates to the preparation of reliable financial statements. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs.

Components of Internal Control

Internal control consists of five interrelated components. These are derived from the way management runs an organization and are integrated with the management process. Although the components apply to all entities, smaller organizations may implement them differently than larger ones. Their controls may be less formal and less structured, yet a small organization can still have effective internal control. The five components of internal control are described in the following sections.

Control Environment

The control environment component is the foundation upon which all other components of internal control are based, and it sets the tone of an organization. A small NFP can have unique advantages in establishing a strong control environment. Employees in many small organizations interact more closely with top management and are directly influenced by management actions. Through day-to-day practices and actions, you can effectively reinforce the company's fundamental values and directives. The close working relationship also enables senior management to quickly recognize when employees' actions need modification.

FRA-NFP01-Pages.indd 34 5/26/10 9:40:41 AM

Risk Assessment

Risk assessment, as it relates to the objective of reliable financial reporting, involves identification and analysis of the risks of material misstatement. Establishment of financial reporting objectives articulated by a set of financial statement assertions for significant accounts is a precondition to the risk assessment process. Risk assessment in small NFPs can be relatively efficient, often because in-depth knowledge of the company's operations enables management to have first-hand information about where risks exist. In carrying out your normal responsibilities, including obtaining information gained from employees, program participants, donors, grantors, and others, you can identify risks inherent in processes. In addition to focusing on operations and compliance risks, you are positioned to consider the following risks to reliable financial reporting:

- Failing to capture and record all transactions
- Recording assets that do not exist or transactions that did not occur
- Recording transactions in the wrong period, for the wrong amount, or misclassifying transactions
- Losing or altering transactions once recorded
- Failing to gather pertinent information to make reliable estimates
- Recording inappropriate journal entries
- Improperly accounting for transaction or estimates
- Inappropriately applying formulas or calculations

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. When resource constraints compromise the ability to segregate duties, many smaller NFPs use certain compensating controls to achieve the objectives.

Information and Communication

Information systems identify, capture, process, and distribute information supporting the achievement of financial reporting objectives. Information systems in small entities are likely to be less formal than in large entities, but their role is just as significant. Many

FRA-NFP01-Pages.indd 35 5/26/10 9:40:41 AM

small NFPs rely more on manual or stand-alone IT applications than complex integrated applications. Effective internal communication between management and employees may be facilitated in smaller entities due to fewer levels of management hierarchy and fewer employees. Internal communication can take place through frequent meetings and day-to-day activities in which the managers participate.

Monitoring

Internal control systems need to be monitored, which is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Managers of many small entities have first-hand knowledge of organizational activities, and their close involvement in operations positions them to identify variances from expectations and potential inaccuracies in reported financial information.

Financial Statement Disclosures

Given the current economic climate, lenders, donors, and regulators will expect increased disclosures in an NFP's financial statements. Entities should review prior disclosures to be included in the current period's financial statements to determine if they are still appropriate and not misleading based on the current environment. Entities also should consider the effects and disclosure of events that occurred after the balance sheet date. Some topics you should consider expanding disclosures on include the following:

- Liquidity and capital resources
- Material impairments
- Pension plan assets
- Fair value determinations
- Critical accounting policies and estimates
- Risk factors
- Relationships with distressed businesses

Another area to consider discussing is the entity's strategy in dealing with current market conditions in addition to how the entity has been, and will continue to be, affected by the economic downturn.

FRA-NFP01-Pages.indd 36 5/26/10 9:40:41 AM

Accounting Issues and Developments

Navigate the many new accounting developments to facilitate your entity's compliance.

Given the current economic climate, a number of accounting and financial reporting issues may affect your entity. Accounting pronouncements and related guidance having particular significance are briefly explained here. The following summaries are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable standard.

NFP Mergers and Acquisitions

In April 2009, FASB issued FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142*. This statement is effective for mergers occurring on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009.

The purpose of this statement is to improve the relevance, representational faithfulness, and comparability of the information that an NFP provides in its financial reports about a combination with one or more NFPs, businesses, or nonprofit activities. To accomplish that, this statement establishes principles and requirements for how an NFP

- determines whether a combination is a merger or an acquisition.
- applies the carryover method in accounting for a merger.
- applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer.
- determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition.

It also is intended to improve the information an NFP provides about goodwill and other intangible assets after an acquisition by amending FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to NFPs.

In January 2010, FASB issued Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions*, which codifies FASB Statement No. 164 primarily in FASB ASC 958-805 and 958-810. Readers are encouraged to review the full texts of FASB Statement No. 164 and ASU No. 2010-07, which are available on the FASB website.

FRA-NFP02-Pages.indd 37 5/26/10 9:46:47 AM

FASB Statement No. 168

FASB Statement No. 168, as codified in FASB ASC 105, *Generally Accepted Accounting Principles*, is effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date of FASB Statement No. 168, FASB ASC became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC. FASB ASC superseded all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. This new standard flattens the U.S. generally accepted accounting principles (GAAP) hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is nonauthoritative (not in FASB ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative U.S. GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. If an accounting change results from the application of this guidance, an entity should disclose the nature and reason for the change in accounting principle in their financial statements.

FASB Statement No. 168 is the final standard that will be issued by FASB in that form. It was added to FASB ASC through ASU No. 2009-01, *Topic 105—Generally Accepted Accounting Principles—amendments based on—Statement of Financial Accounting Standards No. 168—The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles*, on June 30, 2009. No new standards in the form of statements, FSPs, EITF abstracts, or AICPA accounting Statements of Position, for example, will be issued. Instead, FASB will issue ASUs, but will not consider ASUs as authoritative in their own right. Instead, ASUs will serve only to update FASB ASC, provide background information about the guidance, and provide the basis for conclusions on changes made to FASB ASC.

Referencing FASB ASC in Your Documentation

You should consider how your NFP will reference FASB ASC in your documentation (policies and procedures, technical memorandums, financial statements and filings, engagement working papers, and so on). It is only prudent to reflect current U.S. GAAP in your documentation. The FASB Notice to Constituents (NTC) includes a section on referencing FASB ASC in footnotes and other documents. In this notice, FASB encourages the use of plain English to describe broad topic references in the future. For example, to refer to the requirements of the *Derivatives and Hedging* topic, FASB suggests a reference similar to "as required by the *Derivatives and Hedging* topic of the FASB *Accounting Standards Codification*."

FRA-NFP02-Pages.indd 38 5/26/10 9:46:47 AM

On the other hand, FASB suggests using the detailed numerical referencing system in working papers, articles, textbooks, and related items. Additional information about how and when to implement the new FASB referencing system follows:

- *Nonpublic entities.* For nonpublic entities without interim filings, preparers choosing to reference specific accounting guidance in financial statements would make those references to FASB ASC for the first annual period ending after September 15, 2009. For example, a nonpublic entity with a July 31, 2009, year-end would not reference FASB ASC in its financial statements, but a nonpublic entity with a December 31, 2009, year-end would reference FASB ASC in its financial statements.
- *Public entities.* The SEC recently shared with the Center for Audit Quality SEC Regulations Committee some views on referencing FASB ASC in financial statements. For interim and annual financial statements for periods ending after September 15, 2009, the SEC stated that any references to specific elements of U.S. GAAP should use the FASB ASC reference. Therefore, a public entity filing financial statements for the quarter ended September 30, 2009, should reference FASB ASC in its financial statements. In addition, the SEC stated that references to specific U.S. GAAP (FASB ASC references) should be on a consistent basis for all periods presented. However, the SEC has encouraged companies to make financial statements more useful to users by drafting financial statement disclosures to avoid specific U.S. GAAP references and to more clearly explain accounting concepts.

Also, because FASB ASC is not intended to change U.S. GAAP, the consistent use of references to only FASB ASC for all periods presented (including periods before the authoritative release of FASB ASC) is appropriate.

However, if your NFP will continue to follow grandfathered guidance not included in FASB ASC, it would still be appropriate to reference those standards (and not FASB ASC). A listing of examples of grandfathered guidance can be found in FASB Statement No. 168.

Examples of disclosures using references to FASB ASC can be found at the AICPA's dedicated FASB ASC website: www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AcctgFinRptg/AcctgFinRptgGuidance/Pages/FASBAccountingStandardsCodification.aspx.

FRA-NFP02-Pages.indd 39 5/26/10 9:46:47 AM

Accounting for Uncertainty in Income Taxes

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, was issued in July 2006 with an effective date of fiscal years beginning after December 15, 2006. In December 2008, FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which continued the deferral of FASB Interpretation No. 48 started by FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, in February 2008. FSP FIN 48-3 (FASB ASC 740-10-65-1[e]) deferred the effective date of FASB Interpretation No. 48 for certain nonpublic enterprises. The FASB ASC glossary defines a *nonpublic enterprise* as an entity that does not meet any of the following criteria:

- Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter (OTC) market (including securities quoted only locally or regionally).
- It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an OTC market, including local or regional markets).
- Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Nonpublic consolidated entities of public enterprises that apply U.S. GAAP and any nonpublic enterprise that has already applied the provisions of FASB Interpretation No. 48 in a full set of annual financial statements are not eligible for the deferral. The guidance deferred the effective date of FASB Interpretation No. 48 until the annual financial statements for fiscal years beginning after December 15, 2008. Therefore, a calendar-year nonpublic company would need to apply FASB Interpretation No. 48 in 2009 for the first time.

In September 2009, FASB issued ASU No. 2009-06, *Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. This update affects all nongovernmental entities, and the disclosure amendments only apply to nonpublic entities. The four main provisions of the ASU include the following:

- If income taxes paid by the entity are attributable to the entity, the transaction should be accounted for in accordance with the guidance on uncertainty in income taxes in FASB ASC 740, *Income Taxes*. If the taxes paid by the entity are attributable to the owners, the transaction should be accounted for as a transaction with

FRA-NFP02-Pages.indd 40 5/26/10 9:46:48 AM

the owners. Attribution should be based on the laws and regulations of the jurisdiction and should be made for each jurisdiction where the entity is subject to income taxes.

- Management's determination of the taxable status of the entity, including its status as a pass-through entity or tax-exempt not-for-profit entity, is a tax position subject to the standards required for accounting for uncertainty in income taxes.
- Regardless of the tax status of the reporting entity, the tax positions of all entities within a related group of entities must be considered.
- For nonpublic entities, it eliminates the disclosures of a tabular reconciliation of the total amount of unrecognized tax benefits at the beginning and end of the periods presented and the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate (see FASB ASC 740-10-50-15[a]–[b]).

For entities that are currently applying the guidance on accounting for uncertainty in income taxes, this ASU is effective for interim and annual periods ending after September 15, 2009. For those entities that have deferred the application of accounting for uncertainty in income taxes in accordance with FSP FIN 48-3, this ASU is effective upon adoption of those standards.

Subsequent Events

In May 2009, FASB issued FASB Statement No. 165, which has been codified in FASB ASC 855, *Subsequent Events*, and is effective for interim and annual periods ending after June 15, 2009. This statement is intended to establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued, as defined in FASB ASC 855-10-20. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The purpose of this disclosure is to alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented.

In particular, this statement sets forth the following:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements

FRA-NFP02-Pages.indd 41 5/26/10 9:46:48 AM

- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date

FASB states that this guidance should not result in significant changes in current practice with regard to the subsequent events that an entity reports, either through recognition or disclosure, in its financial statements. Further, in September 2009, the AICPA issued two questions and answers regarding this guidance. Technical Questions and Answers (TIS) section 8700.01, "Effect of FASB ASC 855 on Accounting Guidance in AU Section 560" (AICPA, *Technical Practice Aids*), notes that preparers of financial statements for nongovernmental entities are required to follow the accounting guidance in FASB ASC 855. Additionally, the accounting guidance contained in AU section 560, *Subsequent Events* (AICPA, *Professional Standards*, vol. 1), would no longer be applicable to audits of nongovernmental entities. TIS section 8700.02, "Auditor Responsibilities for Subsequent Events" (AICPA, *Technical Practice Aids*), discusses the effects of the entity's responsibility to disclose the date through which the subsequent events have been evaluated on the auditor's responsibilities for subsequent events. Both questions and answers can be accessed at www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.aspx.

In February 2010, FASB issued ASU No. 2010-09 to address questions that arose in practice about potential conflicts between the guidance in FASB ASC 855 and SEC guidance—specifically, the requirements to disclose the date that the financial statements are issued. This ASU also addresses the intended breadth of the reissuance disclosure provision related to subsequent events.

ASU No. 2010–09 requires an entity that is an SEC filer or a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date the financial statements are issued. All other entities must evaluate subsequent events through the date the financial statements are available to be issued. Further, an entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. Lastly, only non-SEC filers should disclose in the revised financial statements the dates through which subsequent events have been evaluated in both the issued or available-to-be-issued financial statements and the revised financial statements. Revised financial statements are considered reissued financial statements.

The amendments in ASU No. 2010-09 are effective upon issuance, except for the use of the issued date for conduit bond obligors. That amendment is effective for interim or annual periods ending after June 15, 2010.

FRA-NFP02-Pages.indd 42 5/26/10 9:46:48 AM

Reporting Costs Paid by One NFP on Behalf of Another in Circumstances in Which the NFPs Are Affiliates

FASB ASC 850-10 provides disclosure requirements for related party transactions but does not require that those transactions be given accounting recognition. Per the definition of *related party* in the FASB ASC glossary, affiliates of NFPs are related parties. An *affiliate* is defined as "[a] party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity."

The guidance pertaining to related parties does not exempt the reporting of costs paid by one NFP on behalf of another. Accordingly, costs incurred by an NFP on behalf of an affiliated NFP should apply the guidance pertaining to contributions in FASB ASC 958-605-25-17, which states that "[c]ontributed services (and the related assets and expenses) should be recognized if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee and the recognition criteria for contributed services are met."

FASB ASC 958-605-25-16 provides that contributed services should be recognized if the services meet any of the following criteria:

- They create or enhance nonfinancial assets.
- They require specialized skills, are provided by individuals possessing the skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen.

As an example, suppose a theater has an affiliated foundation. The theater's accounting staff perform all of the accounting tasks for the foundation at no cost to the foundation. One of the criterions in FASB ASC 958-605-25-16 is met because the service requires specialized accounting skills, and the foundation typically would need to purchase that service if it were not provided by the theater. Accordingly, the foundation should recognize an in-kind contribution for the accounting services provided. Alternatively, suppose the theater's janitorial staff tend to the offices of the foundation staff at no cost to the foundation. None of the criteria in FASB ASC 958-605-25-16 are met because the janitorial services do not create or enhance nonfinancial assets nor do they require specialized skills. Accordingly, the foundation would not recognize an in-kind contribution for the janitorial services provided.

FRA-NFP02-Pages.indd 43 5/26/10 9:46:48 AM

Fair Value

FASB ASC 820-10-20 defines *fair value* and establishes a framework for measuring fair value; however, it does not dictate when an entity must measure something at fair value, nor does it expand the use of fair value in any way. The need to understand fair value accounting has increased in importance as alternative investments increased in popularity and complexity. *Fair value* is defined as "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."

Measuring Liabilities at Fair Value

On August 27, 2009, FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*. This ASU was issued to increase the consistency in the application of FASB ASC 820, *Fair Value Measurements and Disclosures*, to liabilities because many constituents had expressed concern. This ASU applies to all entities that measure liabilities at fair value under FASB ASC 820 and amends sections of FASB ASC 820-10.

This ASU states that, in circumstances in which a quoted price in an active market for the identical liability is not available, fair value of the liability must be measured by either (*a*) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities, or similar liabilities when traded as assets, or (*b*) another valuation technique that is consistent with the principles of FASB ASC 820, such as an income approach or a market approach. Further, if a restriction on the transference of the liability exists, the ASU clarifies that an entity is not required to factor that in to the inputs of the fair value determination. Lastly, the ASU also clarifies that a quoted price in an active market for the identical liability, or an unadjusted quoted price in an active market for the identical liability, when traded as an asset, are level 1 measurements within the fair value hierarchy. The guidance in this ASU is effective for the first reporting period (including interim periods) beginning after issuance. The full text of the ASU can be accessed from FASB's website at www.fasb.org.

Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)

In September 2009, FASB issued ASU No. 2009-12. This guidance was issued because of the complexities and practical difficulties in estimating the fair value of alternative investments. It is applicable to all reporting entities that hold an investment that is required or permitted to be measured or disclosed at fair value on a recurring or nonrecurring basis, and as of the reporting entity's measurement date, if the investment both

FRA-NFP02-Pages.indd 44 5/26/10 9:46:48 AM

- does not have a *readily determinable fair value*. The FASB ASC glossary states that an equity security has a readily determinable fair value if it meets any of the following conditions:
  - The fair value of any equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the SEC or in the OTC market, provided that those prices or quotations for the OTC market are publicly reported by NASDAQ or by Pink Sheets LLC. Restricted stock meets that definition if the restriction terminates within one year.
  - The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable with one of the U.S. markets referred to previously.
  - The fair value of an investment in a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.
- is in an entity that has all of the attributes specified in FASB ASC 946-10-15-2 or, if one of those attributes is not met, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in FASB ASC 946, *Financial Services—Investment Companies*.

As a practical expedient, this ASU permits a reporting entity to measure the fair value of an investment within its scope on the basis of the net asset value (NAV) per share of the investment (or its equivalent) if the NAV is calculated in a manner consistent with the measurement principles of FASB ASC 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with FASB ASC 820. If the practical expedient is used, certain attributes of the investment (such as restrictions on redemption) and transaction prices from principal-to-principal or brokered transactions will not be considered in measure the investment's fair value.

This ASU also requires disclosures by major category of investment about the attributes of investments, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investees. The major category of investment is required to be determined based on the guidance in FASB ASC 320-10-50-1B. These disclosures are required for all investments within the scope of this ASU. The ASU adds an example of its required disclosures in FASB ASC 820-10-55-64A.

FRA-NFP02-Pages.indd 45 5/26/10 9:46:48 AM

These amendments are effective for interim and annual periods ending after December 15, 2009, and are included in FASB ASC 820-10. Early application is permitted in financial statements for earlier and interim and annual periods that have not been issued. An entity may elect to early adopt the measurement amendments of this ASU and defer the adoption of the disclosure provisions of FASB ASC 820-10-50-6A until periods ending after December 15, 2009.

In December 2009, the AICPA issued sections .18–.27 of TIS section 2220, *Long-Term Investments* (AICPA, *Technical Practice Aids*), to assist reporting entities when implementing the provisions of FASB ASC 820 to estimate the fair value of their investments in certain entities that calculate NAV. TIS sections 2220.18–.27 apply to investments that are permitted or required to be measured and reported at fair value and are within the scope of paragraphs 4–5 of FASB ASC 820-10-15. These questions and answers compliment the guidance provided in ASU No. 2009-12.

Topics covered in these questions and answers include the following:

- The circumstances when NAV may be used to estimate the fair value of investments as a practical expedient
- How to identify the unit of account for interests in alternative investments
- Considerations for determining whether the reported NAV has been calculated in a manner consistent with FASB ASC 946
- Examples of circumstances when an adjustment to the reported NAV may be necessary
- How to adjust the reported NAV when it is not as of the reporting entity's measurement date
- How to adjust the reported NAV when it has not been calculated in accordance with FASB ASC
- The determination of the appropriate level within the fair value hierarchy for NAV of alternative investments in relation to the ability to redeem the investment versus the actual redemption request for the investment
- The definition of *near term* for the purposes of determining the appropriate level within the fair value hierarchy
- The tailoring of disclosure categories to address the nature and risks of investments
- Some considerations for determining the fair value of alternative investments when not utilizing NAV as a practical expedient

FRA-NFP02-Pages.indd 46 5/26/10 9:46:49 AM

The full text of the questions and answers can be located on the AICPA website at www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/Pages/RecentlyIssued TechnicalQuestionsandAnswers.aspx.

Fair Value Measurement for Gifts-In-Kind

Some NFPs receive a significant amount of gifts in-kind (GIK) for use in carrying out their program activities. Examples might include thrift shop operators who receive donations of clothing and household items or international relief and development agencies that receive donations of pharmaceuticals or similar medical supplies. For entities that receive a significant amount of GIK, the fair value measurement of that GIK may materially affect revenues and expenses recognized in the NFPs' financial statements.

Some donations of GIK are relatively easy to measure at fair value because observable inputs often are readily available, such as donations of marketable securities, automobiles, or real estate.

Other GIK donations are relatively difficult to measure at fair value because observable inputs are not readily available due to the unique characteristics of the donated assets. For example, an NFP may receive donations of certain pharmaceuticals that are not FDA-approved for sale in the United States or articles of clothing that are prohibited from being distributed to beneficiaries in the United States by the donor.

FASB ASC 820-10-20 defines *fair value* as "[t]he price that would be received to sell an asset . . . in an orderly transaction between market participants at the measurement date."

In applying the definition of fair value to GIK, NFPs should consider any restrictions on sale or use of the GIK by the NFP. To determine whether restrictions should affect the fair value measurement of the GIK, the NFP should determine whether the restrictions are asset specific or entity specific. FASB ASC 820-10 clarifies that asset-specific restrictions affect the fair value measurement but entity-specific restrictions do not. FASB ASC 820-10 contains guidance to help NFPs distinguish between asset-specific or entity-specific restrictions for the GIK they are measuring at fair value.

In developing inputs for the fair value measurement, NFPs also should assume the highest and best use of the GIK by the market participants that is physically possible, legally permissible, and financially feasible. In other words, the use that would maximize the economic value of the GIK to the market participants. Generally, this results in looking to commercial markets for fair value inputs, rather than charitable use of the GIK.

FRA-NFP02-Pages.indd 47 5/26/10 9:46:49 AM

Fair value inputs should be based upon the attributes that market participants would use to value the GIK. For the purposes of fair value measurements, *market participants* are buyers in the principal (or most advantageous) market for the GIK that are independent of the reporting entity, knowledgeable, and able and willing to transact for the GIK. Beneficiaries to which the NFP may distribute the GIK often would not qualify as market participants for the fair value measurement because the beneficiaries often are not willing or able to transact (that is, pay money) for the GIK. For example, certain types of pharmaceuticals are distributed to beneficiaries in developing countries. The beneficiaries receiving those pharmaceuticals usually do not have the resources to transact for those pharmaceuticals, and accordingly, the NFP would not consider the beneficiaries market participants for determining fair value. Instead, the NFP would look to commercial markets for these pharmaceuticals. If no commercial market exists for the specific pharmaceuticals, then the NFP may need to consider a hypothetical market using inputs from commercial markets for similar pharmaceuticals.

Valuation techniques used in fair value measurements include the income approach (converts future amounts, such as cash flow or earnings, to a single present amount); the cost approach (current replacement cost of the assets); or the market approach (uses prices and other relevant information generated by market transactions involving identical or comparable assets). Prevalent practice is to use the market approach for valuing GIK.

Inputs to the valuation techniques should prioritize the use of observable inputs over unobservable inputs. NFPs should give highest priority to level 1 inputs (unadjusted quoted prices in active markets for identical assets) and lowest priority to level 3 inputs (management's assumptions about the assumptions market participants would utilize). However, level 1 inputs often are not available for GIK. Level 2 inputs (inputs other than quoted prices included in level 1 that are observable for the asset) generally include quoted prices in active markets for assets similar to the donated GIK or quoted prices for identical or similar assets in markets that are not active. An example would be two buildings of similar size and condition within a downtown real estate market. An example of a level 3 input might include an estimated value provided by the donor. However, management has the responsibility to independently assess the reasonableness and accuracy of the value provided by the donor.

In developing methodologies for measuring fair value of GIK, NFPs should consider the guidance in FASB ASC 820-10, bearing in mind that the guidance in FASB ASC 820-10 is principles based and requires NFPs to use judgment in measuring fair value. Accordingly, it is possible that different NFPs can assign different fair values to the same type of GIK.

FRA-NFP02-Pages.indd 48 5/26/10 9:46:49 AM

Fair Value Measurements Disclosures

In February 2010, FASB issued FASB ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, to increase the transparency in financial reporting of fair value measurements. FASB noted that due to the different degrees of subjectivity and reliability on level 1, level 2, and level 3 fair value measurements, information about significant transfers between the three levels and the underlying reasons for such transfers would be useful to financial statements users.

This ASU amends FASB ASC 820-10 to require the following new disclosures:

- *Transfers in and out of levels 1 and 2*. A reporting entity should disclose separately the amounts of significant transfers in and out of level 1 and level 2 fair value measurements and describe the reasons for the transfers.
- *Activity in level 3 fair value measurements.* In the reconciliation for fair value measurements using significant unobservable inputs (level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

Additionally, the ASU amends FASB 820-10 to clarify certain existing disclosures as follows:

- *Level of disaggregation.* A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
- *Disaggregation of investments.* In making certain disclosures about fair value measurements, the entity should determine appropriate classes of assets and liabilities. For equity and debt securities, class should be determined on the basis of the nature and risks of the investments in a manner consistent with the guidance in FASB ASC 320-10-50-1B and, if applicable, should be the same as the guidance on major security type, as described in FASB ASC 942-320-50-2, even if the equity securities or debt securities are not within the scope of FASB ASC 320-10-50-1B. FASB ASC 820-10-50-2 states that for equity and debt securities, *major category* should be defined as major security types, as described in FASB ASC 320-10-50-1B, even if the equity and debt securities are not within the scope of FASB ASC 320, *Investments—Debt and Equity Securities*. Major security types should be based on the nature and risk of the security. In determining whether disclosure for a particular security type is necessary and whether it is necessary to further separate a particular

FRA-NFP02-Pages.indd 49 5/26/10 9:46:49 AM

security type into greater detail, an entity should consider (shared) activity or business sector, vintage, geographic concentration, credit quality, and economic characteristics. In determining the level of additional information, the entity should consider the ratio of specific investments to the total portfolio and the ratio of investments to equity or net assets. Investment groups may include industry groupings, geographic concentrations, and mutual fund strategy or type. The ASU specifically requires the disaggregation of residential mortgage backed securities and commercial mortgage backed securities.

- *Disclosures about inputs and valuation techniques*. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either level 2 or level 3.

The amendments in ASU No. 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

Financial Reporting Executive Committee Issues Draft Issues Paper on Fair Value Measurements and Disclosures for Certain Issues Pertaining to NFPs

In January 2010, the Financial Reporting Executive Committee (formerly known as the Accounting Standards Executive Committee) of the AICPA issued a draft issues paper, *FASB Accounting Standards Codification Section 820*, Fair Value Measurements and Disclosures, *for Certain Issues Pertaining to Not-for-Profit Entities*. The draft issues paper discusses fair value measurement for certain issues pertaining to NFPs.

Specifically, the paper discusses fair value measurement pertaining to the following:

- Unconditional promises to give cash
- Beneficial interests in perpetual trusts
- Split interest agreements

The comment period ended March 17, 2010. The draft issues paper can be found at www.aicpa.org/InterestAreas/AccountingAndAuditing/Community/NotforProfit/Pages/NFPFairValueMeasurements.aspx. Readers should be alert for the issuance of the final version of the issues paper.

Accounting for Losses Due to Fraud

A topic of discussion for management and their auditors is the manner in which losses due to fraud are reflected in the financial statements. Because no accounting standard exists that provides specific guidance on accounting for losses due to fraud, application of professional judgment in this matter can lead to different results. For example, some entities have determined that the losses should be reported in the current period, when the entity became aware of the fraud, whereas others are opting for a restatement of the financial statements for one or more prior periods because they believe the loss in value occurred in a prior period and, therefore, an adjustment is appropriate.

Management also should be aware of the requirements to properly disclose or recognize any liability associated with the potential clawback of distributions received from the perpetrator of Ponzi schemes. Lawsuits to recover funds distributed to investors prior to the discovery of a fraud for the purpose of redistributing the funds are also a possibility. Management, in conjunction with appropriate legal counsel, should determine the probability and result of such a lawsuit and disclose or accrue a potential liability, as required by FASB ASC 450, *Contingencies*.

Exposure Draft on Credit Quality and Credit Losses

In late June 2009, FASB issued the exposure draft *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which had a comment period through August 24, 2009. This guidance would require enhanced disclosures about the allowance for credit losses and the credit quality of financing receivables and would be applicable for all creditors, including public and nonpublic entities that prepare financial statements in accordance with U.S. GAAP. Under this proposed guidance, six major categories of disclosures are disaggregated either by portfolio segment or by class. These categories are allowance for credit losses, rollforward schedules of financing receivables, fair value, credit quality information, impaired financing receivables, and nonaccrual status. The goal of the exposure draft is to provide more information regarding the nature of credit risk inherent in the creditor's portfolio of financing receivables; how that risk is analyzed and assessed in arriving at the allowance for credit losses; and the changes, and reasons for the changes, in both the receivables and the allowance for credit losses. An ASU is expected to be issued in the second quarter of 2010.

Convergence With International Financial Reporting Standards

Since the signing of the Norwalk Agreement by FASB and the International Accounting Standards Board (IASB), the bodies have had a common goal—one set of accounting standards for international use. *International convergence of accounting standards* refers to

FRA-NFP02-Pages.indd 51 5/26/10 9:46:49 AM

both the goal of this project and the path taken to reach it. The path toward reaching this goal will both improve U.S. GAAP and International Financial Reporting Standards (IFRSs) and eliminate the differences between them. In the Norwalk agreement, each body acknowledged its commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. FASB and the IASB have undertaken several joint projects, which are being conducted simultaneously in a coordinated manner to further the goal of convergence of U.S. GAAP and IFRSs. The "On the Horizon" section of this alert discusses these joint projects. For more information, visit www.fasb.org and www.iasb.org.

FASB Not-for-Profit Advisory Committee

The FASB Not-for-Profit Advisory Committee (NAC) was established in October 2009 to serve as a standing resource for FASB in obtaining input from the NFP sector on existing guidance, current and proposed technical agenda projects, and longer-term issues affecting those organizations.

The primary functions of NAC are as follows:

- Provide focused input and feedback to the FASB board and staff on existing guidance, current and proposed technical agenda projects, and longer-term issues (for example, the alternatives and recommended course for financial reporting by NFPs if the SEC mandates IFRSs for public business entities)
- Assist the FASB board and staff in its communication and outreach activities to the NFP sector about recent and other existing guidance, current and proposed projects, and longer-term issues

More information about NAC and other FASB advisory groups is available at www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176154493483.

International Financial Reporting Standard for Small and Medium-sized Entities

In July 2009, the IASB issued *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). IFRS for SMEs* is an approximately 230-page significantly reduced and simplified version of full IFRSs. In creating *IFRS for SMEs*, the IASB eliminated many accounting topics that are not generally relevant to private companies (for example, earnings per share and segment reporting), easing the financial reporting burden on private companies and NFPs through a cost-benefit approach. *IFRS for SMEs* is a self-contained global accounting and financial reporting standard applicable to the general purpose financial statements of, and other financial reporting by, entities that are known in many countries as SMEs.

FRA-NFP02-Pages.indd 52 5/26/10 9:46:50 AM

IFRS for SMEs is intended to be used by entities that publish general purpose financial statements for external users and do not have public accountability. Under the IASB's definition, an entity has public accountability if it files or is in the process of filing its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market or if it holds assets in a fiduciary capacity for a broad group of outsiders. Examples of entities that hold assets in a fiduciary capacity include banks, insurance companies, brokers and dealers in securities, pension funds, and mutual funds. It is not the IASB's intention to exclude entities that hold assets in a fiduciary capacity for reasons incidental to their primary business (for example, travel agents, schools, and utilities) from utilizing *IFRS for SMEs*.

Unlike public companies, U.S. private companies and many NFPs are not required to use a particular basis of accounting when preparing their financial statements. The factors that drive an entity's choice of which financial accounting and reporting framework to follow in preparing its financial statements depend upon each company's objectives and the needs of their financial statement users. Currently, private companies and NFPs in the United States can prepare their financial statements in accordance with U.S. GAAP, as promulgated by FASB; an other comprehensive basis of accounting, such as cash or tax basis; or full IFRSs, among others. Now, with the issuance of *IFRS for SMEs*, U.S. private companies and NFPs have an additional option.

Some U.S. private companies and NFPs may find the simplified *IFRS for SMEs* an attractive alternative to the more complicated and voluminous U.S. GAAP. Those private companies may find *IFRS for SMEs* to be a more relevant and less costly financial accounting and reporting standard than U.S. GAAP. Being based on full IFRSs and missing many accounting topics, *IFRS for SMEs*, therefore, differs from U.S. GAAP in a variety of areas. Some of the key differences under *IFRS for SMEs* are the following:

- Disclosures are simplified in a number of areas including pensions, leases and financial instruments.
- Last in, first out (LIFO) is prohibited.
- Goodwill and indefinite life intangible assets are amortized over a period not exceeding 10 years.
- Depreciation is based on a components approach.
- The temporary difference approach to income tax accounting is simplified.
- Reversal of impairment charges, if certain criteria are met, is allowed.
- Accounting for financial assets and liabilities makes greater use of cost.

FRA-NFP02-Pages.indd 53 5/26/10 9:46:50 AM

Some key challenges that may be present in choosing to use *IFRS for SMEs* include understanding the differences between *IFRS for SMEs* and U.S. GAAP, the willingness of financial statement users to accept financial statements prepared under *IFRS for SMEs*, working with and accepting a more principles-based set of accounting standards compared to the more rules-based U.S. GAAP, the impact on taxes and tax planning strategies, and the impact on financial reporting metrics.

The AICPA welcomes the introduction of *IFRS for SMEs* in the United States. Private companies and NFPs should be allowed to choose the financial accounting and reporting framework that best suits their objectives and the needs of their financial statement users. *IFRS for SMEs* represents another valuable financial accounting and reporting option for private companies to consider using, depending upon their unique circumstances.

CPAs may need to check with their state boards of accountancy to determine the status of reporting on financial statements prepared in accordance with *IFRS for SMEs* within their individual state. Any remaining barriers may come in the form of unwillingness by a private company's financial statement users to accept financial statements prepared under *IFRS for SMEs*, and a private company's expenditure of money, time and effort to convert to *IFRS for SMEs*. Information about *IFRS for SMEs* and about the activities of the IASB can be found at www.ifrs.com.

The AICPA Launches IFRS.com Website

To assist in both awareness building and education, the AICPA maintains and updates the website www.ifrs.com. The site provides current information about developments in international convergence. Developed by the AICPA, in partnership with its marketing and technology subsidiary, CPA2Biz, www.ifrs.com provides a comprehensive set of resources for accounting professionals, auditors, financial managers, audit committees, and other users of financial statements.

The website features tools and resources to help CPAs get acquainted with IFRSs, the surrounding issues, and available support. Resources include up-to-date financial news and information, training, FAQs, articles and publications, online video presentations, a blog, and a Wiki. The Wiki is a collaborative, ongoing work in progress for anyone to contribute and use. The purpose of the Wiki is to provide a detailed and comprehensive comparison of *IFRS for SMEs* with corresponding requirements of U.S. GAAP. Contributing to the Wiki is improving the resource for the entire CPA profession.

Private Company Financial Reporting

In December 2009, the AICPA and the Financial Accounting Foundation established the "blue-ribbon panel" to address how U.S. accounting standards can best meet the needs of users of private company financial statements. This panel also is sponsored

FRA-NFP02-Pages.indd 54 5/26/10 9:46:50 AM

by the National Association of State Boards of Accountancy. The "blue-ribbon panel" will provide recommendations on the future of standard setting for private companies, including whether separate, stand-alone accounting standards for private companies are needed. Although no deadline has been set for the panel's work, the recommendations are likely to come in 2010.

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

The following table contains a list of recently issued accounting pronouncements and related guidance. For information on accounting standards issued subsequent to the writing of this alert, please refer to the AICPA website at www.aicpa.org and the FASB website at www.fasb.org. You also may look for announcements of newly issued standards in the *CPA Letter* and *Journal of Accountancy*.

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2010-18 (April 2010)	*Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2010-17 (April 2010)	*Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition-a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2010-16 (April 2010)	*Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2010-15 (April 2010)	*Financial Services—Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2010-14 (April 2010)	*Accounting for Extractive Activities—Oil & Gas—Amendments to Paragraph 932-10-S99-1*
FASB ASU No. 2010-13 (April 2010)	*Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2010-12 (April 2010)	*Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts*
FASB ASU No. 2010-11 (March 2010)	*Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*
FASB ASU No. 2010-10 (February 2010)	*Consolidation (Topic 810): Amendments for Certain Investment Funds*
FASB ASU No. 2010-09 (February 2010)	*Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*
FASB ASU No. 2010-08 (February 2010)	*Technical Corrections to Various Topics*

(continued)

FRA-NFP02-Pages.indd 55 5/26/10 9:46:50 AM

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

FASB ASU No. 2010-07 (January 2010)	*Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions*
FASB ASU No. 2010-06 (January 2010)	*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*
FASB ASU No. 2010-05 (January 2010)	*Compensation—Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*
FASB ASU No. 2010-04 (January 2010)	*Accounting for Various Topics—Technical Corrections to SEC Paragraphs*
FASB ASU No. 2010-03 (January 2010)	*Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures*
FASB ASU No. 2010-02 (January 2010)	*Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*
FASB ASU No. 2010-01 (January 2010)	*Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2009-17 (December 2009)	*Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*
FASB ASU No. 2009-16 (December 2009)	*Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*
FASB ASU No. 2009-15 (October 2009)	*Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2009-14 (October 2009)	*Software (Topic 985): Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2009-13 (October 2009)	*Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*
FASB ASU No. 2009-12 (September 2009)	*Fair Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*
FASB ASU No. 2009-11 (September 2009)	*Extractive Activities—Oil and Gas—Amendment to Section 932-10-S99*
FASB ASU No. 2009-10 (September 2009)	*Financial Services—Broker and Dealers: Investments—Other—Amendment to Subtopic 940-325*
FASB ASU No. 2009-09 (September 2009)	*Accounting for Investments—Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees—Amendments to Sections 323-10-S99 and 505-50-S99*
FASB ASU No. 2009-08 (September 2009)	*Earnings per Share—Amendments to Section 260-10-S99*
FASB ASU No. 2009-07 (September 2009)	*Accounting for Various Topics—Technical Corrections to SEC Paragraphs*
FASB ASU No. 2009-06 (September 2009)	*Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*
FASB ASU No. 2009-05 (August 2009)	*Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value*

FRA-NFP02-Pages.indd 56 5/26/10 9:46:50 AM

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

FASB ASU No. 2009-04 (August 2009)	*Accounting for Redeemable Equity Instruments—Amendment to Section 480-10-S99*
FASB ASU No. 2009-03 (August 2009)	*SEC Update—Amendments to Various Topics Containing SEC Staff Accounting Bulletins*
FASB ASU No. 2009-02 (June 2009)	*Omnibus Update—Amendments to Various Topics for Technical Corrections*
FASB ASU No. 2009-01 (June 2009)	*Topic 105—Generally Accepted Accounting Principles—amendments based on—Statement of Financial Accounting Standards No. 168—The FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles
FASB Statement No. 168 (June 2009) (Codified in FASB *Accounting Standards Codification* [ASC] 105, *Generally Accepted Accounting Principles*)	*The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*
FASB Statement No. 167 (June 2009) (Codified in FASB ASC 810, *Consolidation)*	*Amendments to FASB Interpretation No. 46(R)*
FASB Statement No. 166 (June 2009) (Codified in FASB ASC 860, *Transfers and Servicing*)	*Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*
FASB Statement No. 165 (May 2009) (Codified in FASB ASC 855, *Subsequent Events*)	*Subsequent Events*
FASB Statement No. 164 (April 2009) (Codified in FASB ASC 810 and 350, *Intangibles—Goodwill and Other*)	*Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142*
FASB Emerging Issues Task Force (EITF) Issues (Various dates)	Go to www.fasb.org/eitf/agenda.shtml for a complete list of EITF Issues.
FASB Staff Positions (FSPs) (Various dates)	Go to www.fasb.org for a complete list of FSPs.
Technical Questions and Answers (TIS) section 6910.33, "Certain Financial Reporting, Disclosure, Regulatory, and Tax Considerations When Preparing Financial Statements of Investment Companies Involved in a Business Combination" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses considerations and provides illustrative examples relating to an investment company that is engaged in a business combination.

(continued)

TIS section 2220.18, "Applicability of Practical Expedient" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the circumstances when net asset value (NAV) could be considered as a basis for determining the fair value of investments.
TIS section 2220.19, "Unit of Account" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the definition of *unit of account* in relation to alternative investments.
TIS section 2220.20, "Determining Whether NAV is Calculated Consistent with FASB ASC 946, *Financial Services—Investment Companies*" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses considerations in determining whether NAV reported by the manager of the alternative investment has been calculated in a manner consistent with FASB ASC 946.
TIS section 2220.21, "Determining Whether an Adjustment to NAV is Necessary" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer provides examples of circumstances when an adjustment to NAV reported by the manager of the alternative investment may be necessary.
TIS section 2220.22, "Adjusting NAV When It Is Not as of the Reporting Entity's Measurement Date" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer provides examples of circumstances when an adjustment to NAV reported by the manager of the alternative investment may be necessary due to a difference from the reporting entity's measurement date and an example of how NAV might be adjusted accordingly.
TIS section 2220.23, "Adjusting NAV When It Is Not Calculated Consistent with FASB ASC 946" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer provides examples of circumstances when an adjustment to NAV reported by the manager of the alternative investment may be necessary because it has not been calculated in accordance with FASB ASC 946 and examples of how NAV might be adjusted accordingly.
TIS section 2220.24, "Disclosures—Ability to Redeem Versus Actual Redemption Request" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the determination of the appropriate level within the fair value hierarchy for alternative investments when taking into account restrictions on redemption of the investments.
TIS section 2220.25, "Impact of 'Near Term' on Classification Within Fair Value Hierarchy" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the definition of *near term* for the purposes of applying the fair value hierarchy.
TIS section 2220.26, "Categorization of Investments for Disclosure Purposes" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the tailoring of disclosure categories to the nature and risks of the investments held.

TIS section 2220.27, "Determining Fair Value of Investments When the Practical Expedient is not Used or is not Available" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses considerations for valuing alternative investments when not utilizing NAV as a practical expedient for determining fair value of investments.
TIS section 6910.30, "Disclosure Requirements of Investments for Nonregistered Investment Partnerships When Their Interest in an Investee Fund Constitutes Less Than 5 Percent of the Nonregistered Investment Partnership's Net Assets" (AICPA, *Technical Practice Aids*) Issue Date: August 2009 (Nonauthoritative)	This question and answer discusses the disclosure requirements for investments for nonregistered investment partnerships.
TIS section 6910.31, "The Nonregistered Investment Partnership's Method for Calculating Its Proportional Share of Any Investments Owned by an Investee Fund in Applying the '5 Percent Test' Described in TIS Section 6910.30" (AICPA, *Technical Practice Aids*) Issue Date: August 2009 (Nonauthoritative)	This question and answer discusses the method of determining the application of TIS section 6910.30 to nonregistered investment partnerships.
TIS section 6910.32, "Additional Financial Statement Disclosures for Nonregistered Investment Partnerships When the Partnership Has Provided Guarantees Related to the Investee Fund's Debt" (AICPA, *Technical Practice Aids*) Issue Date: August 2009 (Nonauthoritative)	This question and answer discusses additional disclosures required for nonregistered investment partnerships.
TIS section 1600.04, "Presentation of Assets at Current Values and Liabilities at Current Amounts in Personal Financial Statements" (AICPA, *Technical Practice Aids*) Issue Date: June 2009 (Nonauthoritative)	This question and answer discusses the definitions of *current values* and *current amounts* for personal financial statements.

FRA-NFP02-Pages.indd 59 5/26/10 9:46:51 AM

Audit and Attestation Issues Affecting Your Entity's Audit or Attest Engagement

Understand what your auditor will be looking for under the requirements for a risk-based approach to financial statement audits as a result of the current economic crisis.

The recent economic conditions and regulatory actions described in this alert may cause additional risk factors that had not previously existed or did not have a material effect on your entity in prior years. Some examples that may result from the current economic conditions are as follows:

- Constraints on the availability of capital and credit
- Going concern and liquidity issues
- Marginal achievement of explicitly stated strategic objectives
- Use of off-balance-sheet financings, special-purpose entities, and other complex financing arrangements
- Volatile real estate markets
- The credit crisis

Your entity's auditor will be considering factors such as these in the audit of the financial statements because these items may result in significant measurement uncertainty, including accounting estimates and fair value measurements, and operations that are exposed to volatile markets. Your entity's auditor may increase the extent of audit procedures, perform procedures closer to year-end, or increase audit procedures to obtain more persuasive evidence.

Audit and Attest Issues for Nonissuers

Fair Value Measurements

In addition to the looming questions relative to fair value accounting, expect your entity's auditors to pay special attention to fair value measurements. Particular assets, liabilities, and components of equity are measured or disclosed at fair value in the financial statements, and it is your responsibility as financial management to make the fair value measurements and disclosures. It is the auditor's responsibility, when auditing these fair values, to ensure they are in conformity with U.S. GAAP.

FRA-NFP02-Pages.indd 60 5/26/10 9:46:51 AM

Your entity's auditor will carefully analyze the sufficiency of audit evidence to support fair value measurements. The auditor will obtain an understanding of your entity's process for determining fair values, as well as whether the fair value measurements and disclosures are in accordance with U.S. GAAP. During this testing, your entity's auditor also may identify any possible indicators of impairment. When testing the fair value measurements and disclosures, the auditor evaluates whether management's assumptions are reasonable and reflect market information or are not consistent with market information. In relation to FASB Statement No. 157, *Fair Value Measurements*, this might include whether the market is distressed, whether the transaction was an orderly transaction, the reasonableness of the determination within the fair value hierarchy of inputs, and the reasonableness of the underlying assumptions. You should consider these issues to ensure proper fair value measurements in your entity's financial statements and to expect your entity's auditors to closely examine these measurements.

Accounting Estimates

Your entity's auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as whole. Although this alert has discussed fair value measurements at length, it is important to remember that many types of accounting estimates exist in your entity's financial statements. Some examples include the allowance for uncollectible accounts receivable, impairment analysis and estimated useful lives of long-lived assets, valuation allowance for deferred tax assets, and actuarial assumptions in pension and other postretirement benefit costs. Given the current economic climate, your entity's auditor will exercise additional skepticism when considering the underlying assumptions used in accounting estimates.

Consideration of an Entity's Ability to Continue as a Going Concern

The consideration of an entity's ability to continue as a going concern is required in every audit performed under generally accepted auditing standards and is an especially important consideration in the current state of the economy. As explained by AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1), the auditor's evaluation is based on relevant conditions that exist at, or have occurred prior to, the date of the auditor's report. It is important to note the current time frame for this consideration is one year beyond the date of the financial statements. If the auditor believes a substantial doubt exists about the entity's ability to continue as a going concern, the next steps are to obtain management's plans to mitigate the effect of such conditions and then assess the likelihood these plans can be effectively implemented.

Some examples of indicators that there could be substantial doubt about the ability of your NFP to continue as a going concern include, but are not limited to, the following:

FRA-NFP02-Pages.indd 61 5/26/10 9:46:51 AM

- Negative unrestricted net assets.
- Negative unrestricted net assets after subtracting net investment in property, plant, and equipment (for example, property, plant, and equipment net of related debt) and other noncurrent illiquid assets. For example, if unrestricted net assets are $1 million, but the net investment in property, plant, and equipment is $1.5 million.
- Negative cash from operations, even after including cash provided from a spending rate.
- Decline in temporarily restricted net assets several years in a row, yet program expenses have not declined (this could indicate resources are not being replenished).
- The organization has "borrowed" from permanently restricted or temporarily restricted net assets.
- Change in unrestricted net assets is negative for more than one year. Although many organizations may add back depreciation to reduce a negative change in net assets, the organization would not be accumulating sufficient resources to replace property, plant, and equipment when it is fully depreciated.
- Negative trends in contributions received or grants from exchange transactions.
- Legislative changes that significantly reduce or eliminate governmental funding of the NFP's programs.
- Existing or expected loss of one or more major donors or other resource providers.
- Negative publicity about illegal acts, fraud, or other matters that could affect future funding.
- Noncompliance with donor restrictions that could affect future funding or create liabilities.
- Changes in laws that could affect the NFP's ability to carry out its program. For example, the program services become illegal or unnecessary.
- Potential changes in tax-exempt status that could affect future funding.
- Projected significant increases in expenses.

If an auditor determines a substantial doubt exists about your entity's ability to continue as a going concern, the auditor should communicate with those charged with governance of the entity in accordance with AU section 341. AU section 341 provides guidance to an auditor evaluating whether substantial doubt exists about an entity's ability to continue as a going concern and what the auditor should do when a going concern exists. FASB has undertaken a project that will relocate the guidance related to going concern from the auditing standards to accounting standards. See the "On the Horizon" section of this alert for details.

FRA-NFP02-Pages.indd 62 5/26/10 9:46:51 AM

On the Horizon

Explore current projects and pronouncements to anticipate their effect on your entity.

Presented in the following sections is information about ongoing projects of particular significance or projects that may result in significant changes. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing existing standards.

The following table lists the various standard setting bodies' websites, where information may be obtained on outstanding exposure drafts, including downloading exposure drafts. These websites contain much more in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to information provided by the various standard setting bodies for further information.

Standard-Setting Body	*Website*
AICPA Auditing Standards Board	www.aicpa.org/InterestAreas/AccountingAndAuditing/Community/AuditingStandardsBoard/Pages/ASB.aspx
Financial Accounting Standards Board	www.fasb.org
Governmental Accounting Standards Board	www.gasb.org
Professional Ethics Executive Committee	www.aicpa.org/InterestAreas/ProfessionalEthics/Pages/ProfessionalEthics.aspx
Public Company Accounting Oversight Board	www.pcaob.org
Securities and Exchange Commission	www.sec.gov

Accounting Pipeline

Presented in the following sections are accounting projects and pronouncements currently in progress. Some of the proposed pronouncements discussed in last year's alert have not been finalized as of this writing and, thus, are included again.

FASB and IASB Memorandum of Understanding

In September 2008, FASB and the IASB updated their "Memorandum of Understanding" (MoU), originally published in 2006, to reaffirm their respective commitments to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. FASB and the IASB agreed that the goal of joint projects is to produce common, principles-based standards, subject to the required due process. In the MoU, the boards identified 11 convergence topics on which to focus and, at the October 2009 meeting, developed strategies to ensure timely completion of the following:

FRA-NFP02-Pages.indd 63 5/26/10 9:46:52 AM

- Financial instruments
- Consolidations
- Derecognition
- Fair value measurement
- Revenue recognition
- Leases
- Financial instruments with characteristics of equity
- Financial statement presentation
- Other MoU projects
- Other joint projects

Also, during the October 2009 meeting, FASB and the IASB reaffirmed their commitment to convergence, agreed to intensify their efforts to complete the major projects discussed in the MoU, and committed to making quarterly progress reports on these major projects. Further, mid-2011 is the goal of completion of major MoU projects. FASB and the IASB also have several other joint projects in process, including the conceptual framework project, emissions trading schemes, insurance contracts, and reporting discontinued operations. In March 2010, the exposure draft *Conceptual Framework for Financial Reporting* was published for public comment.

Readers also are encouraged to monitor developments on the AICPA's website, www.ifrs.com, in addition to the FASB, IASB, and SEC websites. The growing acceptance of IFRSs as a basis for U.S. financial reporting could represent a fundamental change for the U.S. accounting profession.

Going Concern FASB Project

Currently, the only guidance on going concern resides in the auditing literature, and this project's intention is to incorporate going concern guidance into U.S. GAAP. Specifically, this guidance would discuss the following:

- Preparation of financial statements as a going concern
- An entity's responsibility to evaluate its ability to continue as a going concern
- Disclosure requirements when financial statements are not prepared on a going concern basis
- Disclosure requirements when there is a substantial doubt about an entity's ability to continue as a going concern

FRA-NFP02-Pages.indd 64 5/26/10 9:46:52 AM

A draft of the proposed statement was released and commented on late in 2008. In a February 2009 board meeting, FASB discussed the comments received on the proposal and decided to provide guidance that defines a going concern and clarifies that the period for the going concern assessment is not a strict 12-month period, nor is it intended to be an indefinite look-forward period. FASB also has decided to broaden the scope of the project to include disclosure enhancements on short and long term risks, defining *substantial doubt*, and defining when the liquidation basis of accounting is appropriate. Readers should be alert to developments on this topic.

Other Accounting Projects

Additionally, FASB has the following projects underway:

- Disclosure of certain loss contingencies
- Disclosure framework
- Investment properties
- Accounting for casino jackpots
- Accounting for a loan modification when the loan is accounted for under the aggregate pool method in FASB ASC 310-30

FASB and the IASB established an advisory group, the Financial Crisis Advisory Group (FCAG), which is composed of senior leaders with international experience in financial markets. The FCAG advises FASB and the IASB about the standard setting implications of the global financial crisis, as well as changes to the global regulatory environment. Readers should refer to http://fasb.org/fcag/index.shtml for additional information.

Resource Central

Discover additional tools to increase your ability to serve your entity's financial reporting needs.

The following are various resources that you may find beneficial.

Publications

You may find the following publications useful with respect to recent financial accounting, reporting, and management developments:

FRA-NFP02-Pages.indd 65 5/26/10 9:46:52 AM

- Audit and Accounting Guide *Not-for-Profit Entities* (2010) (product no. 0126410 [paperback], WNP-XX [online with the associated Audit Risk Alert], or DNP-XX [CD-ROM])
- Audit and Accounting Guide Government Auditing Standards and *Circular A-133* Audits (2009) (product no. 012749 [paperback], WRF-XX [online with the associated Audit Risk Alert], or DRF-XX [CD-ROM])
- Audit and Accounting Guide *Health Care Entities* (2009) (product no. 012619 [paperback], WHC-XX [online with the associated Audit Risk Alert], or DHC-XX [CD-ROM])
- Financial Reporting Alert *Current Economic Instability: Accounting Issues and Risks for Financial Management and Reporting—2010* (product no. 0292010 [paperback])
- *Smart Risk Management: A Guide to Identifying and Reducing Everyday Business Risks* (product no. 029884 [paperback])
- *Accounting Trends & Techniques, 63rd Edition* (product no. 0099009 [paperback] or WAT-XX [online])
- *IFRS Accounting Trends & Techniques* (product no. 0099109 [paperback] or WIF-XX [online])
- Checklists and Illustrative Financial Statements *Not-for-Profit Entities* (product no. 0089810 [paperback] or WNP-CL [online])
- *Preparing and Reporting on Cash- and Tax-Basis Financial Statements* (product no. 006701 [paperback])

AICPA Resource: Accounting and Auditing Literature

The AICPA has created your core accounting and auditing library online. AICPA Resource is now customizable to suit your preferences or your firm's needs. Or, you can sign up for access to the entire library. Get access—anytime, anywhere—to the FASB ASC, the AICPA's latest *Professional Standards, Technical Practice Aids*, Audit and Accounting Guides, Audit Risk Alerts, *Accounting Trends & Techniques*, and more. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

Continuing Professional Education

The AICPA offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in industry and public practice, including the following:

FRA-NFP02-Pages.indd 66 5/26/10 9:46:52 AM

- *AICPA's Annual Accounting and Auditing Update Workshop (2009–2010 Edition)* (product no. 730095 [text] or 180095 [DVD]). Designed for those in business and industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *Internal Control Essentials for Financial Managers, Accountants and Auditors* (product no. 731856 [text]). This course will provide you with a solid understanding of systems and control documentation at the significant process level.
- *International Versus U.S. Accounting: What in the World is the Difference?* (product no. 731667 [text] or 181661 [DVD]). Understanding the differences between IFRSs and U.S. GAAP is becoming more important for businesses of all sizes. This course outlines the major differences between IFRSs and U.S. GAAP.

Among the many courses, the following are specifically related to the NFP industry:

- *Nonprofit Auditing and Accounting Update (2009–2010 Edition)* (product no. 732095 [text] or 182076 [DVD]). Covering all the latest auditing and accounting developments affecting NFPs, this course will give you a complete understanding of changes in the NFP environment. For 2009–10, the course will include coverage of the differences between SAS Nos. 112 and 115, developments in the A-133 area, understanding FASB ASC, and more.
- *Accounting and Reporting Practices of Not-for-Profit Organizations* (product no. 743277 [text]). Understand and apply the requirements of FASB and AICPA pronouncements to NFPs. Consider real world financial statements, cases, and problems faced by CPAs with NFP clients and executives of NFPs.
- *Frequent Frauds Found in Governments and Not-For-Profits* (product no. 733312 [text]). Through an informative case study approach, this course illustrates common frauds that make headlines and damage the reputations of governments and NFPs.

Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

AICPA CPExpress, offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. AICPA members pay $180 for a new subscription and $149 for the annual renewal. Nonmembers pay $435 for a new subscription and $375 for the annual renewal. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning in a wide variety of topics. Some topics of special interest to NFPs include the following:

FRA-NFP02-Pages.indd 67 5/26/10 9:46:52 AM

- *Nonprofit Auditing: Unique Auditing for a Unique Entity*
- *Fraud in Exempt Organizations: The Governmental and Not-for-Profit Environments*
- *Nonprofit Accounting: Financial Reporting*
- *Controllers: AICPA's Annual Update*

To register or learn more, visit www.cpa2biz.com.

Webcasts

Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high quality, two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available on CD-ROM.

CFO Quarterly Roundtable Series

The CFO Quarterly Roundtable Series, brought to you each calendar quarter via webcast, covers a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFOs' personal success. From financial reporting, budgeting, and forecasting to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

SEC Quarterly Update Webcast Series

The SEC Quarterly Update Webcast Series, brought to you each calendar quarter, showcases the profession's leading experts on what is "hot" at the SEC. From corporate accounting reform legislation and new regulatory initiatives to accounting and reporting requirements and corporate finance activities, these hard-hitting sessions will keep you "plugged in" to what is important. A must for preparers in public companies and practitioners who have public company clients, this is the place to be when it comes to knowing about the areas of current interest at the SEC.

IFRS Quarterly Webcast Series

The IFRS Quarterly Webcast Series, brought to you each calendar quarter, will cover in detail significant standards within the IFRSs and related literature and contract the IFRSs approach with U.S. GAAP. These practical, down-to-earth sessions will keep you "plugged-in" to what's important. This course is a must for both preparers in public companies and practitioners who have public company clients.

FRA-NFP02-Pages.indd 68 5/26/10 9:46:52 AM

Member Service Center

To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at (888) 777-7077.

Hotlines

Accounting and Auditing Technical Hotline

Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. You can reach the Technical Hotline, available from 9 a.m. to 8 p.m. on weekdays, at (877) 242-7212 or at www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx.

Ethics Hotline

In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at (888) 777-7077 or by e-mail at ethics@aicpa.org.

Conferences

The AICPA offers a number of conferences for practitioners in NFPs that include the most recent developments affecting the profession:

- The AICPA National Audit Committee Forum has been developed by experienced audit committee members to address current and emerging issues associated with the best practices of audit committee functions. The forum will identify key issues for audit committees. It also will provide an in-depth examination of the resources, processes, and tools required to address these issues and to implement new ideas. The forum will be held in Washington, DC, on July 29–30, 2010.
- The AICPA sponsors a Controllers Workshop in the summer and fall of each year. The Controllers Workshop is a two-day conference developed by controllers for controllers. Controllers, accounting and financial managers, treasurers, CFOs, and CEOs are all encouraged to attend. The 2010 Controllers Workshops will take place July 20–21 and November 11–12.

FRA-NFP02-Pages.indd 69 5/26/10 9:46:53 AM

- The AICPA offers its annual NFPs conference in June. The National Not-for-Profit Industry Conference is a comprehensive forum that deals with the challenges facing NFP practitioners and financial executives today. It's where you'll find out the latest information on the impact of tax, management, auditing, and accounting issues pertaining to NFPs. You'll also receive training in operational strategies that are crucial to the well-being of an NFP. For further information about the conference, call (888) 777-7077 or visit www.cpa2biz.com.
- In November, the AICPA offers its Not-for-Profit Financial Executive Forum in Anaheim, CA. This conference is a unique educational offering focusing on the issues faced by financial executives in NFPs. The objective of the forum is to provide a solutions-based conference that will address a wide variety of relevant topics encountered by the NFP financial executive. The sessions offered will enable increased interaction and the exchange of ideas among the participants and seek to provide clarification on the tough subjects. For further information about the conference, call (888) 777-7077 or visit www.cpa2biz.com.
- The AICPA National CFO Conference provides the opportunity to learn from expert speakers and fellow practitioners who will share insights and practical examples on how they are managing now and in the future. The focus of this conference will be on using and developing appropriate resources, enhancing your leadership skills, and recognizing and managing risks. This conference will be held in La Jolla, California, May 13–14, 2010.
- The AICPA has partnered with the Enterprise Risk Management Initiative faculty at North Carolina State University to offer the one-and-one-half day workshop: "The Board and Senior Executive Roles in Risk Oversight: Taking a Strategic View of the Enterprise." This workshop helps board and audit committee members understand expectations for greater risk oversight and develop effective audit committee practices for evaluating and monitoring techniques used to manage entity risks so that stakeholder value is protected and enhanced. Senior executives will find this information helpful as well due to the interaction between the board, audit committee, and senior executives. This forum will be held on October 14–15, 2010, in New York City, New York.

For further information about AICPA conferences or to register, call (888) 777-7077 or visit www.cpa2biz.com.

Services for AICPA Members in Business, Industry, and Government

The AICPA provides a number of centers and services directed at its members in business and industry, including the Financial Management Center, the Audit Committee Effectiveness Center, and the Audit Committee Matching System. These centers and

FRA-NFP02-Pages.indd 70 5/26/10 9:46:53 AM

services can be accessed by visiting www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Pages/BIGHome.aspx.

AICPA Financial Management Center

The Financial Management Center serves CPAs working in business, industry, and government and is designed to provide financial managers and executives with tools and resources to move entities forward.

Audit Committee Effectiveness Center

Realizing that financial statement integrity and reliability depends upon balancing the pressures of multiple stakeholders, including management, regulators, investors, and the public interest, this center provides guidance and tools to make audit committee best practices actionable. Several audit committee toolkits are offered through this center, including public company, NFP, and government toolkits.

Audit Committee Matching System

The Audit Committee Matching System was designed (*a*) to provide members with opportunities to serve on boards of directors and (*b*) as a public service to provide a list of qualified, credentialed candidates to serve on boards of directors and, presumably, the audit committees of those boards.

* * *

This alert replaces *Not-for-Profit Entities—Accounting Issues and Risks—2009*.

We hope you find this alert helpful to you and your entity. We would greatly appreciate your feedback on this alert. You may e-mail these comments to ccole@aicpa.org or write to

Christopher Cole, CPA, CFE, CFF
AICPA
220 Leigh Farm Road
Durham, NC 27707-8110

FRA-NFP02-Pages.indd 71 5/26/10 9:46:53 AM

Appendix—Additional Internet Resources

Here are some useful websites that may provide valuable information to accountants.

Website Name	*Content*	*Website*
AICPA	Summaries of recent auditing and other professional standards as well as other AICPA activities	www.aicpa.org www.cpa2biz.com www.ifrs.com
AICPA Financial Reporting Executive Committee (formerly known as the Accounting Standards Executive Committee)	Summaries of recently issued guides, technical questions and answers, and practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/InterestAreas/AccountingAndAuditing/Community/ACSEC/Pages/AcSEC.aspx
AICPA Accounting and Review Services Committee	Summaries of review and compilation standards and interpretations	www.aicpa.org/InterestAreas/AccountingAndAuditing/Community/AccountingReviewServicesCommittee/Pages/ARSC.aspx
AICPA Professional Issues Task Force	Summaries of practice issues that appear to present concerns for practitioners and disseminate information or guidance, as appropriate, in the form of practice alerts	www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AudAttest/AudAttestGuidance/Pages/PITFPracticeAlerts.aspx
Better Business Bureau	Information about not-for-profit entities (NFPs) and donors	www.give.org
Board Source	Resources to help strengthen NFPs' boards of directors	www.boardsource.org
The Chronicle of Philanthropy	Articles from the *Chronicle of Philanthropy* newspaper and links to other sites	www.philanthropy.com
CompassPoint Nonprofit Services	Workshops, consulting, publications, and other information and resources of interest to managers of NFPs	www.compasspoint.org
CPAnet	Links to other websites of interest to CPAs	www.cpanet.com
Economy.com	Source for analyses, data, forecasts, and information on the U.S. and world economies	www.economy.com
The Federal Reserve Board	Source of key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
Government Accountability Office	Policy and guidance materials and reports on federal agency major rules	www.gao.gov

FRA-NFP02-Pages.indd 72 5/26/10 9:46:53 AM

Website Name	***Content***	***Website***
Governmental Accounting Standards Board (GASB)	Summaries of recent accounting pronouncements and other GASB activities	www.gasb.org
Guidestar	Information, news, and resources for NFPs and donors	www.guidestar.org
Independent Sector	A forum to encourage giving, volunteering, NFP initiatives, and citizen action	www.independentsector.org
Information for Tax-Exempt Organizations (an IRS site)	A Treasury Department site providing information and answers to frequently asked questions regarding tax-exempt entities	www.irs.gov/charities/index.html
International Accounting Standards Board	Summaries of International Financial Reporting Standards and International Accounting Standards	www.iasb.org
International Auditing and Assurance Standards Board	Summaries of International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Information on standards setting activities in the international arena	www.ifac.org
National Association of College and University Business Officers	Provides information geared to colleges and universities, including accounting tutorials on specific situations encountered in higher education accounting	www.nacubo.org
National Center for Charitable Statistics	Provides statistics on revenue and expenses of NFPs	www.nccs.urban.org
Nonprofit Risk Management Center	Provides information to help NFPs control their risks	www.nonprofitrisk.org
The *NonProfit Times* Online	Articles from the *NonProfit Times* newspaper and links to other sites	www.nptimes.com
Private Company Financial Reporting Committee	Information on the initiative to further improve FASB's standard setting process to consider needs of private companies and their constituents of financial reporting	www.pcfr.org
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov
U.S. Office of Management and Budget (OMB)	OMB information and literature, including cost circulars	www.whitehouse.gov/OMB

FRA-NFP02-Pages.indd 73 5/26/10 9:46:53 AM

FRA-NFP02-Pages.indd 74

5/26/10 9:46:53 AM