

MUSE

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How New Accounting Standards Could Impact Your Organization

There are many accounting standards that have been recently implemented that not-for-profit organizations must be aware of. The following is not an exhaustive listing of standards that can affect your organization in the coming year, but which new standards will be most challenging, lessons learned from the implementation of recent standards, information on FASB codification, as well as guidance on other standards that could have an effect on not-for-profit organizations in the near future.

McGladrey & Pullen Partner Tom Sneeringer recently hosted a webinar titled [New Accounting Requirements for Not-for-Profit Organizations](#) which outlined a summary of some of the major statements that could have a significant effect on your financial statements.

SFAS No. 161: Disclosures About Derivative Instruments and Hedging Activities

SFAS No. 161 was issued in March of 2008, and applies to fiscal years and interim periods beginning after Nov. 15, 2008. The standard amends SFAS No. 133, which has been around for many years. SFAS 161 does not change the basic scope of SFAS No. 133, but it does require additional disclosures, in terms of an entity's derivative and hedging activities. It also encourages – but does not require – comparative disclosures for earlier periods presented.

This standard usually applies to not-for-profit organizations in a few different ways. These include interest rate swap agreements, where organizations have effectively traded floating interest rates for fixed ones, and foreign exchange hedging contracts. SFAS No. 133 requires these agreements/contracts to be valued at fair value on the balance sheet date, which could be an asset or a liability depending on market conditions.

The goal of this standard, as is becoming common in not-for-profit accounting, is to improve transparency of financial reporting. The questions that this standard attempts to answer include:

- How and why an entity uses derivative instruments
- How derivative instruments and related hedged items are accounted for under SFAS No. 133 (and related interpretations)
- How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows

Required disclosures include:

- Qualitative disclosures about objectives and strategies for using derivatives

- Quantitative disclosures about fair value amounts of gains and losses on derivative instruments
- Credit risk-related contingent features in derivative agreements
- Depending on the type of derivative you have, you will have a tabular or non-tabular format

SFAS No. 161 could possibly lead to a significant amount of additional information that you will need to accumulate for inclusion in your statements moving forward.

SFAS No. 162: The Hierarchy of GAAP (superseded by SFAS No. 168)

SFAS No. 162 was issued in May 2008, and has already been superseded by the new codification. It is still a concern however, as the message that is carried in this statement is important moving forward.

SFAS No. 162 dictated that management is responsible for the applying generally accepted accounting principles (GAAP), not the auditor. It also established a hierarchy of the importance levels of GAAP, which has since been eliminated with issuance of the new codification standard. Now no guidelines have authority over others, and all there is only one set of accounting rules (i.e. the Accounting Standards Codification (ASC)).

SFAS No. 164: NFP Entities – Mergers and Acquisitions

SFAS No. 164 is the new standard that has the potential to produce the most significant impact to the financial statements of not-for-profit entities when a merger or acquisition event occurs. This standard was issued in April 2009 and is effective for mergers on or after the beginning of the initial reporting period beginning on or after Dec. 15, 2009. This statement had been in the planning stages for several years. Guidance for not-for-profit organizations had been delayed as the FASB studied the unique reasons for not-for profit organizations to engage in M&A activity compared with the for-profit sector.

The objective of SFAS No. 164 is to improve relevance, representational faithfulness and comparability of the information that a not-for-profit entity provides in its financial reports about a combination with one or more NFPs, businesses or not-for-profit activities.

When you hear about two or more organizations joining forces, it is often seen as a merger of equals. But in most cases, there is one dominant organization that is taking control of one or more other entities. There are,

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Increased IRS and DOL Oversight for 403(b) Plans

While 403(b) plans have largely avoided regulatory scrutiny over the last several decades, the Internal Revenue Service (IRS) and Department of Labor (DOL) are increasing their oversight through new regulations and greater enforcement activity. At www.rsmmcgladrey.com/muse, RSM McGladrey Managing Director James Moyna addresses current issues that 403(b) plan sponsors need to be aware of and provides some recommendations on how to deal with them.

FASB Establishes Not-for-Profit Advisory Committee

In late 2009, the Financial Accounting Standards Board (FASB) announced the formation of the Not-for-Profit Advisory Committee (NAC) to serve as a resource for organizations on current and planned guidelines, as well as proposed and current agenda projects.

The FASB has several similar committees for other specific sectors, serving as a forum for critical issues and a key tool in determining the needs and concerns of the

not-for-profit community when developing and amending standards. The NAC will initially be comprised of 12-15 members from a wide range of types and sizes of not-for-profit organizations, and will have their first meeting in mid-2010.

For more information on the NAC, visit the [FASB Web site to read the recent press release](#).

New Safe Harbor Rules for Remittance of Employee Contributions to “Small” Pension and Welfare Plans

On Jan. 14, 2010, the Department of Labor (DOL) released a final rule for “small plans” (pension and welfare plans with fewer than 100 “participants,” determined on the first day of the plan year) that establishes a safe harbor for the required deposit of employee contributions. This safe harbor rule allows employers to deposit employee contributions to the plans within seven business days upon receiving or withholding the funds. The DOL estimates that since 2000, close to 90 percent of the Voluntary Fiduciary Correction Program applications have related to violations in depositing employee contributions. This new safe harbor rule is expected to increase the compliance with these rules by providing additional clarity.

If you have a pension or welfare plan that has at least 100 participants on the first day of the plan year, this

safe harbor will not apply for that plan for that year. In determining the number of participants for defined contribution pension plans, including 401(k) and 403(b) plans, “participants” include all individuals who are eligible (whether or not enrolled) and former employees who still have balances in the plan.

For questions about your policies and procedures, plan compliance, or for help in determining the accurate participant count for all of your plans, please contact Lynne McMennamin at 410.308.5793 or lynne.mcmennamin@rsmi.com.

Visit the [Department of Labor Web site](#) for the full text of the final regulations.

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however, some instances in which a merger of equals does occur. There are many factors to take into consideration when structuring M&A activity to deal with possible repercussions that could present themselves under SFAS No. 164.

SFAS No. 164 helps to establish principles and requirements for how a not-for-profit organization:

- Determines whether a combination is a merger or an acquisition
- Applies the carryover method in accounting for a merger
- Applies the acquisition (fair value) 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 acquisition

In addition, SFAS No. 164 makes certain statements that were not applicable for not-for-profit organizations upon original issuance effective for organizations for years beginning on or after Dec. 15, 2009. These include SFAS No. 142 – Accounting for Goodwill, SFAS No. 160 – Noncontrolling Interests in Consolidated Financial Statements and SFAS No. 141 – Business Combinations.

While applying to most M&A activity, SFAS No. 164 does not apply to:

- The formation of a joint venture
- The acquisition of an asset or group of assets that does not constitute either a business or not-for-profit activity
- A combination between not-for-profit entities, businesses or not-for-profit activities under common control
- A transaction or other event in which a not-for-profit entity obtains control of another entity but does not consolidate that entity

So what is considered a merger, and what is an acquisition? A merger is when the governing bodies of two or more not-for-profits turn over control to become a new entity. This does not necessarily mean that a new legal entity must be created, but the carryover method must be used where the assets and liabilities come over to the new entity at book value as opposed to fair value. In an acquisition, the acquirer obtains the control of one or more not-for-profit activities or businesses.

SFAS No. 164 contains much of the same guidance as SFAS No. 141, but with more detail unique to not-for-profit organizations. As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Some assets or liabilities may be recognized that were not previously recognized, such as a brand name or a particular patent.

The acquirer, in an acquisition, shall measure assets and liabilities acquired at fair value, unless exception criteria are met for certain items. These exceptions include

conditional promises to give, donor relationships, which are not valued separately from goodwill and collections, which should follow SFAS No. 116.

The measurement period (MP) is up to one year. Provisional amounts can be reported that can be retroactively adjusted during the MP.

You need to take a close look at your transaction to make sure that it is classified as you want as a merger or acquisition. There are many factors that can send the scale tipping in one direction, depending on the structure.

It is important to note that while many standards allow for early adoption, it is not permitted under this standard.

SFAS No. 165: Subsequent Events

Statement No. 165 was issued in May 2009 and is effective for interim or annual financial periods ending after June 15, 2009. The objective of this statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued. It is not a large change in practice, but it is adding a procedure to show that management has evaluated subsequent events.

SFAS No. 165 also includes a concept of “available to be issued.” This is when the auditor has completed the audit, and it is ready to be issued, but not necessarily the date when it is issued. For most not-for-profit organizations, the date to be disclosed for subsequent events and the auditor’s report date will be the day the statements are “available to be issued” rather than the actual issue date. The only exception is for organizations that meet the definition of a “public entity” by virtue of pass-through public debt, such as bonds payable. In those cases, the date of disclosure must be the day the statements are actually issued by the auditor. The FASB is currently looking into certain issues that have arisen with respect to the implementation of this Statement, which may impact not-for-profits

SFAS No. 168: The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

With the release and effective date of SFAS No. 168, all previous issued accounting statements will no longer exist. SFAS No. 168 introduces the Accounting Standards Codification (ASC), which is now the single source of U.S. Generally Accepted Accounting Principles (GAAP). The ASC is organized into main topics and sub-topics and is meant to make accounting research easier as all relevant guidance for a topic will be in a single place versus spread out amongst several accounting standards, interpretations, staff positions, etc. When the ASC needs to be updated, the FASB will issue an Accounting Standards Update (ASU). The ASC and any ASUs can be found at the FASB Web site, www.fasb.org.

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