AICPA’s 2013 Not-for-Profit Audit & Accounting Guide Provides Added Clarity & Guidance
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Executive Summary

Updated as of March 1, 2013, the American Institute of CPAs (AICPA) Not-for-Profit Entities Audit and Accounting Guide had its first revision since 1996. The new version continues to address the accounting and auditing issues unique to not-for-profit (NFP) entities and includes authoritative and nonauthoritative guidance. As the guide is interpretive guidance, there is not a specific effective date; the new guidance can be used currently. Its 16 chapters include numerous decision-tree flowcharts and tables providing additional explanation and practical guidance. The expanded guide covers an NFP’s reporting relationship with other entities, expiration of donor-imposed restrictions, the statement of functional expenses, contributions versus exchange transactions, beneficial interests in trusts, programmatic investments and municipal bond debt, as well as extensive discussion about the NFP legal and regulatory environment, among other areas and familiar topics. The basis for the accounting content is the authoritative guidance from the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), supplemented with nonauthoritative explanations, examples, interpretive guidance and recommendations from the Financial Reporting Executive Committee (FinREC) conclusions. The guide has been conformed to the clarified auditing standards, effective for audits of financial statements for periods ending on or after December 15, 2012 (calendar year 2012 audits). Certain clarified standards address management’s responsibilities in an explicit manner for the first time. The guide applies to the financial statements of nongovernmental NFPs. This paper contains an overview of the more significant changes to the guide.

Background

The updated guide has been developed by the AICPA Not-for-Profit Entities Expert Panel and Guide Task Force to assist NFP management in the preparation of their financial statements in conformity with U.S. generally accepted accounting principles (GAAP) and to assist practitioners in performing and reporting on their audit engagements in accordance with Generally Accepted Auditing Standards (GAAS).

The guide covers entities that meet the definition of an NFP included in the FASB ASC glossary, which defines an NFP as an entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- operating purposes other than to provide goods or services at a profit
- absence of ownership interests like those of business entities

Accounting guidance for nongovernmental entities included in an AICPA audit and accounting guide is a source of nonauthoritative, interpretive accounting guidance. FASB ASC is the authoritative source of U.S. accounting and reporting standards for nongovernmental NFPs. The guide’s purpose is to provide additional explanation and practical guidance.

The guide identifies certain requirements set forth in the FASB ASC and provides guidance that has been supported by FinREC on the accounting, reporting or disclosure treatment of transactions or events that are not explicit in FASB ASC. The guide also identifies some, but not necessarily all, additional industry practices concerning certain accounting issues.

FASB ASC Section 958 includes the unique standards relating to the general purpose external financial statements for an NFP in four subtopics: presentation of financial statements, the statement of financial position, the statement of activities and the statement of cash flows. In addition to that industry-specific guidance, an NFP should follow all effective provisions of FASB ASC unless the specific provision explicitly exempts NFPs or its subject matter precludes such applicability.
Accounting and financial reporting practices not included in FASB ASC are nonauthoritative. Although interpretive publications are not auditing standards, AU-C section 200.27 requires the auditor to consider applicable interpretive publications in planning and performing the audit, because interpretive publications are relevant to the proper application of GAAS in specific circumstances. If the auditor does not apply the auditing guidance in an applicable interpretive publication, the auditor should document how the requirements of GAAS were met in the circumstances addressed by such auditing guidance.

NFPs should follow the guidance in all effective provisions of FASB ASC unless the specific provision explicitly exempts NFPs or its subject matter precludes such applicability. FASB ASC 958, Not-for-Profit Entities, contains only incremental industry-specific guidance. NFPs may follow that industry-specific guidance and all other relevant guidance contained in other FASB ASC topics that does not conflict with FASB ASC 958. NFPs conducting activities in specific industries, such as the entertainment industry, also would apply the guidance to those transactions unique to those industries. However, the NFP should follow the financial statement display guidance in FASB ASC 958.

Cash, modified-cash, tax-basis, regulatory or contractual financial statements can be viable alternatives to GAAP-basis financial statements whenever the NFP is not required, legally or otherwise, to issue GAAP financial statements. Guidance on financial statements prepared with a special purpose framework is found in the audit (not accounting) literature to address special considerations applicable to financial statements prepared in accordance with a special purpose framework, formerly referred to as other comprehensive basis of accounting (OCBOA).

Overview of Significant Changes

Financial Statements, the Reporting Entity, & General Financial Reporting Matters

The guidance in Chapter 3, “Financial Statements, the Reporting Entity, and General Financial Reporting Matters” includes a comprehensive discussion of financial statements, including expanded guidance on the statement of functional expenses and interests in related entities.

Functional Classification of Expenses

FASB literature states that to help donors, creditors and others assess an NFP’s service efforts, including the costs of its services and how it uses resources, a statement of activities or notes to financial statements should provide information about expenses reported by their functional classification, such as major classes of program services and supporting activities. A natural classification of expenses, conversely, in general includes expense categories such as salaries, rent, electricity, interest expense, depreciation, awards and grants to others and professional fees.

A statement of functional expenses reports information about expenses by their functional classes, as well as information about expenses by their natural classification in a matrix format in a separate financial statement, which is useful in associating expenses with service efforts and accomplishments. A statement of functional expenses is required as a basic financial statement for NFP voluntary health and welfare entities. FASB encourages but does not require other NFPs to provide information about expenses by their natural classification. FASB ASC Section 958 provides guidance for presenting a statement of functional expenses. To the extent that expenses are reported by other than their natural classification—such as salaries included in cost of goods sold or facility rental costs of special events reported as direct benefits to donors—they should be reported by their natural classification if a statement of functional expenses is presented for voluntary health and welfare entities.

To support FASB’s goal of encouraging disclosure of expenses by their natural classification while promoting consistency among all NFPs, FinREC recommends but does not require all NFPs supported by the general public present a statement of functional expenses as a basic financial statement or in the notes to the financial statements. An NFP with contributions of 20 - 30 percent of total revenue and support (including in-kind contributions but excluding government support) could be presumed supported by the general public. Conversely,
an NFP that receives contributions of less than 20 percent of total revenue and support is presumed not to be supported by the general public. If the percentage of contributions to total revenue and support guideline is met, an NFP should consider the facts and circumstances surrounding its contributions. For example, a very large contribution from a single donor might overcome the presumption that an NFP is supported by the general public.

Related-Party Transactions

Included in Chapter 3 is an expanded discussion of the identification of related parties and reporting interests in related entities, including limited liability partnerships, mergers and acquisitions and collaborative arrangements. Exhibit guidance in Chapter 3 correlates 22 NFP relationships with other NFPs, for-profits and special entities to guidance found in other sections of the guide and FASB’s ASC. Flowcharts assist in discerning proper accounting when an NFP has percentage ownership of a for-profit entity and providing consolidation guidance when a relationship with another not-for-profit entity exists.

Use of Fair Value Measures

Chapter 3 incorporates FASB codification and noncodification guidance on the use of fair value measurement of financial and nonmonetary transactions including unconditional promises to give cash or other financial assets, beneficial interests in trusts and split-interest agreements. Examples of included noncodification guidance are AICPA Statement of Positions (SOP), Technical Practice Aids (TPA) and the 2011 AICPA white paper, “Measurement of Fair Value of Certain Transactions of Not-for-Profit Entities.”

Cash, Cash Equivalents & Investments

Chapter 4, Cash, Cash Equivalents, and Investments, incorporates the old Chapter 8 and is expanded significantly to provide valuation guidance on common investments by NFPS. Similar to Chapter 3’s format, tables are used to correlate relationships the NFP has with the entity it invests in to accounting guidance in other sections of the guide and FASB’s ASC (a listing of 13 relationships with investees, derivatives and investment pools).

The guide clarifies internal investment management fees can include employee costs associated with due diligence, monitoring, valuation and other activities in connection with investments.

The scope of Chapter 4 excludes investments in consolidated subsidiaries and investments in an entity that provides goods or services that accomplish the purpose or mission of the NFP or serve administrative purposes, e.g., hospital shared services; both are addressed in Chapter 3. Chapter 4 also excludes changes in valuation and reporting investment income on split-interest agreements (discussed in Chapter 6) and programmatic investments (discussed in Chapter 8).

Contributions Received & Agency Transactions

Chapter 5, Contributions Received and Agency Transactions, includes an expanded discussion of core recognition and measurement principles for contributions, including sections on (a) recognizing, reporting and measuring noncash contributions, including contributions of fundraising materials, informational materials, advertising and
media time or space, (b) below-market interest rate loans, including government loans and forgivable loans, and (c) administrative costs of restricted contributions.

Recognition & Measurement Principles for Noncash Contributions

Gifts in kind (GIK) are synonymous with noncash gifts. Unchanged is the requirement that NFPs should recognize GIK when the NFP has both (a) discretion in using or distributing gifts and (b) risks and rewards of ownership. Physical possession is not a requirement. GIK come with measurement challenges, such as lack of an active market, geographic or market-based diversity in pricing or the NFP not otherwise purchasing or selling the GIK item. In addition to tangible personal property, GIK include contributed items to be sold at fundraising events, contributed collection items, contributed utilities and use of long-lived assets and contributed fundraising material, informational material or advertising, including media time or space.

Contributed Promotional & Advertising Material

Technical Inquiry Service Section 6140.24, Contributions of Certain Nonfinancial Assets, Such as Fundraising Material, Informational Material, or Advertising, Including Media Time or Space for Public Service Announcements or Other Purposes (AICPA, Technical Practice Aids), states that when nonfinancial assets are used for the NFP’s benefit or provided to the NFP at no charge and the assets encourage the public to contribute to an NFP or help the NFP communicate its message or mission, NFPs should consider whether they have received a contribution. If the NFP has received a contribution, the nonfinancial asset received should be measured at fair value, pursuant to FASB ASC Section 958, and the related expense, at the time the expense is recognized, should be reported by function, based on the nature of the contributed item.

Examples of such activities include the following:

- An advertising agency, television station or newspaper provides design services or professional talent services.
- A radio or television station gives an NFP, or uses for the NFP’s benefit, commercial air time at no charge.
- A radio or television station airs a public service announcement provided to the station by the NFP. (Some stations air the announcement and report information about the airings to the NFP.)
- A magazine, newspaper or other print media gives an NFP, or uses for the NFP’s benefit, advertising space at no charge.

Consider, for example, an instance where a vendor donates advertising space on an Internet site to an NFP (or the NFP uses the site) at no charge. FinREC believes, in this case, the fundraising material, informational material or advertising—including the media time or space—represents a donated asset (with future economic benefit) to the NFP if the NFP can control others’ access to the benefit and has an active involvement in determining and managing the message and the use of the materials. The future economic benefit of the contribution received may be cash inflows, such as contributions arising from fundraising activities or revenues arising from exchange transactions, or service potential in conducting program or management and general activities.

FinREC believes the NFP’s involvement in determining and managing the content need not be absolute to conclude that a transfer of assets has occurred and a contribution has been received. For example, if a radio or television station gives an NFP commercial air time at no charge, the NFP need not determine the time slot in which the message will air to conclude that a transfer of assets occurred and a contribution has been received.

Determining whether a transfer occurred based on the extent of the NFP’s involvement may be a subjective determination. FinREC believes that in making such a determination, NFPs should consider all relevant facts and circumstances. As a rule of thumb, the greater the NFP’s involvement in determining and managing the message and the use of the materials, the greater the evidence the NFP has received a contribution.
In circumstances in which fundraising material, informational material, advertising and media time or space are used for the NFP’s benefit—or provided to the NFP at no charge—and encourage the public to contribute to an NFP, NFPs should consider whether the fundraising activity is combined with program, management and general, membership development or other activities; that is, the activity is a joint activity. For example, an NFP receives as a contribution the production of a public service announcement, as well as media time to show the announcement. In addition, assume the public service announcement is a joint activity because the message is part fundraising and part program. FinREC believes that in such circumstances, expenses associated with reporting that activity should be reported pursuant to the Accounting for Costs of Activities that Include Fundraising subsections of FASB ASC 958-720.

Contributed fundraising material, informational material or advertising, including media time or space, should be recognized as contributed assets if the NFP has active (not necessarily absolute) involvement in determining and managing the message and use of the materials. This criteria applies regardless of whether the NFP could afford to purchase the assets or would need to purchase the assets if they had not been provided by the contribution.

To assist an NFP in determining whether it has received a contribution, the guide includes indicator guidelines, such as those listed below:

<table>
<thead>
<tr>
<th>Indicators NFP HAS Received a Contribution</th>
<th>Indicators NFP HAS NOT Received a Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFP approves the advertisement before it is placed in the media.</td>
<td>A third-party designs and publishes an advertisement encouraging donations to the NFP without seeking or receiving input from the NFP.</td>
</tr>
<tr>
<td>NFP provides or actively grants its permission to include its logo/NFP information in an advertisement before the advertisement is placed in the media.</td>
<td>NFP is unable to provide significant input or objection to the advertisement or disseminated materials.</td>
</tr>
<tr>
<td>NFP provides input, artwork or other materials to the entity producing or placing the advertisement and has significant influence (but not absolute approval power) in determining the advertisement.</td>
<td>NFP provides minimal input to the person or entity producing and placing the advertisement.</td>
</tr>
<tr>
<td>Representatives of the NFP appear in an audio or video advertisement or disseminated materials.</td>
<td>NFP does not have significant influence in determining the advertising or disseminated material’s content.</td>
</tr>
</tbody>
</table>

Contributions Versus Exchange Transactions

NFPs receive funds from resource providers (individuals, foundations, corporate entities and others) in many different forms, e.g., membership dues or naming opportunities. The NFP should consider whether receipt of resources constitutes a contribution, exchange transaction or some combination of both. The guide includes a flowchart to assist an NFP in determining proper classification of resources received (contribution versus exchange transaction). In general, an exchange transaction represents a reciprocal transfer, while a contribution is a nonreciprocal transfer. The FASB ASC glossary defines an exchange transaction as a reciprocal transfer between two entities that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations. In other words, each party receives and sacrifices something of approximately equal value. Indicators of an exchange transaction tend to describe transactions in which the potential public benefits are secondary to the potential proprietary benefits to the resource provider. Conversely, indicators of a contribution tend to describe transactions in which the value, if any, returned to the resource provider is incidental to potential public benefits. For example, if public recognition and other rights and privileges result in only nominal value to the donor, the NFP likely has received a contribution.
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Distinguishing between a contribution and an exchange transaction is not black and white. Management of the NFP will consider the value to the donor, length of time the benefit is provided, control over a name or logo use or other exclusive rights and privileges.

Often, elements of an exchange transaction and a contribution are both present, such as cases where society membership dues vary and certain dues levels include a contribution element. Some transfers of assets between NFPs and governments, such as the sale of goods and services, clearly are exchange transactions. Other transfers of assets between NFPs and governments, such as grants, awards or appropriations, have characteristics requiring judgment to determine proper classification but generally are not contributions. A decision-flow (Flowchart 5-1) and tabular guidance (Table 5-1) are available to distinguish contributions from other kinds of transactions and to determine whether grants—including government grants—are contributions or exchange transactions based on the facts and circumstances. Some indicators may be more significant than others, but no single indicator determines the classification of a particular transaction.

A sample of Table 5-1 is presented below:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Contribution</th>
<th>Exchange Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource provider’s expressed intent about the purpose</td>
<td>Resource provider asserts that it is making a donation to support the NFP's</td>
<td>Resource provider asserts that it is transferring resources in exchange for specified</td>
</tr>
<tr>
<td>of the asset to be provided by recipient NFP</td>
<td>programs.</td>
<td>benefits.</td>
</tr>
<tr>
<td>Method of determining amount of payment</td>
<td>The resource provider determines the amount of the payment.</td>
<td>Payment by the resource provider equals the value of the assets to be provided by the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>recipient NFP, or the assets' cost plus markup; the total payment is based on the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>quantity of assets to be provided.</td>
</tr>
</tbody>
</table>

When both contribution and exchange transaction elements are present, FinREC believes the NFP should account for each element separately measuring the exchange transaction first, with the residual (excess of resources received over fair value of the exchange portion of the transaction) reported as contribution revenue when earned and in accordance with any conditions and restrictions.

Below-Market Interest Rate Loans

Using the contribution versus exchange transaction criteria, all loans, including below-market interest rate government loans and forgivable loans, first would be analyzed for contributory intent. In general, no-interest or low-interest rate loans are considered a contribution to the NFP. The NFP would record imputed interest expense and contribution income at fair value (generally estimated as the difference between the NFP’s actual borrowing rate and the interest rate of the loan). Recognition of interest expense and contribution revenue is not affected if the loan is from a related party. However, the amounts recorded do differ for a long-term loan (recorded at present value) versus a due-on-demand loan (recorded at face value).Forgivable loans classified as contributions should be evaluated to identify “forgiveness” conditions, if any, and recorded accordingly. Refer to the discussion in Chapter 8 for further guidance on the asset recording of loan transactions.

Administrative Costs of Restricted Contributions

An NFP may not allocate a portion of restricted contributions to offset the costs of raising and/or administering those gifts. This requirement is in line with the donor’s enforceable rights of contributing to an NFP. An exception is afforded when the NFP has a policy stating a portion of the contributions may or will offset the costs of raising and/or administering those gifts, assuming that policy is communicated to donors by disclosing the policy when soliciting the contribution.
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Split-Interest Agreements & Beneficial Interests in Trusts

Chapter 6 does not include significant new information but is reorganized and rewritten. The guidance on recognizing split-interest agreements is divided into two categories based on the type: pooled income funds and net income unitrusts or lead trusts, remainder trusts and gift annuities. Chapter 6 includes guidance on recognition and measurement of revocable and irrevocable agreements. The guide also clarifies recording and reporting of annuity purchases and includes a new section on life (use) interest in real estate.

Beneficial Interests in Trusts

An NFP may be named as a beneficiary in a trust agreement and be unaware of the fact, unable to obtain information to verify that it has been named a beneficiary or unable to obtain information to measure its interest in the trust. Chapter 6, Split-Interest Arrangements and Beneficial Interests in Trusts, provides much-needed guidance on this topic. Few would disagree information is needed in order to make an accounting entry and support its validity and valuation. The existence generally can be verified by a copy of an executed trust document or statement from the trustee. Likewise, the value generally can be supported by knowing the nature of the trust assets, the trust payout rate/amount and the age of life beneficiaries. Chapter 6 makes it clear: The NFP must make reasonable efforts to obtain this necessary information. Once it is obtained, the NFP must recognize the beneficial interest in the trust (and contribution revenue) in the first year the information becomes available. The NFP does not need to record a prior-period adjustment if it made, and continues to make, reasonable efforts to obtain the necessary information.

Programmatic Investments

Chapter 8, Programmatic Investments, is newly added and offers extensive coverage of programmatic investments (PI) and microfinance for the NFP investor (not the investee). Programmatic investments are defined as any investment by the NFP where its primary purpose is to further the tax-exempt objectives of the NFP, assuming the production of income or the appreciation of the asset is not a significant purpose; an investor seeking a market return would not enter into the investment. In essence, the NFP is providing benefits to its constituents in the form of financial instruments instead of making cash grants.

Specific examples of programmatic investments include low- or no-interest loans and forgivable loans, guarantees made by the NFP without commensurate return (to further its tax-exempt objectives) and certain similar equity investments. These forms of financial support could produce financial returns and therefore share characteristics with the NFP’s other, more traditional investments. Programmatic investments provide both financial and programmatic returns.

NFPs should determine whether the investment is programmatic when the initial transaction occurs. Contribution elements, if present, are recorded at that time (contribution expense). Other than the contribution element, loans, equity interests and guarantees are subject to the same accounting standards as similar financial instruments; financial statement presentation and the extent of disclosure are dependent on the significance of the investments and the quantitative and qualitative risks attached to them.
Programmatic Loans

Loans are the most common programmatic investment. Programmatic loan receivables are recognized at the present value of cash flows most likely to be collected. There are two areas of the FASB ASC that NFPs can apply to account for programmatic loans:

- FASB ASC 310 and FASB ASC 835-30 on imputation of interest, where an NFP may impute a market interest rate on the loan that incorporates the risk the NFP may be unable to collect from the borrower (effective interest rate approach)
- FASB ASC definition of an inherent contribution, where the NFP recognizes the transaction as entirely a loan receivable, entirely a contribution or partially a contribution and partially a loan receivable (inherent contribution approach)

Management should determine which method is most appropriate and apply the applicable standards to all programmatic loan transactions, reporting consistently from period to period and disclosing its accounting policy in its financial statements.

Programmatic Equity Interests

Programmatic equity interests typically are interests in for-profit entities and generally have no contribution element at origination. Programmatic investments that are equity instruments are interests in entities that provide goods or services that accomplish the purpose or mission for which the NFP exists or serve the NFP’s administrative purposes. NFPs would refer to the guidance in Chapter 3, Financial Statements, the Reporting Entity, and General Financial Reporting Matters, Exhibit 3.2, Relationships of a Not-for-Profit Reporting Entity, when determining the proper accounting and reporting treatment. Impairment of an equity interest should be recognized if the equity interest decrease is in excess of what would otherwise be recognized under the equity method (but not below zero). If the investment is reduced to zero due to investee losses, the NFP investor generally would discontinue applying the equity method.

Property & Equipment

The guidance in Chapter 9, Property and Equipment, is relatively unchanged. FASB’s revised leases exposure draft, issued in May 2013—if ratified into a final standard—will affect all lessors and lessees of property and equipment and real estate, including NFPs. Short-term leases are exempt from the proposed requirements. Regardless of the revised exposure draft, an NFP using property without making lease payments or paying below-market lease payments would record a contribution for the non- or underpayment.

Debt & Other Liabilities

An NFP may finance part of its activities from the proceeds of tax-exempt bonds or other obligations issued through state and local financing authorities. Chapter 10, Debt and Other Liabilities, is expanded to provide enhanced clarity and guidance on conduit debt securities, including a discussion of what constitutes a public entity.

The FASB ASC glossary defines conduit debt securities as certain limited-obligation revenue bonds, certificates of participation or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government’s financial reporting entity. Health care NFPs should refer to the Audit and Accounting Guide Health Care Entities if the NFP is part of an obligated group of affiliated entities, the assets and revenue of which serve as collateral for the bonds.

Typically, a qualified governmental agency such as a financing authority (the issuer) issues the securities and then lends the proceeds to the NFP (the obligor). In these “conduit financings,” although the securities bear the name of the issuing government, the bondholders’ principal and interest will be paid solely from resources of the obligor; the issuer has no obligation for repayment of the debt. Accordingly, the NFP/conduit obligor would recognize its
repayment obligation in the statement of financial position. In addition, if the NFP has conduit bonds that trade in public markets, more extensive disclosures may be required.

Debt that appears to be long-term based on its legal maturity might not be considered long-term for financial reporting purposes. Debt agreements and related documents should be read carefully for subjective acceleration clauses or due-on-demand (put) provisions to determine proper debt classification (short-term versus long-term).

Various types of collateral are offered for municipal bonds issued on behalf of NFPs. For revenue bond issues, the NFP pledges a specific revenue stream—typically revenue derived from the project or enterprise being funded. There also may be a mortgage on the property financed and other restrictive covenants. To obtain project financing, a financing authority may require an NFP to enter into a lease arrangement, a sublease arrangement or both.

Chapter 10 also includes an expanded discussion of third-party credit enhancements, gain or loss on debt extinguishments, bond modifications and exchanges, including the consideration of debt issuance costs, debt classification, IRS considerations and the reporting of bond-related asset restrictions.

Net Assets & Reclassifications of Net Assets

Chapter 11, Net Assets and Reclassifications of Net Assets, includes a new section on fiduciary responsibilities to meet donor restrictions, along with expanded guidance on the expiration of restrictions. When determining the order in which to use contributions, NFPs first should use temporarily restricted contributions for the designated purpose as they become available for the restricted use before using unrestricted funds, unless the expense is incurred for a purpose directly attributable to and reimbursed from a specific external source.

Expiration of Restrictions

An NFP should recognize the expiration of a donor-imposed restriction on a contribution in the period the restriction expires. A donor’s specification of future payment dates indicates his or her implied intent regarding when the contribution is available for the restricted use. In other words, by specifying future payment dates, a donor indicates his or her gift is to support activities in each period a payment is scheduled. In general, time restrictions lapse when receivables are due. At that time, the contribution becomes available for the donor-restricted purpose (unless the circumstances dictate that the donor intended for the gift to be used to support activities of a period other than the one in which the payment is due).

Gifts of Long-Lived Assets or Gifts for Purchase of Long-Lived Assets

Restriction of gifts for the construction or purchase of a long-lived asset are “purpose” restrictions. The donor’s gift is considered support for the activities of the period the asset is constructed or placed in service (e.g., the expense is incurred or the liability to the vendor is recognized), regardless of the actual donor payment dates—which may extend beyond the construction or purchase date. This reflects the relationship between a restricted contribution’s intent and an expense that it supports: the expiring restriction increases unrestricted net assets during the same period the expense decreases unrestricted net assets. If a donor places both a temporary time and temporary purpose restriction to a contribution, the NFP would recognize the effect of the expiration of those restrictions in the period the last remaining restriction has expired.

If a donor specifies a time period over which a donated long-lived asset must be used, the contribution would be released as those restrictions expire. The amount of depreciation, however, is based on the useful economic life of the asset, which may differ from the length of time indicated by the donor-imposed restrictions.

Changing Net Asset Classification Reported in a Prior Year

The existence, or absence, and nature of donor-imposed restrictions determines the amounts recorded in each of the three classes of net assets: permanently restricted, temporarily restricted and unrestricted. The guide clarifies that individual net asset classes, rather than net assets in the aggregate (total net assets), are relevant in
determining whether an NFP’s correction of net asset classifications previously reported in prior years’ financial statements is an error in previously issued financial statements.

**Tax & Regulatory Considerations**

The guide includes an expanded and extensive discussion regarding the NFP legal and regulatory environment. This includes obtaining, operating in accordance with and maintaining an NFP’s tax-exempt status. Also discussed are unrelated business income (UBI), alternative investments, tax shelters, payroll and excise taxes and income tax positions. State and local regulatory issues, including state charitable solicitation laws, state and local gaming regulations and the *Uniform Prudent Management of Institutional Funds Act*, are discussed as well.

The guide includes information on matters of NFP issues not considered, including securities regulation (and exemptions), Sarbanes-Oxley and governance policies, executive compensation, excess benefits and the rebuttable presumption of reasonableness of compensation, as well as the U.S. Treasury *Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities*.

Chapter 15, *Tax and Regulatory Considerations*, is a must-read for NFP boards and management.

**Conclusion**

Following Chapter 16 and the appendices is a newly added *Index of Pronouncements and Other Technical Guidance* with cross-references to the applicable section in the guide or to external resources. The breadth of this index is indicative of the complex and numerous compliance considerations facing NFP stakeholders and the responsibilities of their boards and management. The guidance on donor-imposed restrictions is comprehensive as well, highlighting the need for diligent monitoring of donor-imposed restrictions, designations and other limitations on NFP liquidity. For more information on AICPA’s new *Not-for-Profit Entities Audit & Accounting Guide*, contact your BKD advisor.

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This information was written by qualified, experienced BKD professionals, but applying specific information to your situation requires careful consideration of facts and circumstances. Consult your BKD advisor before acting on any matter covered here.