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FASB Accounting Update

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Overview

- Trends – Setting the Stage
- Hot Topics – 2009/2010
- FASB/IASB Convergence
- On the Horizon

Trends – Setting the Stage

- Evolution of Global Economy
- Economic Turmoil/Corruption
- Scrutiny/Laws/Stimulus
- Restatements
- Principles-based Standards
- Financial Illiteracy/Transparency

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Hot Topics 2009

- Fair Value Disclosures
- Pension Disclosures
- Impairment
- Noncontrolling Interests
- Derivative Disclosures
- FIN 48 – Income Tax Uncertainties

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Hot Topics 2010

- Revenue Recognition
- Variable Interest Entities
- More Fair Value Disclosures
- Loss Contingencies
- Going Concern
- NFP Mergers & Acquisitions

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FASB Accounting Standards Codification

- Launched 7/1/2009
- Effective for financial statements for periods ending after September 15, 2009
- Changes how we research and refer to GAAP
- Supersedes all pre-existing FASB, AICPA, and EITF accounting standards
- Example: ASC 958-605-25-2
- Updates: ASU 2010-XX

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ASC 855 – Subsequent Events

- Enhances disclosure and more adequately defines the date in which subsequent events are required to be evaluated:
  - Conduit municipal bond issuers – Must evaluate subsequent events up through the date the financial statements are released to investors
  - All others – Evaluate subsequent events up through the date financial statements are "available to be issued"

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Not-for-Profit Mergers & Acquisitions

- Brings fair value accounting for mergers and acquisitions to the NFP community similar to for profit entities
  - Merger – Two (or more) entities cede control to form a new economic entity
  - Acquisition – One entity obtains control over another
  - Other – Joint Ventures, asset acquisitions, transactions between entity's under common control

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NFP M&A – Accounting

- Merger Accounting – Carryover Method
- Acquisition Accounting – Acquisition accounting
  - No more pooling of interests
  - Recognize Fair Value of acquiree's individual identifiable assets and liabilities (including intangibles) on acquisition date
    - If fair value of assets is greater than liabilities assumed plus consideration then you have contribution income
      - Could increase PR, TR and/or UR based on types of restrictions assumed
    - If fair value of assets is less than liabilities assumed plus consideration then you have goodwill
  - Required disclosures

SFAS 161 – Derivatives and Hedging

- Improved Disclosures
  - How and why and entity uses derivatives
  - How derivatives and related hedged item are accounted for
  - Overall impact of derivatives on an entity's financial position results of operations and cash flows
- Also requires disclosures on certain contingent features
  - Existence and nature of contingent features
  - For liability positions
    - Circumstances that could trigger a feature
    - Aggregate FV amounts of derivatives containing features
  - Aggregate FV amount of assets posted as collateral
  - Aggregate FV of additional assets that would be required

Fair Value Measurements

- A recap of 2009 implementation challenges
- Expected future developments in fair value accounting
- ASU 2009-12 (Alternative Investments):
  - Key Requirements:
    - Investment funds such as hedge funds and private equity funds report a net asset value (NAV) to their investors who are required to report on the fair value of such investments are permitted to use the NAV reported to them by the fund as a "practical expedient" for estimating fair value of the investment under certain conditions.

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Fair Value Measurements (cont.)

- ASU 2009-12 (Alternative Investments) (cont):
  - Conditions under which NAV may be used as the fair value:
    - The NAV fair value must be an estimate as of the reporting date of the entity.
    - The investor is not likely to sell the investment at an amount different from the NAV.
    - The fair value of the investment in the fund or similar entity is not readily determinable.
    - The investment fund meets the definition of an investment company or follows the practices of its industry.

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Fair Value Measurements (cont.)

- ASU 2010-06 (Fair Value Disclosures):
  - Increased required disclosure including information describing the valuation methods, judgments, and risks in the footnotes to the financial statements.
    - Transfers between Level 1 and Level 2 – Reasons must be disclosed.
    - Transfers into and out of each level are required to be segregated in the disclosure (applies to significant transfers)
    - Describe the policy for recognizing transfers into and out of a level in the hierarchy
    - Disaggregating level disclosures
    - Input and valuation techniques
    - Level 3 Measurements – Include information about gross purchases, sales, issuance, and settlement.

Fair Value Measurements (cont.)

- ASU 2010-06 (Fair Value Disclosures) (cont.):
  - Required for years beginning after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements related to Level 3 measurements which is effective for years beginning after December 31, 2010
  - Applies to entities that have assets or liabilities measured at fair value.
  - Applies to financial and nonfinancial assets and liabilities

Adoption of FSP FAS 117-1

- UPMIFA vs. PA Act 141
- Change in accounting for donor funds
- Enhanced endowment disclosures
- Increased focus on an organization's governing board's fiduciary duty

Uncertain Income Tax Positions

- Requires assessment of the 'more-likely-than-not' criteria.
- Assessment must include a presumption that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information.
- Technical merits of a position are derived from sources of authorities in the tax law
- Each tax position shall be evaluated without consideration of the possibility of offset or aggregation with other positions.

Uncertain Income Tax Positions (cont.)

- Questions to consider:
  - Activities conducted in accordance with tax-exempt purpose?
  - Any material changes to organization's activities or documents?
  - Own an interest in an S Corporation or partnership?
  - Any IRS or state exams in progress?
  - Extent of lobbying activities?
  - Involvement in any political campaign?
  - Extent and nature of unrelated business income?
  - Conduct activities in another state?

FASB/IASB- Convergence by End of 2011

- Financial Statement Presentation
- Revenue Recognition
- Leases
- Fair Value Measurement
- Consolidations
- Financial Instruments
- Discontinued Operations
- Comprehensive Income
- Financial Instruments With Characteristics of Equity

Other Environmental Factors

- IFRS vs. Convergence
- Big GAAP vs. Little GAAP
- Seeking Clarity and Simplicity
- Government Involvement
- Economic Uncertainty

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