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Interpretation and Application of
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES
for Not-For-Profit Organizations

Richard F. Larkin
Marie DiTommaso

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**Richard F. Larkin
Marie DiTommaso**

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Preface

Not-for-profit accounting is a specialized field of accounting that is receiving a growing level of attention. Over one million not-for-profit organizations currently operating in the United States have unique accounting and financial reporting issues that must be understood by a growing number of not-for-profit organization financial statement preparers and users.

The Financial Accounting Standards Board (FASB) has issued a series of statements and accounting standards updates that have significantly affected how not-for-profit organizations account for and report their activities and financial position. The overall financial statement format reports “net assets” instead of fund balance or other description of “equity, ” and the accounting principles for two key areas for these organizations—contributions and investments—were the topics of separate FASB pronouncements. The American Institute of Certified Public Accountants (AICPA) issued a pronouncement specifying how not-for-profit organizations should account for the joint costs of activities that include fund-raising. The FASB has also issued a statement detailing the accounting for resources which a not-for-profit organization passes through to another organization. The FASB has also finalized the accounting requirements that will apply when two not-for-profit organizations combine, and has also provided guidance for reporting endowments. The FASB has also been active in many areas that affect a broad range of business and other organizations, including not-for-profit organizations. For example, financial instruments, asset impairments, intangible assets, pension obligations, and fair value measurements have all been areas that have

been impacted by recent FASB pronouncements. All of these topics are examined in detail in this book.

This book incorporates the codification of accounting standards into the FASB Accounting Standards Codification (the “Codification” or “FASB ASC”). The FASB essentially eliminated the statements on standards and other accounting literature and replaced them with the FASB ASC, which is updated as the means of promulgating changes in generally accepted accounting principles.

Despite the steady stream of accounting pronouncements that affect not-for-profit organizations, it's important to understand that accounting standards setting over the past decade has been influenced by a great deal of recent change. The Sarbanes-Oxley Act of 2002 created the Public Company Accounting Oversight Board (PCAOB) which has responsibility for setting auditing and other standards for public companies. Even with all of the new requirements and changes, the FASB continues to set generally accepted accounting principles for both public and nonpublic entities, including not-for-profit organizations. However, the FASB's agenda has focused more on issues affecting public companies, which has likely been influenced by the changes in the regulatory environment and issues highlighted by the numerous accounting shortcomings, and more recently by the turmoil being experienced in the financial markets. This is likely to change a bit as the FASB has established a Not-for-Profit Advisory Committee which has begun a reexamination of the reporting model used by not-for-profit organizations and has made suggestions to the FASB to improve the financial reporting of these organizations. The near future will likely see FASB action to address some of the recommendations of its Advisory Committee. In addition, the AICPA, through technical practice aids, industry risk alerts, and accounting and auditing guides, continues to be an important contributor

to the body of accounting principles used by not-for-profit organizations. It has also finalized a significant revision of its accounting and audit guide for not-for-profit organizations.

This book is designed as a complete and easy-to-use reference guide for financial statement preparers and users, as well as for auditors of not-for-profit organizations. It focuses on three key areas:

- Distinguishing characteristics of not-for-profit organizations and their financial accounting and reporting;
- Accounting areas that are unique to not-for-profit organizations;
- General areas of accounting that are applicable to the accounting and financial reporting of not-for-profit organizations.

This book would not have been possible without the hard work and efforts of several individuals. John DeRemigis and Pam Reh contributed greatly to the production efforts over many years. The authors are greatly appreciative of their efforts.

Richard F. Larkin, CPA
Marie DiTommaso

July 2014

About The Authors

Richard F. Larkin is technical director of not-for-profit accounting and auditing for BDO USA, LLP, in Bethesda, Maryland. Previously he was the technical director of the Not-for-Profit Industry Services Group in the national office of PricewaterhouseCoopers. He is a certified public accountant with over forty years of experience serving not-for-profit organizations as independent accountant, board member, treasurer, and consultant. He teaches, speaks, and writes extensively on not-for-profit industry matters and is active in many professional and industry organizations. He has been a member of the Financial Accounting Standards Board Not-for-Profit Advisory Task Force and the AICPA Not-for-Profit Organizations Committee, and chaired the AICPA Not-for-Profit Audit Guide Task Force. He participated in writing both the third and fourth editions of Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations, and the AICPA Practice Aid, Financial Statement Presentation and Disclosure Practices for Not-for-Profit Organizations. He graduated from Harvard College and has an MBA from Harvard Business School. He is a coauthor of the fourth, fifth, and sixth editions of Financial and Accounting Guide for Not-for-Profit Organizations, which were published by John Wiley & Sons, Inc.

Marie DiTommaso has thirty years of experience in accounting and financial reporting in both the not-for-profit and commercial accounting environments. She began her career with KPMG after graduating from Queens College of the City University of New York. Later in her career, she joined the American Express Company and then Dun & Bradstreet Corporation, both to develop, write, and

implement accounting policies and procedures. After leaving these corporate organizations, Ms DiTommaso served as the chief financial officer of a not-for-profit organization.

Ms DiTommaso is a member of the American Institute of Certified Public Accountants. She has served as President of the Bergen County chapter of the New Jersey Women Business Owners Association, and as an advisor to its Board of Directors.

Not-for-Profit Accounting Literature

Cross-references between the FASB Accounting Standards Codification (ASC) and Previous Guidance

As more fully described in Chapter 1, the source of all authoritative generally accepted accounting principles for not-for-profit organizations is now contained in the FASB Accounting Standards Codification (ASC). The following tables cross-reference several of the more common ASC sections with the prior FASB pronouncements to assist readers in navigating the ASC. References in these charts to the AICPA Audit & Accounting Guide are to the 2012 edition of the Guide. Some chapters have been rearranged in the 2013 edition.

An additional table in this section provides the reader with a list of the relatively recently issued (2012 through July 2014) Accounting Standards Updates (“ASUs” which amend the ASC) issued by the FASB. Most of the ASUs will not affect the accounting and financial reporting for many, if not all, not-for-profit organizations and are not discussed in this book. However, it is important for the reader to be aware of the changes being made to the ASC so that any potential impacts of these changes can be evaluated. Note that several ASUs beginning in 2014 are the result of consensus of the FASB's Private Company Council, which provides a simplified method of accounting and reporting for certain transactions of private business entities. There ASUs are not applicable to not-for-profit organizations.

Where a specific ASU is addressed in a chapter of this book, that chapter is indicated in the table.

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<u>ASC Subject Matter</u>	<u>Previous Guidance</u> <u>(primarily)</u>
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20 Financially-interrelated entities	FAS 136
30 Split-interest agreements	AAG Ch. 6 DIG B-35
205 Presentation of financial statements	FAS 117, FSP 117-1, FAS 124
210 Balance sheet	FAS 117
225 Income statement	FAS 117, others
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310 Receivables	FAS 116, AAG Ch. 5 & others
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805 Combinations	FAS 164

810 Consolidation

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90-15, 96-21, ARB 51

815 Derivatives and
hedging

DIG B-35

840 Leases

SOP 94-3, EITF 90-15, 96-21,
97-01

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16	Fund accounting	(not in ASC)

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Part 1

Overview of Not-for-Profit Organizations

Chapter 1

Overview of Not-for-Profit Organizations

Perspective and Issues

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PERSPECTIVE AND ISSUES

Not-for-profit organizations represent a significant portion of the economy of the United States. Over one million of these organizations provide almost every conceivable type of service from education to politics, from social services to country clubs, and from religious to research organizations. The number and importance of these organizations to the overall US economy continues to grow. The Financial Accounting Standards Board (FASB) defines not-for-profit organizations by distinguishing them from profit organizations. It defines not-for-profit organizations as entities that possess the following characteristics not usually found in other organizations:

1. They receive contributions from significant resource providers who do not expect a commensurate or proportionate monetary return.
2. They operate for purposes other than to make a profit.
3. There is an absence of ownership interests like those of business enterprises.