A Carnival of Information

27th annual ACCOUNTING SHOW

September 19-21, 2012

Broward County Convention Center / Ft. Lauderdale

FICPA

27th Annual Accounting Show
September 20, 2012
Ft. Lauderdale

Private Company Reporting

Eugene Ristaino, CPA, CFF, MT

Eugene J. Ristaino, CPA/ABV, MT

Partner

Isdaner & Company, LLC

Gene Ristaino is a partner/member of Isdaner & Company, LLC, a local firm of 65 people in Bald Cynwyd PA and is the director of accounting and auditing. Gene manages a diversified accounting practice specializing in the construction and real estate industries. He also provides services for developers and contractors in cost certification and analysis, claim support and documentation, expert witness, business valuation and job cost system implementation and improvement.

Gene's diversified background includes a concentration in the governmental and not-for-profit auditing sectors, including HUD, Circular A-133 and the Single Audit, as well as healthcare, manufacturing, transportation, retail and service organizations.

Gene has a Masters in Taxation (MT), concentrating in corporate taxation, with a specialization in the real estate and construction industries.

Gene is accredited in business valuation (ABV) certified by the American Institute of Certified Public Accountants (AICPA).

Gene is a national instructor for the American Institute of Certified Public Accountants (AICPA) and many state societies. He also lectures for many industry associations, and has authored several professional education programs and one-day seminars.

Gene is a former adjunct professor of tax law for the Masters in Taxation Programs for Villanova University and the Philadelphia University. He received his undergraduate BS degree in accounting from Drexel University, and earned his Masters in Taxation from Villanova University.

Gene is a member of the American and Pennsylvania Institutes of Certified Public Accountants and currently serves on the Peer Review Committee for the Pennsylvania Institute of Certified Public Accountants. He is a team captain for the AICPA Peer Review Program.

PRIVATE COMPANY REPORTING

PRESENTED BY
GENE RISTAINO, CPA, ABV, CFF

FICPA ACCOUNTING SHOW
SEPTEMBER 20, 2012

AGENDA

- STATE OF AFFAIRS
- AICPA PLANNED FINANCIAL REPORTING FRAMEWORK (FRF)
- OVERVIEW OF THE FAF PRIVATE COMPANY COUNCIL (PCC)
- COMPILATION AND REVIEW (SSARS)

DILEMMA

ARE WE READY FOR A SEPARATE SET OF ACCOUNTING STANDARDS FOR PRIVATE COMPANIES?

IMPACT OF CHANGE

- ARE 2 SETS OF GAAP OR AN EXPANDED OCBOA FRAMEWORK BETTER THAN A SINGLE GAAP STANDARD??
- → WILL A SECOND CLASS OF CPA BE REQUIRED??
- → WHAT IS THE IMPACT ON PUBLIC ACCOUNTING FIRMS??
- → WILL LENDORS ACCEPT "NON-GAAP" FINANCIAL SATTEMENTS??
- → SUBSEQUENT CONVERSION FROM NON-GAAP TO GAAP WILL BE COSTLY

PCAOB PROPOSALS

CONCEPT RELEASES

- 2011 CONCEPT RELEASE ON AUDITOR INDEPENDENCE CALLS FOR AUDITOR TERM LIMITS BY MANDATORY ROTATION
- 2011 CONCEPT RELEASE EXPLORES POSSIBLE CHANGES TO THE AUDITOR REPORTING MODEL

AUDITOR ROTATION

- SUBSTANTIAL NEGATIVE RESPONSE FROM COMMENT LETTERS AND PRESENTERS AT THE MARCH 2012 MEETING
- SECOND MEETING SCHEDULED FOR JUNE 2012
- COMMENT PERIOD REOPENED TO JULY 28

AUDITOR ROTATION

- WILL ROTATION ENHANCE AUDITOR INDEPENDENCE, OBJECTIVITY AND PROFESSIONAL SKEPTICISM?
- IS AUDIT TENURE LINKED TO AUDIT FAILURES OR LACK OF AUDITOR INDEPENDENCE, OBJECTIVITY AND PROFESSIONAL SKEPTICISM?
- SIGNIFICANT CHANGE IN PRACTICE
- INCREASED AUDIT COSTS

REPORT CHANGES

- EMPHASIS PARAGRAPHS TO HIGHLIGHT THE MOST SIGNIFICANT MATTERS IN THE FINANCIAL STATEMENTS
- KEY AUDIT PROCEDURES RELATED TO THOSE MATTERS
- ADDITIONAL AUDITOR ASSURANCE ON INFORMATION OUTSIDE THE FINANCIAL STATEMENTS, E.G. INFORMATION ON CRITICAL ACCOUNTING ESTIMATES
- AN AUDITOR'S DISCUSSION AND ANALYSIS (MDA), AS A SUPPLEMENT TO THE AUDIT REPORT

US ADOPTION OF IFRS

CONVERGENCE ??

- MOODY'S REPORTS THAT US GAAP AND IFRS ARE UNLIKELY TO BE MERGED - IS NEGATIVE FOR INVESTORS
- FASB/IASB INSURANCE PROJECT STALLED
- DELAYS IN NUMEROUS FASB/IASB JOINT PROJECTS – FINANCIAL INSTRUMENTS, REVENUE RECOGNITION AND LEASES
- APPARENT LACK OF SEC SUPPORT FOR SHORT TERM ADOPTION – STAFF PAPER

SEC CONCERNS

- ANTICIPATED SIGNIFICANT COSTS TO MODIFY INTERNAL PROCESSES AND TO EVALUATE AND MODIFY FINANCIAL METRICS CURRENTLY USED TO EVALUATE REGULATED INDUSTRIES
- GENERAL LACK OF INDUSTRY-SPECIFIC GUIDANCE UNDER IFRS, INCLUDING GUIDANCE FOR RATE-REGULATED INDUSTRIES
- DIMINISHED ABILITY TO INFLUENCE THE STANDARD SETTING PROCESS

SEC CONCERNS

- IS IFRS COMPREHENSIBLE, AUDITABLE AND ENFORCEABLE?
- DOES IFRS ALLOW FOR COMPARABILITY "WITHIN AND ACROSS JURISDICTIONS" DUE TO LESS PRESCRIPTIVE GUIDANCE, LACK OF GUIDANCE, OR ACCOUNTING POLICY OPTIONS?
- WILL THE USE OF IFRS IMPAIR AUDITOR AND REGULATOR EFFORTS?

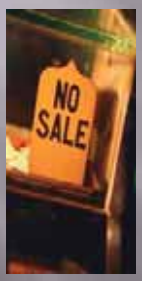
SEC CONCERNS

IF THE LEGAL OBSTACLES TO RECOGNIZING IFRS AS GENERALLY ACCEPTED UNDER US SECURITIES LAW CANNOT BE OVERCOME, THE SEC MAY NOT BE ABLE TO MANDATE THE USE OF IFRS AS ISSUED BY THE IASB WITHOUT SOME FORM OF NATIONAL INCORPORATION PROCESS.

RECENT SEC ACTION

THE SECURITIES AND EXCHANGE COMMISSION IS SHUTTING DOWN ANY FURTHER SPECULATION ON WHEN IT WILL MAKE SOME MOVE TOWARD A DECISION ON INTERNATIONAL FINANCIAL REPORTING STANDARDS.

RECENT SEC ACTION



THE LONG-AWAITED FINAL STAFF REPORT ON THE IFRS WORK PLAN, WHENEVER IT IS PUBLISHED, WILL NOT CONTAIN A RECOMMENDATION TO THE COMMISSION ON WHETHER, HOW, OR WHEN THE UNITED STATES SHOULD TRANSITION TO THE INTERNATIONAL RULE BOOK, SAYS SEC SPOKESMAN JOHN NESTER. "STAFF HAVE BEEN WORKING ON A REPORT AND SEPARATELY DEVELOPING A RECOMMENDATION," HE SAYS. "THE REPORT IS NEARING COMPLETION BUT STAFF HAVE NOT ESTABLISHED A TIMETABLE FOR COMPLETING A RECOMMENDATION."

IFRS FOR SMEs

- IASB STAFF TO DEVELOP GUIDANCE FOR MICRO-SIZED BUSINESSES TO APPLY IFRS FOR SMEs
- NOT A SEPARATE FRAMEWORK
- NO MODIFICATION TO THE PRINCIPLES FOR RECOGNITION AND MEASUREMENT
- IFRS FOR SMEs NOT WIDELY USED IN US

AICPA FINANCIAL REPORTING FRAMEWORK

AICPA FRF FOR SMEs

- AICPA IS DEVELOPING A STAND ALONE FINANCIAL REPORTING FRAMEWORK (FRF) FOR SMALL AND MEDIUM SIZED PRIVATE COMPANIES
- NOT A GAAP PRESENTATION
- THE DOCUIMENT WILL BE NONAUTHORATIVE – AICPA CANNOT REQUIRE ITS USE
- ENTITIES CAN USE FRAMEWORK IN SITUATIONS WHERE GAAP FINANCIAL STATEMENTS ARE NOT REQUIRED

AICPA FRF FOR SMEs

- FRAMEWORK WILL BE A SPECIAL PURPOSE FRAMEWORK - FORMERLY OTHER COMPREHENSIVE BASIS OF ACCOUNTING (OCBOA)
- WILL BLEND ACCRUAL INCOME TAX METHODS WITH OTHER TRADITIONAL METHODS OF ACCOUNTING
- WILL BE EXPOSED FOR PUBLIC COMMENT – PLANNED FOR 2012
- EXPECTED FOR USE IN 2013

PRIVATE COMPANY COUNCIL

FASB FORMS PCC

- FAF HAS ANNOUNCED THAT IT WILL FORM THE PRIVATE COMPANY COUNCIL (PCC)
- MEMBER NOMINATIONS WERE ACCEPTED THROUGH JUNE 30
- PCC WILL BE OVERSEEN BY THE TRUSTEES OF THE FAF
- PCC WILL REPLACE THE EXISTING PRIVATE COMPANY FINANCIAL REPORTING COMMITTEE) (PCFRC)

PCC DIRECTIVE

FAF PRESIDENT AND CEO TERESA S. POLLEY SAID: "THE PLAN APPROVED BY THE TRUSTEES STRIKES AN IMPORTANT BALANCE. ON ONE HAND, THE PLAN RECOGNIZES THAT THE NEEDS OF PUBLIC AND PRIVATE COMPANY FINANCIAL STATEMENT USERS, PREPARERS, AND AUDITORS ARE NOT ALWAYS ALIGNED.

PCC DIRECTIVE

BUT AT THE SAME TIME, THE PLAN ENSURES COMPARABILITY OF FINANCIAL REPORTING AMONG DISPARATE COMPANIES BY PUTTING IN PLACE A SYSTEM FOR RECOGNIZING DIFFERENCES THAT WILL AVOID CREATION OF A 'TWO-GAAP' SYSTEM."

PCC TASKS

1) DETERMINE WHETHER EXCEPTIONS OR MODIFICATIONS TO EXISTING GAAP ARE REQUIRED FOR PRIVATE COMPANIES
2) SERVE AS PRIMARY ADVISORY BODY TO THE FASB ON THE APPROPRIATE TREATMENT FOR PRIVATE COMPANIES FOR ITEMS UNDER ACTIVE FASB CONSIDERATION

FRAMEWORK

- FASB PROPOSED A PRIVATECOMPANY DECISION-MAKING FRAMEWORK
- STAKEHOLDER INPUT REQUESTED THROUGH OCTOBER 31, 2012
- RELATED TO FASB PROJECT TO DEFINE A NONPUBLIC ENTITY
- FRAMEWORK TO BE USED BY PCC AND FASB IN DETERMINING PRIVATE COMPANY GAAP EXCEPTIONS

FRAMEWORK

THE FRAMEWORK IS NOT INTENDED TO BE AN ENTIRELY NEW CONCEPTUAL FRAMEWORK THAT WOULD LEAD TO A BASIS FOR PREPARING FINANCIAL STATEMENTS OF PRIVATE COMPANIES THAT IS FUNDAMENTALLY DIFFERENT FROM THE BASIS FOR PREPARING FINANCIAL STATEMENTS OF PUBLIC COMPANIES.

FRAMEWORK

RATHER, DEVELOPMENT OF A DECISION-MAKING FRAMEWORK FOR PRIVATE COMPANY FINANCIAL STATEMENTS IS INTENDED TO IDENTIFY DIFFERENTIAL INFORMATION NEEDS OF USERS OF PUBLIC COMPANY FINANCIAL STATEMENTS AND USERS OF PRIVATE COMPANY FINANCIAL STATEMENTS AND TO IDENTIFY OPPORTUNITIES TO REDUCE THE COMPLEXITY AND COSTS OF PREPARING FINANCIAL STATEMENTS IN ACCORDANCE WITH U.S. GAAP.

FRAMEWORK

HOWEVER, A PRIVATE COMPANY COULD DECIDE NOT TO APPLY ANY EXCEPTIONS OR MODIFICATIONS PROVIDED BY THE BOARD AND THE PCC (FOR EXAMPLE, A PRIVATE COMPANY PLANNING AN INITIAL PUBLIC OFFERING OF STOCK).

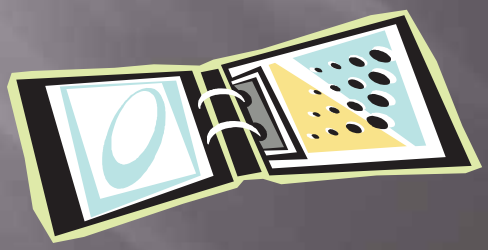
DIFFERENTIAL FACTORS

- TYPES AND NUMBER OF USERS
- ACCESS TO MANAGEMENT
- INVESTMENT STRATEGIES
- OWNERSHIP AND CAPITAL STRUCTURES
- ACCOUNTING RESOURCES
- LEARNING ABOUT NEW FINANCIAL REPORTING GUIDANCE

POSSIBLE EXCEPTIONS

- RECOGNITION AND MEASUREMENT
- DISCLOSURES
- DISPLAY – PRESENTATION
- EFFECTIVE DATE
- TRANSITION METHOD

COMPILATION AND REVIEW



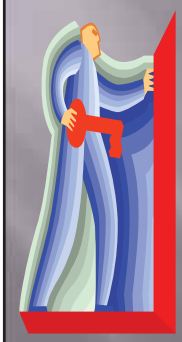
TPA – TIS 9150.28

INQUIRY - IS IT PERMISSABLE FOR AN ACCOUNTANT TO COMPILE FINANCIAL STATEMENTS FOR AN ENTITY THAT THE ACCOUNTANT ALSO PROVIDDES MANAGEMENT SERVICES?

TPA – TIS 9150.28

REPLY – YES, HOWEVER THE ACCOUNTANT NEEDS TO COMPLY WITH INTERPRETATION 101-3 "PERFORMANCE OF NONATTEST SERVICES". WHEN AN ACCOUNTANT PERFORMS MANAGENT SERVICES FOR A CLIENT, INDEPENDENCE IS IMPAIRED, AND THE ACCOUNTANT WOULD NEED TO DISCLOSE THE LACK OF INDEPENDENCE IN THE ACCOUNTANT'S REPORT.

TPA TIS 9150.30



INQUIRY – HOW CAN AN ACCOUNTANT MODIFY THE ACCOUNTANT'S REPORT ON COMPARATIVE FINANCIAL STATEMENTS WHERE THE ACCOUNTANT WAS NOT INDEPENDENT FOR THE EARLIER PERIOD?

TPA TIS 9150.30

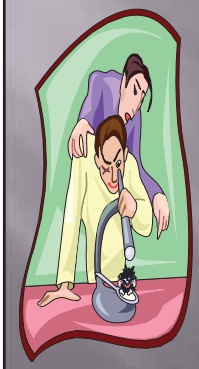
REPLY – THE ACCOUNTANT MAY INDICATE THE INDEPENDENCE IMPAIRMENT AS OF AND FOR THE EARLIER PERIOD ENDED THAT WAS SUBSEQUENTLY CURED. THE ACCOUNTANT MAY ALSO DISCLOSE THAT THEIR IMPAIRMENT WAS SUBSEQUENTLY CURED

TPA TIS 9150.30

SAMPLES

- As of and for the year then ended 12/31 2011, I was not independent with respect to ABC Company.
- As of and for the year then ended 12/31/ 2011, I was not independent with respect to ABC Company. I am currently independent with respect to ABC Company.

TPA TIS 9150.29



INQUIRY – FASB CODIFICATION REQUIRES A REPORTING ENTITY TO ASSESS WHETHER THE REPORTING ENTITY IS THE PRIMARY BENEFICIARY OF A VARIABLE INTEREST ENTITY (VIE). IF MANAGEMENT DOES NOT PERFORM THE ASSESSMENT, IS THE ACCOUNTANT REQUIRED TO WITHDRAW FROM THE ENGAGEMENT DUE TO A SCOPE LIMITATION?

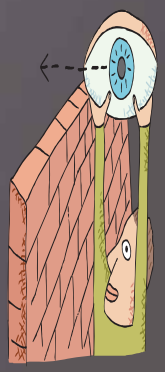
TPA TIS 9150.29

REPLY – NO. MANAGEMENT'S NOT PERFORMING THE ASSESSMENT IS A GAAP DEPARTURE NOT A SCOPE LIMITATION. GENERALLY A GAAP DEPARTURE MODIFICATION OF THE ACCOUNTANT'S REPORT IS IN ORDER

THE ACCOUNTANT NEEDS TO CONSIDER IF THE REPORT MODIFICATION IS ADEQUATE TO DISCLOSE THE DEPARTURE

SAMPLE REPORT

US GAAP require management to assess whether the company has a controlling interest in any entities in which the company has a variable interest in order to determine if those entities should be consolidated. Management has not performed the required assessment and therefore, if there are variable interests entities for which the company is the primary beneficiary, the company has not consolidated those entities.



SAMPLE REPORT

Although the effects on the financial statements of the failure to perform the required assessment have not been determined, many elements in the financial statements would have been materially affected had management determined that the company is the primary beneficiary of any variable interest entities.

INTERPRETATIONS

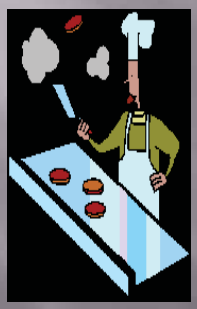
QUESTION – IS THE ACCOUNTANT RERQUIRED TO APPLY PROCEDURES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI) THAT ACCOMPANIES COMPILED OR REVIEWED FINANCIAL STATEMENTS?

INTERPRETATIONS

EXAMPLES OF RSI

- CIRAS – ESTIMATES OF FUTURE COSTS OF MAJOR REPAIRS OR REPLACEMENT OF COMMON PROPERTY
- GASB 34 - MANAGEMENT DISCUSSION AND ANALYSIS (MDA) FOR STATE AND LOCAL GOVERNMENTS

INTERPRETATIONS



INTERPRETATION – NO. SSARS DO NOT REQUIRE THE ACCOUNTANT TO APPLY PROCEDURES TO ANY INFORMATION PRESENTED FOR SUPPLEMENTARY PURPOSES, INCLUDING RSI. NOTHING PRECLUDES THE ACCOUNTANT FROM COMPILING THE RSI IF ENGAGED TO DO SO.

SAMPLE REPORTS

US GAAP requires that estimates of future costs of major repairs or replacement of common property on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by US GAAP who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or provide any assurance on it.

SAMPLE REPORTS

US GAAP requires that estimates of future costs of major repairs or replacement of common property on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by US GAAP who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information has been compiled by us without audit or review and, accordingly, we do not express an opinion or provide any assurance on it.

SAMPLE REPORTS

Management has omitted estimates of future costs of major repairs or replacement of common property that US GAAP requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by US GAAP who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

PROPOSED SSARS

THE PROPOSED SSARSs REPRESENT THE REDRAFTING OF EXISTING SSARSs TO APPLY CLARITY DRAFTING CONVENTIONS AND ALSO INCLUDE ADDITIONAL CHANGES FROM EXISTING STANDARDS. THE PROPOSED SSARSs WOULD RESULT IN THE FOLLOWING SECTIONS IN THE CODIFIED SSARSs:

- AR SECTION 70, ASSOCIATION WITH UNAUDITED FINANCIAL STATEMENTS
- AR SECTION 80, COMPILATION OF FINANCIAL STATEMENTS (REVISED)
- AR SECTION 85, COMPILATION OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS

PROPOSED SSARS

THE PROPOSED SSARS ASSOCIATION WITH UNAUDITED FINANCIAL STATEMENTS WOULD BE EFFECTIVE FOR UNAUDITED FINANCIAL STATEMENTS WITH WHICH THE ACCOUNTANT IS ASSOCIATED ON OR AFTER DECEMBER 15, 2014

EARLY IMPLEMENTATION IS REQUIRED IN CERTAIN CIRCUMSTANCES; OTHERWISE, EARLY IMPLEMENTATION IS PERMITTED

PROPOSED SSARS

THE PROPOSED SSARSS COMPILATION OF FINANCIAL STATEMENTS AND COMPILATION OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS WOULD BE EFFECTIVE FOR COMPILATIONS OF FINANCIAL STATEMENTS FOR PERIODS ENDING ON OR AFTER DECEMBER 15, 2014

EARLY IMPLEMENTATION IS REQUIRED IN CERTAIN CIRCUMSTANCES; OTHERWISE, EARLY IMPLEMENTATION IS NOT PERMITTED

CHANGES

CURRENTLY, PREPARATION (OF FINANCIAL STATEMENTS) IS AN INTEGRAL ELEMENT OF THE APPLICABILITY OF AR SECTION 80. AS PREPARATION (OF FINANCIAL STATEMENTS) CANNOT BE A NONATTEST AND ATTEST (COMPILATION) SERVICE SIMULTANEOUSLY, THE PROPOSED SSARS COMPILATION OF FINANCIAL STATEMENTS REVISES THE APPLICABILITY OF THE COMPILATION LITERATURE SO THAT THE LITERATURE APPLIES ONLY WHEN THE ACCOUNTANT IS ENGAGED TO PERFORM A COMPILATION SERVICE.

CHANGES

THE EFFECT IS THAT A COMPILATION SERVICE WOULD NO LONGER INCLUDE THE PREPARATION OF FINANCIAL STATEMENTS. THE PREPARATION, IN WHOLE OR IN PART, WOULD BE A NONATTEST SERVICE. THEREFORE, THE ACCOUNTANT NEED NOT BE CONCERNED WITH ISSUES SUCH AS WHO PREPARED THE FINANCIAL STATEMENTS OR WHETHER THE FINANCIAL STATEMENTS ARE INTENDED TO BE USED BY THIRD PARTIES.

CHANGES

ALTHOUGH EXTANT AR SECTION 80 REQUIRES THAT THE ACCOUNTANT DOCUMENT THE UNDERSTANDING WITH MANAGEMENT REGARDING THE SERVICES TO BE PERFORMED FOR COMPILATION ENGAGEMENTS THROUGH A WRITTEN COMMUNICATION WITH MANAGEMENT, EXTANT AR SECTION 80 DOES NOT REQUIRE THAT THE WRITTEN UNDERSTANDING BE SIGNED BY EITHER THE ACCOUNTANT OR MANAGEMENT …

CHANGES

PARAGRAPH 10 OF THE PROPOSED SSARS COMPILATION OF FINANCIAL STATEMENTS REQUIRES THAT THE ENGAGEMENT LETTER OR OTHER SUITABLE FORM OF WRITTEN COMMUNICATION BE SIGNED BY (A) THE ACCOUNTANT OR THE ACCOUNTANT'S FIRM AND (B) MANAGEMENT OR, IF APPLICABLE, THOSE CHARGED WITH GOVERNANCE

CHANGES

EXTANT AR SECTION 80 STATES THAT EMPHASIS PARAGRAPHS ARE NEVER REQUIRED. HOWEVER, THE PROPOSED SSARSs COMPILATION OF FINANCIAL STATEMENTS AND COMPILATION OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS REQUIRE THE ACCOUNTANT TO INCLUDE AN EMPHASIS-OF-MATTER OR OTHER-MATTER PARAGRAPH IN THE ACCOUNTANT'S COMPILATION REPORT RELATING TO THE FOLLOWING MATTERS:

CHANGES

EMPHASIS PARAGRAPHS

- STATEMENTS PREPARED IN ACCORDANCE WITH A SPECIAL PURPOSE FRAMEWORK
- REPORTING ON PRIOR PERIOD FINANCIAL STATEMENTS AND THE ACCOUNTANT'S COMPILATION REPORT INCLUDES A CHANGED REFERENCE TO A DEPARTURE FROM THE APPLICABLE FINANCIAL REPORTING FRAMEWORK
- REPORTING WHEN MANAGEMENT REVISES FINANCIAL STATEMENTS FOR A SUBSEQUENTLY DISCOVERED FACT THAT BECAME KNOWN TO THE ACCOUNTANT AFTER THE REPORT RELEASE DATE.

CHANGES

THE PROPOSED SSARS COMPILATION OF FINANCIAL STATEMENTS INTRODUCES THE TERM SPECIAL PURPOSE FRAMEWORK TO SSARSs. THE TERM SPECIAL PURPOSE FRAMEWORK INCLUDES THE CASH, TAX, AND REGULATORY-BASES OF ACCOUNTING AND OTHER BASES HAVING SUBSTANTIAL SUPPORT THAT HAVE TRADITIONALLY BEEN REFERRED TO AS OTHER COMPREHENSIVE BASES OF ACCOUNTING (OCBOA), INCLUDING THE CONTRACTUAL BASIS OF ACCOUNTING. THE PROPOSED SSARS INCLUDES SEVERAL NEW REQUIREMENTS WITH RESPECT TO REPORTING ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH A SPECIAL PURPOSE FRAMEWORK

CHANGES

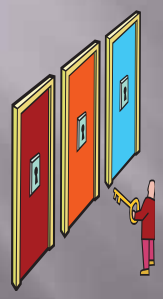
IN ADDITION, THE PROPOSED SSARS COMPILATION OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS REQUIRES THE ACCOUNTANT TO INCLUDE AN EMPHASIS-OF-MATTER PARAGRAPH IN THE ACCOUNTANT'S COMPILATION REPORT WHEN THE ACCOUNTANT CONSIDERS IT NECESSARY TO DRAW USERS' ATTENTION TO A MATTER APPROPRIATELY PRESENTED OR DISCLOSED IN THE FINANCIAL STATEMENTS THAT, IN THE ACCOUNTANT'S PROFESSIONAL JUDGMENT, IS OF SUCH IMPORTANCE THAT IT IS FUNDAMENTAL TO THE USER'S UNDERSTANDING OF THE FINANCIAL STATEMENTS, PROVIDED THAT THE ACCOUNTANT DOES NOT BELIEVE THAT THE FINANCIAL STATEMENTS MAY BE MATERIALLY MISSTATED

CHANGES

THE PROPOSED SSARS COMPILATION OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS REQUIRES THE ACCOUNTANT TO INCLUDE AN OTHER-MATTER PARAGRAPH IN THE ACCOUNTANT'S COMPILATION REPORT WHEN THE ACCOUNTANT CONSIDERS IT NECESSARY TO COMMUNICATE A MATTER OTHER THAN THOSE THAT ARE PRESENTED OR DISCLOSED IN THE FINANCIAL STATEMENTS THAT, IN THE ACCOUNTANT'S PROFESSIONAL JUDGMENT, IS RELEVANT TO THE USERS' UNDERSTANDING OF THE COMPILATION, THE ACCOUNTANT'S RESPONSIBILITIES, OR THE ACCOUNTANT'S COMPILATION REPORT

OCBOA - OTHER COMPREHENSIVE BASIS OF ACCOUNTING

CONSOLIDATED FS



NOTHING IN AU SECTION 623 PROHIBITS AN AUDITOR FROM REPORTING ON A INCOME TAX BASIS COMBINING PRESENTATION OF BROTHER-SISTER CORPORATIONS AS LONG AS THE BASIS OF ACCOUNTING FOR EACH OF THE ENTITIES PRESENTED IS THE BASIS THEY USE, OR EXPECT TO USE, TO FILE THEIR INCOME TAX RETURNS – TIS SECTION 1400

FIN #48

ORDINARILY, THE RECOGNITION AND MEASUREMENT PROVISIONS OF FASB ASC 740-10 (PREVIOUSLY FIN #48) WOULD NOT APPLY TO OCBOA FINANCIAL STATEMENTS BECAUSE A LIABILITY FOR AN UNCERTAIN TAX POSITION WOULD NOT BE REPORTED ON AN ENTITY'S TAX RETURN, NOR IS IT BASED ON RECEIPTS AND DISBURSEMENTS – TIS SECTION 9110

FAIR VALUE

IF OCBOA FINANCIAL STATEMENTS REFLECT ASSETS OR LIABILITIES MEASURED AT FAIR VALUE IN ACCORDANCE WITH FASB ASC 820 (FV MEASUREMENTS AND DISCLOSURES), THE AUDITOR SHOULD CONSIDER WHETHER THE FINANCIAL STATEMENTS AND NOTES INCLUDE THE FAIR VALUE DISCLOSURE REQUIREMENTS OF FASB ASC 820 AS APPROPRIATE FOR THE BASIS OF ACCOUNTING USED

OCBOA DISCLOSURES

INTERPRETATION #14 OF AU SECTION 623 (PARAGRAPH 90–95)

IF OCBOA FINANCIAL STATEMENTS CONTAIN ELEMENTS, ACCOUNTS, OR ITEMS FOR WHICH GAAP WOULD REQUIRE DISCLOSURE, THE STATEMENTS SHOULD EITHER PROVIDE THE RELEVANT DISCLOSURE THAT WOULD BE REQUIRED OR PROVIDE INFORMATION THAT COMMUNICATES THE SUBSTANCE OF THAT DISCLOSURE. THAT MAY RESULT IN SUBSTITUTING QUALITATIVE INFORMATION FOR SOME OF THE QUANTITATIVE INFORMATION REQUIRED FOR GAAP DISCLOSURE

PRIVATE COMPANY COUNCIL RESPONSIBILITIES AND OPERATING ROCEDURES

AGENDA SETTING

Working jointly, the PCC and the FASB will mutually agree on criteria for determining whether and when exceptions or modifications to GAAP are warranted for private companies. Using the criteria, the PCC will determine which elements of existing GAAP to consider for possible exceptions or modifications by a vote of two-thirds of all sitting members, in consultation with the FASB and with input from stakeholders.

FASB ENDORSEMENT

If endorsed by a simple majority of FASB members, the proposed exceptions or modifications to GAAP will be exposed for public comment. At the conclusion of the comment process, the PCC will redeliberate the proposed exceptions or modifications and forward them to the FASB, who will make a final decision on endorsement, generally within 60 days. If the FASB endorses the proposals, they will be incorporated into GAAP. If the FASB does not endorse, the FASB Chairman will provide the PCC Chair with a written explanation, including possible changes for the PCC to consider that could result in FASB endorsement.

MEMBERSHIP

The PCC will comprise 9 to 12 members, including a Chair, all of whom will be selected and appointed by the FAF Board of Trustees. The PCC Chair will not be a FASB member. Membership of the PCC will include a variety of users, preparers, and practitioners with substantial experience working with private companies. Members will be appointed for a three-year term and may be reappointed for an additional term of two years. Membership tenure may be staggered to establish an orderly rotation. The PCC Chair and members will serve without remuneration but will be reimbursed for expenses

FASB LAISON

A FASB member will be assigned as a liaison to the PCC. FASB technical and administrative staff will be assigned to support and work closely with the PCC. Dedicated full-time employees will be supplemented with FASB staff with specific expertise, depending on the issues under consideration.

MEETINGS

During its first three years of operation, the PCC will hold at least five meetings each year, with additional meetings if determined necessary by the PCC Chair. Deliberative meetings of the PCC will be open to the public, although the Council may hold closed educational and administrative sessions. Most of the meetings will be held at the FAF's offices in Norwalk, Connecticut, but up to two meetings each year may be held elsewhere. All FASB members will be expected to attend and participate in deliberative meetings of the PCC, but closed educational and administrative meetings may be held with or without the FASB.

OVERSIGHT

The FAF Board of Trustees will create a special-purpose committee of Trustees, the Private Company Review Committee (Review Committee), which will have primary oversight responsibilities for the PCC. The Review Committee will hold both the PCC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues in the standard-setting process. The Review Committee will be chaired by a Trustee with substantial experience in private company accounting issues. Oversight activities will be ongoing, and will include monitoring of PCC meetings, among other activities.

3 YEAR ASSESSMENT

The PCC will provide quarterly written reports to the FAF Board of Trustees. The FAF Trustees will conduct an overall assessment of the PCC following its first three years of operation to determine whether its mission is being met and whether further changes to the standard-setting process for private companies are warranted

QUESTIONS ??

??????????????????

THANK YOU

Differing Nonprofits – Case Studies

Cecil “Pat” Patterson, Jr., CPA, MBA

Cecil “Pat” Patterson, Jr., CPA, MBA

President

Patterson & Associates, P.A.

Cecil "Pat" Patterson, Jr., CPA is a recognized author, speaker, and discussion leader for continuing education courses and state societies. Mr. Patterson is the President of Patterson & Associates, P. A. His degrees include a Bachelor of Science in Accounting (Honors) and a Master of Business Administration. Mr. Patterson has experience at the national CPA firm level, at the corporate level as a chief financial officer, and as an adjunct professor at the university level.

His firm is involved in the full spectrum of CPA activities including auditing, accounting services, federal and state corporate and individual income tax preparation, and consulting services to clients, businesses, and other professionals.

Memberships include:

- Member, American Institute of Certified Public Accountants (AICPA)
- Member, Florida Institute of Certified Public Accountants (FICPA)
- Member, FICPA Board of Governors
- Member, FICPA Common Interest Realty Associations Section
- Member, FICPA Accounting & Auditing Section
- Member, FICPA Accounting Shows Committee

Honors and Awards include:

- Outstanding Discussion Leader, FICPA
- Outstanding Author, FICPA
- Distinguished Discussion Leader, New York Society of CPAs

Differing Nonprofits

2012

Presented by

Cecil Patterson, Jr., CPA
Patterson CPA Group, Inc.

Post Office Box 2229
Ponte Vedra Beach, FL 32009
(904) 285-4489 Fax (904) 285-1805
pat@pattersoncpafirm.com

Objectives

- To compare selected practices between selected differing nonprofits.
- Practices include:
  - GAAP
  - Financial reporting and disclosures
- Nonprofits will include:
  - Common Interest Realty Associations (CIRAs)
  - Religious Organizations
  - Other nonprofits

Not for Profit ???

- Are CIRAs not-for-profit entities or business enterprises?
- The SFAC No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, Paragraph 6, distinguishes **not**-for-**profit** organizations from business enterprises because they have the following characteristics:

Not for Profit ??? (cont.)

a. ***Receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to resources provided.***

b. ***Operating purposes that are other than to provide goods or services at a profit or profit equivalent.***

c. ***Absence of defined ownership interests that can be sold, transferred, or redeemed, or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization.***

Not for Profit ??? (cont.)

- The line between not-for-profit and business enterprises is not crystal clear.
- CIRAs usually are identified with **point b**. but not points a. and c.
- These points of SFAC No. 4 are repeated in the definition of **not**-for-**profit** organizations in FASB ASC 958-20 (formerly Appendix D of SFAS Nos. 116, *Accounting for Contributions Received and Contributions Made*, and 117, *Financial Statements of **Not**-for-**Profit** Organizations*).

Not for Profit ??? (cont.)

- Because SFAC No. 4 and the two FASB statements do **not** specifically exclude condominium associations, homeowners' associations, housing cooperatives, and time-share associations, professionals believe such associations fall in the excluded category of entities that operate for the direct economic benefit of members or shareholders.
- Therefore, they are **not** considered to be nonprofit organizations for purposes of applying GAAP.

Not for Profit ??? (cont.)

- Therefore, for CIRAs, GAAP for commercial businesses for accounting guidance is appropriate.
- Even though CIRAs are **not** nonprofit organizations, they may have limited tax exemptions under IRC 528.
- **The tax-exempt designation is used for purposes of applying tax law, not accounting principles.**

Tax Exempt ???

- CIRAs are usually not for profit entities under state law but not for GAAP.
- CIRAs rarely are totally "tax exempt".
- CIRAs are not totally tax exempt because they discriminate as to use.
- However, CIRAs may have limited tax exemption under IRC 528.
- CIRAs are organized under <u>state</u> law.
- Tax Exemption is a <u>federal</u> exemption.

Important Definitions for NFPs

- Religious Organizations
- Churches
- Religious Orders

Important Definitions (cont.)

- Religious Organization
  - An organization engaged in the advancement of religion such as:
    a. Church
    b. Convention or association of churches
    c. Other church run organizations like:
       1. School
       2. Orphanages
       3. Cemeteries
       4. broadcast entities

Important Definitions (cont.)

- Religious Organization (cont)
  - Religious orders
  - Integrated auxiliary
  - Ministry (includes Para churches)
  - Missionaries
  - Evangelism

The Numbers

- Approximately 1.8 million religious, charitable, and other tax-exempt entities have registered with the IRS.
- About 900,000 are public charities under (501(c)(3).
- Does not include those not filing.
- Estimates of over 500,000 churches

The Numbers (cont.)

- Also thousands of ministries, private schools, interdenominational and ecumenical organizations, and others
- No national data base for churches and other religious organizations
- Numbers on individual organizations abound.

Definitions Just for Churches

- A church is defined in several ways.
- The Internal Revenue Code, Section 7611, defines a church as any organization claiming to be a church and any convention or association of churches.
- Because of the vague definition, the courts have held that a church includes a body of believers or communicants who assemble regularly to worship.

Definitions for Churches (cont.)

- Based on case law, the IRS uses church characteristics for determinations as a church:
  - Distinct legal existence
  - Recognized creed and form of worship
  - Definite and distinct ecclesiastical government
  - Formal code of doctrine and discipline
  - Distinct religious history

Definitions for Churches (cont.)

- Characteristics (cont)
  - Membership not associated with other churches or denominations
  - Organization of ordained ministers
  - Ordained ministers selected after prescribed studies
  - Literature of its own
  - Established places of worship

Definitions for Churches (cont.)

- Characteristics (cont)
  - Regular congregations
  - Regular religious services
  - Sunday schools for the young
  - School for preparation of ministers

Tax Exemption

- No legal requirement for churches and integrated auxiliaries to apply for tax exempt status.
- IRS Form 1023, ***Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code***
- Recommended to file Form 1023.

Benefits of Tax Exemption

- Proof of tax deductibility
- Listed in IRS Publication 78, ***"Cumulative List of Organizations"***
- Proof to sales tax authorities
- Proof to state and local tax authorities
- Proof to Postmaster

Differences between Churches and Their Integrated Auxiliaries and Other Religious Organizations

- Religious Organizations other than churches must apply for tax exemption
- Churches, associations or conventions of churches and integrated auxiliaries are not required to file.

What is an Integrated Auxiliary?

1. Described both as Sec. 501(c)(3)
2. Affiliated with a church or convention or an association of churches.
3. Internally supported

What is a Religious Order?

- Described in 501(c)(3)
- Members vow to live under strict set of rules requiring sacrifice
- After training program, there is a long term commitment
- Order is under control and supervision of church
- Members live together

Religious Order (cont)

- Members work or serve full time towards the goals of the organization.
- Participate regularly in activates of the order.

Special

- Special laws apply
- Unique status in society
- First Amendment Rights
- Special tax laws apply

Common Characteristics

- Not for Profit Organization
- Separate legal corporate entities under state law
- Control by Board of Directors (BOD)
- Financial requirements

Florida Governances for NFPs

- Chapter 617 – Corporations Not for Profit
- All Florida Corporations Not for Profit are covered under FS 617
- If there is a conflict between FS 617 and FS 718, FS 719, FS 720, or FS 721, then the provisions of 718, 719, 720, and 721 shall prevail.

Florida Governances for CIRAs

- CHAPTER 718 – CONDOMINIUM ASSOCIATIONS
- CHAPTER 719 – COOPERATIVE ASSOCIATIONS
- CHAPTER 720 - HOMEOWNERS' ASSOCIATIONS
- CHAPTER 721 – TIME-SHARE ASSOCIATIONS
- RELATED FLORIDA ADMINISTRATIVE CODES

Conflicts in Governances

- **617.1703 Application of chapter.**—In the event of any conflict between the provisions of this chapter and chapter 718 regarding condominiums, chapter 719 regarding cooperatives, chapter 720 regarding homeowners' associations, chapter 721 regarding timeshares, or chapter 723 regarding mobile home owners' associations, the provisions of such other chapters shall apply. The provisions of ss. 617.0605-617.0608 do not apply to corporations regulated by any of the foregoing chapters or to any other corporation where membership in the corporation is required pursuant to a document recorded in the county property records. History.—s. 52, Ch. 2009-205.

NFPs and GAAP

FASB Accounting Standards Codification (ASC)

NFPs in the Codification

NFPs

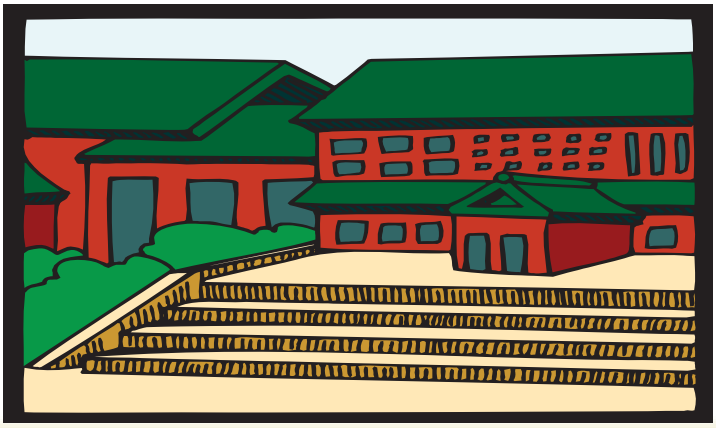
- Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, ***Not-for-Profit Entities***, contains incremental industry-specific guidance.
- NFPs should follow that industry-specific guidance and all other relevant guidance in other FASB ASC topics that does not conflict with the industry guidance.

NFPs (cont.)

- NFPs may follow and are not prohibited from following the guidance if effective provisions of FASB ASC that specifically exempt NFPs from their application , unless FASB ASC 958 provides different guidance.
- Examples would be:
  - Earnings per share
  - Comprehensive income
  - Variable interest entities

CIRAs in the Codification

972 Real Estate—Common Interest Realty Associations



CIRA's and FASB Codification

- 972-10 Overall
  - 972-10-05 Overview and Background
  - 972-10-15 Scope and Scope Exceptions
  - 972-10-20 Glossary

CIRA's and FASB Codification

- 972-205 Presentation of Financial Statements
  - 972-205-05 Overview and Background
  - 972-205-15 Scope and Scope Exceptions
  - 972-205-20 Glossary
  - 972-205-45 Other Presentation Matters
  - 972-205-50 Disclosure

CIRA's and FASB Codification

- 972-235 Notes to Financial Statements
  - 972-360 Property, Plant, and Equipment
  - 972-430 Deferred Revenue
  - 972-605 Revenue Recognition
  - 972-720 Other Expenses
  - 972-740 Income Taxes
  - 972-850 Related Party Disclosures

Financial Reporting of NFPs

Florida Requirements

- For most NFPs other than CIRAs the Florida requirements are not specific as to type of financial reporting that is required.
- For NFPs other than CIRAs, the Audit and Accounting Guide, ***Not-for-Profit Entities***, March 1, 2012, should be used as authoritative.
- For CIRAs the Florida Statues and Florida Administrative Codes are very specific.

GAAP Requirements

- For NFPs, FASB ASC 958-210-45-1 requires that the amounts for each of three classes of net assets (permanently restricted, temporarily restricted, and unrestricted) be displayed in a statement of financial position.
- FASB ASC 958-225-45-1 also requires that the amount of change in each of those classes of net assets be displayed in a statement of activities.

GAAP Requirements (cont.)

- For CIRAs, the GAAP is different.
- ASC 972-205, Presentation of Financial Statements requires a fund reporting format which is different than fund accounting and Net Asset Classes.
- A word of caution to preparers of financial statements.

CIRA Guide

- Big changes with the CIRA Guide from the AICPA.
- However, examples within the old nonauthoritative CIRA Guide might still be helpful.

CIRA Guide (a major change)

- Current professional standards apply
- Single most authoritative source of GAAP is the **Accounting Standards Codification** (ASC) from the FASB. The ASC **replaces** the CIRA Guide for GAAP.
- For GAAP the AICPA's CIRA Guide, ***Audits of Common Interest Realty Associations, is considered inactive and not current.***

Financial Reporting - CIRAs

- ***718.111 …***
- ***(13) FINANCIAL REPORTING.—Within 90 days after the end of the fiscal year, or annually on a date provided in the bylaws, the association shall prepare and complete, or contract for the preparation and completion of, a financial report for the preceding fiscal year. The division shall adopt rules setting forth uniform accounting principles and standards to be used by all associations and addressing the financial reporting requirements for multicondominium associations.***

Financial Reporting (cont.)

- *Within 21 days after the final financial report is completed by the association or received from the third party, but not later than 120 days after the end of the fiscal year or other date as provided in the bylaws, the association shall mail to each unit owner at the address last furnished to the association by the unit owner, or hand deliver to each unit owner, a copy of the financial report or a notice that a copy of the financial report will be mailed or hand delivered to the unit owner, without charge, upon receipt of a written request from the unit owner. …*

Financial Reporting (cont.)

- *The rules must include, but not be limited to, standards for presenting a summary of association reserves, including a good faith estimate disclosing the annual amount of reserve funds that would be necessary for the association to fully fund reserves for each reserve item based on the straight-line accounting method. This disclosure is not applicable to reserves funded via the pooling method. In adopting such rules, the division shall consider the number of members and annual revenues of an association. Financial reports shall be prepared as follows:*

Financial Reporting (cont.)

- *(a) An association that meets the criteria of this paragraph shall prepare a complete set of financial statements in accordance with generally accepted accounting principles. The financial statements must be based upon the association's total annual revenues, as follows:*
- *1. An association with total annual revenues of $100,000 or more, but less than $200,000, shall prepare compiled financial statements.*
- *2. An association with total annual revenues of at least $200,000, but less than $400,000, shall prepare reviewed financial statements.*
- *3. An association with total annual revenues of $400,000 or more shall prepare audited financial statements.*

Financial Reporting (cont.)

- *(b)1. An association with total annual revenues of less than $100,000 shall prepare a report of cash receipts and expenditures.*
- *2. An association that operates fewer than 75 units, regardless of the association's annual revenues, shall prepare a report of cash receipts and expenditures in lieu of financial statements required by paragraph (a).*

Financial Reporting (cont.)

- *3. A report of cash receipts and disbursements must disclose the amount of receipts by accounts and receipt classifications and the amount of expenses by accounts and expense classifications, including, but not limited to, the following, as applicable: costs for security, professional and management fees and expenses, taxes, costs for recreation facilities, expenses for refuse collection and utility services, expenses for lawn care, costs for building maintenance and repair, insurance costs, administration and salary expenses, and reserves accumulated and expended for capital expenditures, deferred maintenance, and any other category for which the association maintains reserves.*

Financial Reporting (cont.)

- *(d) If approved by a majority of the voting interests present at a properly called meeting of the association, an association may prepare:*
- *1. A report of cash receipts and expenditures in lieu of a compiled, reviewed, or audited financial statement;*
- *2. A report of cash receipts and expenditures or a compiled financial statement in lieu of a reviewed or audited financial statement; or*

Financial Reporting (cont.)

- *3. A report of cash receipts and expenditures, a compiled financial statement, or a reviewed financial statement in lieu of an audited financial statement. Such meeting and approval must occur before the end of the fiscal year and is effective only for the fiscal year in which the vote is taken, except that the approval may also be effective for the following fiscal year. With respect to an association to which the developer has not turned over control of the association, all unit owners, including the developer, may vote on issues related to the preparation of financial reports for the first 2 fiscal years of the association's operation, beginning with the fiscal year in which the declaration is recorded. Thereafter, all unit owners except the developer may vote on such issues until control is turned over to the association by the developer.*

Financial Reporting (cont.)

- *Any audit or review prepared under this section shall be paid for by the developer if done before turnover of control of the association. An association may not waive the financial reporting requirements of this section for more than 3 consecutive years.*

Financial Reporting (cont.)

- For condos and T/S only (similar for HOAs and Coops)
- ***61B-22.006 Financial Reporting Requirements.***
- ***(1) Basis of accounting. The financial statements required by Sections 718.111(13) and 718.301(4), F.S., shall be prepared on the accrual basis using fund accounting in accordance with generally accepted accounting principles. Reviewed financial statements shall be reviewed in accordance with standards for accounting and review services and audited financial statements shall be audited in accordance with generally accepted auditing standards. Reviews and audits of an association's financial statements shall be performed by an independent certified public accountant licensed by the Florida Board of Accountancy. As used in this rule the terms "generally accepted accounting principles," "standards for accounting and review services," and "generally accepted auditing standards" shall have the same meaning as set forth in Chapter 61H1-20, F.A.C.***

Financial Reporting (cont.)

- ***(2) Components. The financial statements required by Sections 718.111(13) and 718.301(4), F.S., shall at a minimum include the following components:***
- ***(a) Accountant's or Auditor's Report;***
- ***(b) Balance Sheet;***
- ***(c) Statement of Revenues and Expenses;***
- ***(d) Statement of Changes in Fund Balances;***
- ***(e) Statement of Cash Flows; and***
- ***(f) Notes to financial statements.***

Financial Reporting (cont.)

- *(3) Disclosure requirements. The financial statements required by Sections 718.111(13) and 718.301(4), F.S., shall contain the following disclosures within the financial statements, notes, or supplementary information:*
- *(a) The following reserve disclosures shall be made regardless of whether reserves have been waived for the fiscal period covered by the financial statements:*

Financial Reporting (cont.)

- *1. The beginning balance in each reserve account as of the beginning of the fiscal period covered by the financial statements;*
- *2. The amount of assessments and other additions to each reserve account including authorized transfers from other reserve accounts;*
- *3. The amount expended or removed from each reserve account, including authorized transfers to other reserve accounts;*
- *4. The ending balance in each reserve account as of the end of the fiscal period covered by the financial statements;*

Financial Reporting (cont.)

- 5. The amount of annual funding required to fully fund each reserve account, or pool of
- accounts, over the remaining useful life of the applicable asset or group of assets;
- 6. The manner by which reserve items were estimated, the date the estimates were last made,
- the association's policies for allocating reserve fund interest, and whether reserves have been
- waived during the period covered by the financial statements; and

Financial Reporting (cont.)

- 7. If the developer has established converter reserves pursuant to Section 718.618(1), F.S., each converter reserve account shall be identified and include the disclosures required by this rule.
- (b) The method by which income and expenses were allocated to the unit owners;
- (c) The specific purpose or purposes of any special assessments to unit owners pursuant to Section 718.116(10), F.S., and the amount of each special assessment and the disposition of the funds collected;
- (d) The amount of revenues and expenses related to limited common elements shall be disclosed when the association maintains the limited common elements and the expense is apportioned to those unit owners entitled to the exclusive use of the limited common elements; and

Financial Reporting (cont.)

- *(e) If a guarantee pursuant to Section 718.116(9), F.S., existed at any time during the fiscal year, the financial statements shall disclose the following:*
- *1. The period of time covered by the guarantee;*
- *2. The amount of common expenses incurred during the guarantee period;*
- *3. The amount of assessments charged to the non-developer unit owners during the guarantee period;*
- *4. The amount of non-assessment revenues earned by the association, with each non-assessment revenue generating activity disclosed separately, during the guarantee period;*
- *5. The amount of expenses incurred in the production of non-assessment revenues, with each non-assessment revenue generating activity disclosed separately, during the guarantee period;*
- *6. The amount of the developer's payments pursuant to the guarantee; and*
- *7. Any financial obligation due to or from the developer resulting from the guarantee.*

Accounting for Property

Property and NFPs

- Generally, NFPs other than CIRAs account for property like land, buildings, and personal property like most other entities and should apply the guidance in FASB ASC 360, ***Property, Plant, and Equipment***.
- For many NFPs other than CIRAs the accounting for contributed property and equipment is specified in ASC 958-605-25-2, 958-605-30-2, and 958-605-45-3.
- This is especially true for religious organizations.

Property and NFPs (cont.)

- Contribution of property and equipment should be recognized at fair value at the date of contribution.
- Depending on donor restrictions and the NFP's accounting policy the donations should be placed in permanently restricted, temporarily restricted, or unrestricted net asset.
- Absent donor restrictions or NFP's policies, contributions of long-lived assets should be reported as unrestricted support.

Common Property of CIRAs

- Accounting for Common Property

Common Real and Personal Property of CIRAs

- **972-360-05 Overview and Background**
- **General**
- **05-1** This Subtopic addresses recognition and disclosure issues for common real and personal property related to **common interest realty associations**.

ASC Common Property

- **972-360-20 Glossary**
- An association, also known as a community association, responsible for the governance of the common interest community, for which it was established to serve. A common interest realty association is generally funded by its members via periodic assessments by the common interest realty association so that it can perform its duties, which include management services and maintenance, repair, and replacement of the common property, among other duties established in the governing documents and by state statute.
- **Standard Where Ref'd Common Property**
- A common interest realty association's real or personal property to which title or other evidence of ownership is held by either:
  - a. Individual members in common
  - b. The common interest realty association directly.

When is an asset an asset?

- Depends on
  - Type of association
  - Type of property
  - Policy of the association
  - Title (may be most important issue)
  - A transaction

Real Property

Real Property

- Real Property may depend on type of association and whether or not the property is
  - Directly associated with units
  - Not directly associated with units

Cooperatives and Common Property

- 972-360-25 Recognition
- General
- > Common Real Property
- Standard 25-1 Cooperatives shall recognize common real property as assets. Because of their legal structure, cooperatives have title to all their common property and have the authority to dispose of it and retain the proceeds. Other common interest realty associations, such as condominiums and homeowners associations, have adopted other practices for recognizing common real property.

Common Real Property

- **Real Property Directly Associated with the Units**
- Standard 25-2 Most common interest realty associations other than cooperatives, regardless of whether they have title, do not recognize as assets real property directly associated with the units.
- **> Real Property Not Directly Associated with the Units**
- Standard 25-3 Most common interest realty associations other than cooperatives recognize real property not directly associated with the units as assets when the common interest realty association has title or other evidence of ownership of the property and any of the following conditions are met:
  - a. The common interest realty association can dispose of the property, at the discretion of its board of directors, for cash or claims to cash, with the common interest realty association retaining the proceeds.
  - b. The property is used by the common interest realty association to generate significant cash flows from members on the basis of usage or from nonmembers.

Common Real Property (cont.)

- **Standard 25-4** However, some common interest realty associations recognize as assets all real property to which they have title or other evidence of ownership and that is not directly associated with the units, regardless of whether either of the above conditions is met.

Personal Property

Personal Property

- **Personal Property**
- **Standard 25-5 Common interest realty associations shall recognize common personal property**, such as furnishings, recreational equipment, maintenance equipment, and work vehicles, that is used by the common interest realty association in operating, preserving, maintaining, repairing, and replacing common property and providing other services, **as assets**. (Emphasis mine)

Personal Property (cont.)

- Personal property
- Other issues
  - Title or evidence of ownership
  - Single purchases
  - Group purchases
  - Depreciate???

972-360-30 Initial Measurement

- **30-1** Common property recognized as assets of a common interest realty association shall be initially measured at the common interest realty association's cost to acquire it if the common interest realty association acquired the property in a monetary transaction. If the common interest realty association acquired the property in a nonmonetary transaction, such as by a nonreciprocal transfer from the developer, and if the property is recognized as an asset of the common interest realty association, the common interest realty association shall initially measure the property using fair value at the date of its acquisition. It may be helpful to consider the developer's cost, if it is known, in determining the fair value.

972-360-35 Subsequent Measurement

- **35-1** Property and equipment recognized as assets by common interest realty associations shall be depreciated based on their estimated useful lives.

972-360-50 Disclosure

- **General Information**
- Standard **50-1** All of the following information about a common interest realty **association's common** property shall be disclosed in the notes to its financial statements:
  - a. The accounting policy for recognition and measurement of common property
  - b. A description of common property recognized as assets in the common interest realty association's balance sheet
  - c. A description of common property to which the common interest realty association has title, or other evidence of ownership, that is not recognized as assets in the common interest realty association's balance sheet
  - d. The common interest realty association's responsibility to preserve and maintain the common property
  - e. Terms and conditions of existing land or recreation leases
  - f. Restrictions on the use or disposition of the common property.

972-360-50 Disclosure (cont.)

- Standard **50-2** All property owned by a cooperative shall be presented on its balance sheets. Cooperatives generally own the real estate and have the ability to borrow and pledge their assets as collateral. Some cooperatives, therefore, do not accumulate funds for future major repairs and replacements.
- **> Depreciation**
- Standard **50-3** For property and equipment recognized as assets by common interest realty associations the following information shall be disclosed:
  - a. Depreciation expense for the period
  - b. Balances of major classes of depreciable assets, by nature or function, at the reporting date
  - c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the reporting date
  - d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets.

CIRAs' Unusual Property Reporting Issues

- Common property
- Reserves
- Capitalization policy
- Disclosures to financials

Reserves

- **Accounting for Future Repairs and Replacements**

Required "Reserve" GAAP Disclosures

- State statute requirements
- CIRA's documents requirements
- CIRA's compliance with policies
- Funding policy and compliance with
- Statement concerning estimates based on current or future costs, that actual costs may vary, and that variations may be material

Required "Reserve" GAAP Disclosures (cont.)

- The current period assessments
- Disclosure about any study made
- Disclosure about the association's ability to borrow
- Right, if any, to have special assessments

Required Supplementary Information

- Two points to make:
  - ***"Estimates of current or future costs of future major repairs and replacements of all existing components . . . including:"***
  - ***"Presentation of . . ."***

Reserve Examples

- Straight Line Calculation
- Pooled Calculation
- Example of incorrect pooling
- Another example of incorrect pooling
- Required disclosure for FAC
- AICPA Supplementary Disclosure

Straight Line Calculation for Reserves

Replacement Item	Total Est. Life	Remaining Life	Cost	Beginning Balance	Funding Required
Roof Replacement	30	8	$14,000	0	$1,750
Building Painting	5	2	$6,000	0	$3,000
Pavement Resurfacing	20	3	$10,000	0	$3,333.33
Pool Re-Marcite	10	4	$8,000	0	$2,000.00
Required Annual funding					$10,083.33

Pooled Calculation for Reserves

				Projected Cash Outflows									
Replacement Item	**Total Estimated Life**	**Remaining Life (Yrs)**	**Cost**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Roof Replacement	30	8	$14,000	0	0	0	0	0	0	0	14,000	0	0
Building Painting	5	2	$6,000	0	6,000	0	0	0	0	6,000	0	0	0
Pavement Resurfacing	20	3	$10,000	0	0	10,000	0	0	0	0	0	0	0
Pool Re-Marcite	10	4	$8,000	0	0	0	8,000	0	0	0	0	0	0
Total Projected Cash Outflows:				0	(6,000)	(10,000)	(8,000)	0	0	(6,000)	(14,000)	0	0
Beginning Cash Balance:				$0	$6,000	$6,000	$2,000	$0	$6,000	$12,000	$12,000	$4,000	$10,000
Annual Reserve Requirement:				$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000
Ending Cash Balance:				$6,000	$6,000	$2,000	$0	$6,000	$12,000	$12,000	$4,000	$10,000	$16,000

Example of Incorrect Pooling

Replacement Item	Total Estimated Life	Remaining Life (Yrs)	Cost	Projected Cash Outflows Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Roof Replacement	30	8	$14,000	0	0	0	0	0	0	0	14,000	0	0
Building Painting	5	2	$6,000	0	6,000	0	0	0	0	6,000	0	0	0
Pavement Resurfacing	20	3	$10,000	0	0	10,000	0	0	0	0	0	0	0
Pool Re-Marcite	10	4	$8,000	0	0	0	8,000	0	0	0	0	0	0
Emergency Repairs				5000	5000	5000	5000	5000	5000	5000	5000	5000	5000
Total Projected Cash Outflows:				(5,000)	(11,000)	(15,000)	(13,000)	(5,000)	(5,000)	(11,000)	(19,000)	(5,000)	(5,000)
Beginning Cash Balance:				$0	$6,000	$6,000	$2,000	$0	$6,000	$12,000	$12,000	$4,000	$10,000
Annual Reserve Requirement:				$11,000	$11,000	$11,000	$11,000	$11,000	$11,000	$11,000	$11,000	$11,000	$11,000
Ending Cash Balance:				$6,000	$6,000	$2,000	$0	$6,000	$12,000	$12,000	$4,000	$10,000	$16,000

Note that the Emergency Repairs line item does not provide the estimated life and remaining life of the expense. In order to use the pooling method for the reserves required by Section 718.112(2)(d), Florida Statutes, each item in the pool must be identified and the funding is based on its remaining useful life.

Another Example of Incorrect Pooling

Replacement Item	Total Estimated Life	Remaining Life (Yrs)	Cost
Roof Replacement	30	8	$14,000
Building Painting	5	2	$40,000
Pavement Resurfacing	20	3	$10,000
Pool Re-Marcite	10	4	$8,000
Totals		17	$72,000
Beginning Balance:		$0	
Average remaining Life in Years:		4.25	
Annual funding Required:		$16,941	

This method attempts to use the average remaining life as the funding basis for the pooled items.
Note that there will be a funding shortage in year 2.

Practical Issues

CIRA "Turn Over" Audit

Turn over (cont.)

- A "turn over audit" is required in Florida for CIRAs. FS 718.301 (4) (c), FS 719.301 (4) (c), FS 720.307 (3) (t).
- The provisions of FS 720 to "turn over audits" only apply to associations with a date of incorporation after December 31, 2007.
- The financial records, including financial statements of the association, and source documents **from the incorporation of the association** through the date of turnover are subject.

Turn over (cont.)

- The records shall be audited for the period from the incorporation of the association or from the period covered by the last audit, if an audit has been performed for each fiscal year since incorporation, by an independent certified public accountant.
- All financial statements shall be prepared in accordance with generally accepted accounting principles and shall be audited in accordance with generally accepted auditing standards, as prescribed by the Florida Board of Accountancy, pursuant to chapter 473.

Turn over (cont.)

- The author believes that several points need to be addressed:
  - A turn over audit should not be considered as a normal audit.
  - The period audited in a turn over may be for multiple years.
  - Special turn over engagement letters should be used (though not required)
  - There are additional disclosures for turn over audits required by the FAC.

Turn over or Transitional Engagements

- Revenues are critical feature in a "turn over" engagement.
- Issue might be "when is a unit a unit".
- Requirements vary from state to state.
- Requirements are often found in the bylaws or documents of the CIRA.

Condo Disclosures in Turn over

- **FAC for Condominiums**
- **61B-22.0062 Transition Financial Statements; Turnover Audit.**
- (1) Period covered. The audit required by Section 718.301(4)(c), Florida Statutes, applies to all transfers of association control from developers to unit owners pursuant to Section 718.301(4), Florida Statutes, occurring on or after April 1, 1992. The audit shall cover a period beginning with the date of incorporation of the association, or from the end of the fiscal period covered by the last audit if all fiscal periods have been audited, and ending with the date of the transfer of association control to unit owners other than the developer. Nothing herein precludes the developer from exceeding the requirements of this rule by engaging a certified public accountant to audit the entire period of developer control rather than from the period covered by the last audit.

Condo Disclosures in Turn overs

- (2) Additional disclosure requirements for turnover audits. The financial statements, notes, or supplementary information shall present the revenues and expenses separately for each fiscal year and any interim periods included in the audit. The notes to the financial statements shall contain the following disclosures:

Condo Disclosures in Turn overs

- (a) A statement that the financial statements were prepared pursuant to Section 718.301(4)(c), Florida Statutes;
- (b) A statement of total cash payments made by the developer to the association;
- (c) If the developer claims to have paid common expenses of the association which do not appear on the books and records of the association, the amount and purpose of each such expenditure shall be identified separately; and,

Condo Disclosures in Turn overs

- (d) If a guarantee pursuant to Section 718.116(9), Florida Statutes, existed at any time during the period covered by the audit the financial statements shall disclose the following:
- 1. The period of time covered by the guarantee;
- 2. The amount of common expenses incurred during the guarantee period;
- 3. The amount of assessments charged to the non-developer unit owners during the guarantee period;

Condo Disclosures in Turn overs

- 4. The amount of non-assessment revenues earned by the association, with each non assessment revenue generating activity disclosed separately, during the guarantee period;
- 5. The amount of expenses incurred by the association in the production of non-assessment revenues, with each non-assessment revenue generating activity disclosed separately, during the guarantee period;
- 6. The amount of the developer's payments pursuant to the guarantee; and
- 7. Any financial obligation due to or from the developer resulting from the guarantee.

COOP Disclosures in Turn overs

- The Coop and Condo disclosures in turnovers are essentially the same.

HOA Disclosures in Turn overs

- The homeowners' association disclosures are not specified for a turnover.
- However, this author recommends that the disclosures closely follow the required disclosures for condos and coops.

CIRAs and Foreclosure

Foreclosure Issues

- In addition to normally acquired property like purchase or turnover property, the CIRA industry finds itself in the grips of a bad economy which may give rise to other methods of property acquisition.
  - Settlement of litigation
  - Foreclosure

Foreclosure Issues (cont.)

- Litigation property should be recorded at fair value on the date of transfer plus actual closing costs.
  - This is property that a developer may transfer to an association in settlement of litigation.
  - The litigation may come from:
    - Defective construction
    - Payment of inadequate assessments by developer before the unit's initial sale.

Foreclosure Issues (cont.)

- Foreclosure proceedings may vary from state to state depending on a particular state's laws.
- Procedures for accounting for foreclosed units are not very clear and vary widely in practice.
- The overarching theme in handling these situations tends to focus on detailed disclosures and limited recordings.
- There appears to be no true authoritative, exactly on point procedures but there are some general pronouncements available.

Foreclosure Issues (cont.)

- Associations usually receive units from two sources:
  1. Abandonment
  2. Foreclosure on units for nonpayment of delinquent assessments
- In many cases, the transactions in which the associations obtain units are deemed "in-substance foreclosures" per definition in FASB ASC 310-40-40-6.
- Often the associations take possession without foreclosure proceedings.

Foreclosure Issues (cont.)

- One of the most used procedures is found in Practitioner's Publishing Company's publications on CIRAs, ***PPC's Guide to Homeowners' Associations and Other Common Interest Realty Associations***. (PPC is not authoritative, but it is an excellent source for information)
- In this case, "***the asset received is accounted for as a foreclosed asset and recorded at the fair value of the unit (less estimated costs to sell if the unit is to be sold) at the date of foreclosure or transfer, and a gain or loss is recognized on the difference between that value and the value of the delinquent assessments and any debt assumed.***"

Foreclosure Issues (cont.)

- In situations involving transfers or foreclosures the units are recorded in an asset account such as:
  - "Investment in Real Estate"
  - "Rental Units"
- Remember, there appears to be no absolute, authoritative procedure for this action and the emphasis is on disclosure.

Engagement Letters

Additional Items to Consider

Keys to The Engagement Letters

- Points to put in a letter
  - Number of Copies of Reports
  - To Whom Will Reports Be Given
  - How Will Reports Be Given
  - Income Tax Reports To Be Prepared, If Any
  - The Engagement Will Not Consider the Adequacy of the Funding For Future Major Repairs and Replacements

Keys… (cont.)

- Unauthorized Use of Financial Statements
- Attendance at Annual or Monthly Meetings
- Telephone Calls from Members
- "Turnover" Or Transition Engagements Require Special Considerations

ASU 2010-07 – Not-for-Profit Entities (Topic 958): *Not-for-Profit Entities: Mergers and Acquisitions*

ASU 2010-07

- ASU 2010-07 was issued to add SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, to FASB ASC 958, *Not-for-Profit Entities*

2-11b

ASU 2010-07 (cont)

- SFAS No. 164 establishes principles and requirements for how a not-for-profit entity
  - 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
- SFAS No. 164 also amended SFAS No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to not-for-profit entities

2-11c

ASU 2010-07 (cont)

- Scope
  - Scope applies to mergers and acquisitions of nonprofits, with these exceptions:
    - Joint Ventures
    - Acquisition of assets that do not constitute a business
    - Combination of not-for profits under common control

2-11d

ASU 2010-07 (cont)

- Definitions
  - Merger
    - Governing bodies of two or more not-for profits cede control
    - New governing body is created
  - Acquisition
    - Control is obtained of a not-for profit by another not-for profit

2-11e

ASU 2010-07 (cont)

- Definitions
  - *Business* – An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants
  - *Not-for-profit activity* – An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission

2-11f

ASU 2010-07 (cont)

- Accounting for Merger
  - Adjust both companies to GAAP
  - Eliminate intercompany balances
  - Combine the accounts
  - Not a "fresh start" for elections
  - Report from merger date and forward

2-11g

ASU 2010-07 (cont)

- Disclosures for Merger
  - Name and description of merged entity
  - Merger date
  - Primary reason for merger
  - Amounts recognized for each entity at merger date, disaggregated by major class of assets and liabilities
  - Significant adjustments to get statements in conformity with GAAP

2-11h

ASU 2010-07 (cont)

- Accounting for Acquisitions
  - Identify the acquirer
  - Determine the acquisition date
  - Calculate the consideration transferred
  - Recognize and measure the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree
  - Recognizing and measuring goodwill or the contribution received

2-11i

ASU 2010-07 (cont)

- Identify the Acquirer
  - The acquirer is the entity that obtains control over the acquiree
  - Use professional judgment in considering all facts
  - Look to makeup of governing body and mission of the entity

2-11j

ASU 2010-07 (cont)

- Acquisition Date
  - The date the acquirer acquires control over the acquiree
  - Usually the closing date
  - Consider all facts and circumstances

2-11k

ASU 2010-07 (cont)

- Consideration Transferred
  - Measured at fair value
  - Watch for transfers of assets to unrelated third parties as a condition of the acquisition
  - Contingent consideration to be measured at fair value
  - Acquisition-related costs are expensed

2-11l

ASU 2010-07 (cont)

- Recognition and Measurement
  - General rule is fair value
  - Exceptions:
    - Donor relationships are not recognized
    - Collections (such as art) follow the capitalization policy of the acquirer
    - Conditional promises to give follow the guidance in legacy standard SFAS 116
    - Deferred taxes follow guidance in ASC 740
    - Employee benefit assets and liabilities follow U.S. GAAP for those plans

2-11m

ASU 2010-07 (cont)

- Recognition and Measurement
  - Exceptions (continued):
    - Indemnification assets measured on same basis as indemnified item
    - Reacquired rights measured at fair value using remaining contract term, without considering whether market participants would consider potential renewals
    - Assets held for sale at fair value less estimated selling costs

2-11n

ASU 2010-07 (cont)

- Goodwill
  - If the entity acquired will be supported by business revenues
    - Fair value of the consideration
    - Less recorded value of assets acquired and liabilities assumed
    - Equals goodwill
  - If the entity acquired is supported by contributions and return on investments, the "goodwill" in the calculation is recorded as a separate charge in the statement of activities
  - "Negative goodwill" is a credit in the statement of activities (a contribution).

2-11o

ASU 2010-07 (cont)

- Measurement Period
  - Up to, but not longer than one year after the acquisition date
  - Designed to allow entity time to finalize measurements
  - Must consider conditions and events as of the acquisition date, not changes in condition after

2-11p

ASU 2010-07 (cont)

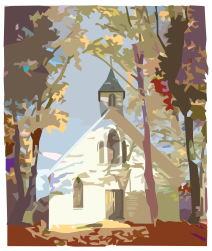
- Effective Date
  - Mergers
    - Merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009
  - Acquisitions
    - Acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009

MINISTRY FINANCE AND TAX QUESTIONS

FAQs

FAQs

- Is a church required to file an annual report or income tax return to the IRS?



FAQs (cont)

- No. As a church, your ministry is automatically exempted from federal income tax under the provisions of section 501(c)(3) of I. R. C. and therefore your church is not required to file federal income tax returns (Form 990) so long as your church retains a tax-exempt status.

FAQs (cont)

- Are churches required to apply for tax exempt status under IRS Code 501(c)3?

FAQs (cont)

- Churches are not required to file – Application for exemption number (Form 1023) or Annual report (Form 990) (Tres. Reg. 1.6033-2)
- Churches do not have to apply for tax-exempt status to qualify as tax-exempt organizations. Churches are exempt from paying income tax simply by operating as a church (Treas. Reg 1.511-2a)

FAQs (cont)

- **Does a church need an Employer Identification Number (EIN) even if the church has no employees?**
- **How can we get an EIN?**

FAQs (cont)

- Yes, your church needs an EIN regardless of the number of employees.
- You need to fill out Form SS-4 and submit it to the IRS.

FAQs (cont)

- **Is a church liable for tax on dividend, interest, annuities, royalties and rents from real property?**

FAQs (cont)

- Generally, those forms of income are exempted from tax on unrelated business taxable income (IRC Sec 512(b).
- However, if the rental income is from Debt-Financed Property (not Mortgage-free) and less than 85 percent of the property is used for church's exempt purpose, then it constitutes unrelated business **taxable** income.

FAQs (cont)

- **How does a church report unrelated business income to the IRS?**

FAQs (cont)

- Unrelated business taxes are reported on IRS Form 990-T.
- Unrelated business income is income from a trade or business regularly carried on, which is not substantially related to the charitable purpose of the church.
- If your church has $1,000 or more gross income (less allowable deduction) from unrelated business, you must file Form 990-T.

FAQs (cont)

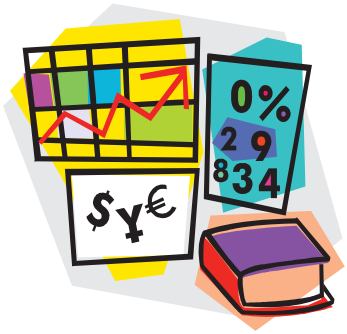
- **Our church bookstore carries many unrelated items. What should we do?**

FAQs (cont)

- You need either to eliminate any unrelated items from your bookstore, or you need to form a separate entity as a bookstore (for-profit subsidiary), keeping the unrelated items.

FAQs (cont)

- **What is the major factor to consider to form a separate for-profit bookstore subsidiary?**



FAQs (cont)

- When your bookstore carries many unrelated items.
- Income from the bookstore is too extensive to be conducted within the tax-exempt status of the church.
- When your church board does not want to report the receipts of any unrelated income, and is enamored with the idea of use of a for-profit subsidiary.
- See IRS private letter Ruling 8706012 and Reg &1.501(c)(3)...1(e)

FAQs (cont)

- **Is a church required to send an annual giving record to the donors at the end of each year?**

FAQs (cont)

- Per IRS, your church should issue a statement of receipt either when a daily contribution exceeds $250, or Quid Pro Quo contribution exceeds $75.
- However, for donor's convenience, it may be good for your church to issue an annual giving statement at each year-end. It may be helpful for your financial planning and internal auditing purposes too.

FAQs (cont)

- To satisfy the IRS substantiation requirement your church needs to include the following paragraph at the end of the statement:
- "No benefits were provided to you in return for your contribution other than intangible religious benefits. Please retain this letter for your tax records, since it fulfills the substantiation requirements that must be met in order to deduct your contribution." (Title XIII of OBRA '93 P.L. 103-66)

FAQs (cont)

- What other IRS Forms does a church need to issue?

FAQs (cont)

- Form 8282: This is to be completed by the church only if non-cash donated items are sold within two years.
- Form 8283: This form is submitted to the IRS for donations of non-cash items in excess of $500.
- Form 8300: If a church receives $10,000 or more in cash (lump sum), it would need to be reported.

FAQs (cont)

- Is our church required to provide Workers' Compensation for our ministers and lay employees?

FAQs (cont)

- Most states require churches to provide Workers' Compensation for their ministers and lay employees.
- However, a very few states exempt churches from it.
- Please check with your state.

FAQs (cont)

- Are there any national statistics or recommended amounts available regarding a proper percentage of a minister's salary compared to a church's income?

FAQs (cont)

- Setting a fair salary is the most difficult part of establishing an equitable pay rate.
- Minister compensation is based on the combination of church income, church attendance, church's geographical setting, years of service, and minister's educational achievement.
- To say that the size of church's budget or attendance determines compensation is wrong and misleading.
- Hence, it must be determined in the context of all the factors, including theology.

FAQs (cont)

- There are some excellent resources for this problem area:
- *Church Law & Tax Report* is published bimonthly and provides practical information to church leaders on important legal and tax developments that have a direct impact on ministry.
- http://www.churchlawandtax.com/cltrinfo.php
- Or simply – Google ***Church Law Today***

FAQs (cont)

- ***The 2012-2013 Compensation Handbook for Church Staff (from Church Law Today)***
- This handbook is based on a national survey and provides reliable church employee compensation breakdowns for part-time, full-time, church size, income budget, and geographical setting.
- With this information, you can compare your plan to other churches that have similar positions and demographics.
- Every church and its employees want to feel confident that their compensation plan is reasonable and fair. Now you can know for sure by comparing your plan with those of thousands of other church workers nationwide.

FAQs (cont)

- Compensation profiles are broken down by categories so you can easily determine:
  -Base salary
  -Retirement
  -Health insurance
  -Housing allowance & parsonage
  -Life insurance
  -Continuing education

FAQs (cont)

- In addition, you'll find compensation levels based on personnel characteristics including years employed, denomination, region, gender, and educational training.
  Church staff positions profiled include:

FAQs (cont)

- -Solo Pastor
  -Senior Pastor
  -Associate Pastor
  -Exec. / Admin. Pastor
  -Youth Pastor
  -Adult Ministry Dir.
  -Child's / Preschool Dir.
- -Music / Choir Dir.
- -Administrator
  -Bookkeeper / Acct.
  -Admin. Asst.
  -Custodian
  -Part-time Mus. / Vocal

FAQs (cont)

- Are there any Organizational Manuals, Forms Manuals, and/or Operational Manuals for Religious Organizations?

FAQs (cont)

- Yes, as evidenced by the following testimonial from their Website:
- "I consider the Frieze Resource Library to be a most significant tool to secure the administrative integrity of the 21st Century church needs."
- Robert F. Grant
  Director of Church Administration & Buildings
  South Carolina Baptist Convention, Columbia, SC

FAQs (cont)

- **Contact information is:**
- **Frieze Consulting**
  5520 Hansel Ave Ste C
  Orlando, FL 32809-3405

  Phone: 407-251-5500
  Fax: 407-251-5510
- E-mail:
  info@friezeconsulting.com (Regarding General Information)
  seminars@friezeconsulting.com (Regarding Seminars/Training)
  sales@friezeconsulting.com (Regarding Purchase of Resources)
  rex@friezeconsulting.com (Direct Message to Rex Frieze)

Thank you for your attention.

FICPA Membership: Connect, Learn and Thrive

Proud to be a Member

"I renew because of the invaluable networking opportunities that being a member of the FICPA provides. From being involved with your local chapter to attending networking events, the FICPA is an organization that is known and respected across many industries."

Monica Ospina, CPA, ABV, CFF
Cherry, Bekaert & Holland, LLP
Coral Gables
Member since 2007

"I renew my FICPA membership because of the significant access to education, current events, and the networking it provides."

Ray Monteleone, CPA
President, Paladin Global Partners
Fort Lauderdale
Member since 1979

"I'm renewing my FICPA membership because it keeps me professionally and socially connected to my fellow peers in the profession."

David White, CPA
Carr Riggs & Ingram LLC
Tallahassee
Member since 2010

FICPA

Learn more about membership. | msc@ficpa.org | www.ficpa.org
(800) 342-3197 (in Florida) | (850) 224-2727

Keep Your Organization *Moving Forward*

The FICPA has partnered with the AICPA and other providers to address the changing needs of business professionals. This partnership now enables us to provide a wide range of courses, instructors, and educational solutions in a variety of formats, including on-site training, seminars, and webcasts.

Topic areas including:

- **Technical**
- **Strategic and Business Management**
- **Leadership Development**
- **Communication skills**
- **Ethics**

Using FICPA on-site training benefits your staff by offering:

- Team building opportunities while enhancing their skill set
- Smaller class sizes and more interaction with the instructors
- Professional development opportunities without the hassle of travel

Meanwhile, employers gain by:

- Saving money by eliminating travel expenses
- Saving time by scheduling training when it is convenient for you and your staff
- Customized, flexible training designed to fit your company's specific needs

Call or e-mail us today to find out how FICPA has the right training solutions for you!

FICPA

For more information, please contact the FICPA at onsite@ficpa.org or call (800) 342-3197 (in Florida) or (850) 224-2727 extension 412.