Recent FASB Accounting Standards Updates Take Effect for Not-For-Profit Organizations

Keiter
Your Opportunity Advisors

February 2012

Author: Douglas K. Nickerson, CPA, CGFM, CFE, CIA

The Financial Accounting Standards Board ("FASB") recently issued **Accounting Standards Update ("ASU") 2011-08, *Intangibles – Goodwill and Other* (Topic 350)** in September 2011 and **ASU 2011-04, *Fair Value Measurement* (Topic 820)** in May 2011 that have become or will become effective within the next few months for most not-for-profit organizations. The amendments in both of these ASUs are effective for annual periods beginning after December 15, 2011.

ASU 2011-08, *Intangibles-Goodwill and Other* (Topic 350):

The objective of the ASU is to simplify how entities test goodwill for impairment. Under the previous guidance of Topic 350, the organization was required to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of the reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any.

Under the amendments in this Update, an organization has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, an organization determines it is <u>not</u> more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an organization concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the organization is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amendments in this Update, an organization has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An organization may resume performing the qualitative assessment in any subsequent period.

The amendments in the ASU include examples of events and circumstances that an organization should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The examples of events and circumstances that necessarily would require an organization to perform the first step of the goodwill impairment test. In reaching its conclusion about whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an organization should consider the extent to which each of the events or circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount.

The amendments do not change the current guidance for testing other indefinite-lived intangible assets for impairment.

ASU 2011-04, *Fair Value Measurement* (Topic 820):

The objective of the ASU is to develop common requirements for measuring fair value and disclosing information about fair value measurements. The amendments in this ASU explain how to measure fair value; they do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. Not-for-Profit organizations face many challenges in fair value measurements due to the fact that markets do not exist for certain not-for-profit-specific assets and liabilities. Recently, the AICPA issued a white paper dealing with the impact of this ASU on the fair value accounting and reporting of not-for-profit organizations entitled, *Measurements of Fair Value for Certain Transactions of Not-for-Profit Entities.*

The white paper discusses fair value measurement for the following types of transactions:

- Unconditional promises to give cash or other financial assets
- Beneficial interests in trusts
- Split interest agreements

Continued ▼

Recent FASB Accounting Standards Updates Take Effect for Not-For-Profit Organizations

Keiter
Your Opportunity Advisors

February 2012

It further emphasizes that fair value is a market-based notion rather than an organization-specific measurement; thus the exit price needs to be determined without regard to whether the organization intends to sell or hold an asset or liability that is measured at fair value. The white paper includes discussions, among other things, associated with the following:

- Valuation approaches and techniques, including variations of the income approach using probability-weighted cash flows when compared to a single set of cash flows where a model of that nature would incorporate a use of a risk-adjusted discount rate.
- Considerations related to determining appropriate valuation techniques based on facts and circumstances, as well as considerations associated with various inputs to the valuation models used in determining fair value.
- Determining the appropriate discount rate to use when present value techniques are utilized for purposes of fair value measurement.
- Use of market inputs when valuing split-interest obligations, including the use of actuarial data and prices for annuity contracts.
- The unit of account for extended-term unconditional promises to give and for beneficial interests in trusts.
- Disclosure considerations.

The guidance presented in the white paper is not considered a source of established accounting principles; however, it does provide a good summary of the challenges facing not-for-profit entities with regards to fair value measurements. Organizations applying the provisions of the ASU should consult ASC Topic 820 for authoritative guidance.

Stay in touch