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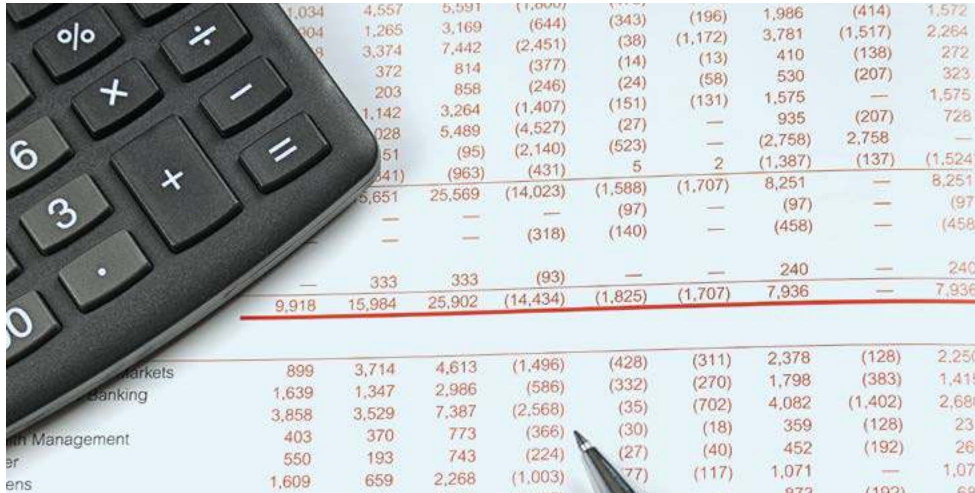
THE NEWSLETTER OF THE BDO NONPROFIT & EDUCATION PRACTICE

# NONPROFIT STANDARD



## FASB BOARD PROPOSES CHANGES TO NONPROFIT CASH FLOW STATEMENT

By Laurie Arena De Armond, CPA

The Financial Accounting Standards Board (FASB or the Board) met on Oct. 23, 2013, to continue its discussions related to the ongoing project to re-examine existing standards for financial statement presentation by nonprofit organizations. During this meeting the discussion was focused on the presentation and classification issues related to the cash flow statement.

The tentative decisions made by the Board at this meeting are summarized below.

### Presentation Using the Direct Method

- Require that nonprofit organizations use the direct method of reporting cash flows provided by/used in operating activities. However, the current requirement to show the reconciliation of the change in net assets to the net cash flow from operating activities using the indirect method would be removed.

The Board members felt that the direct method of cash flow statement reporting is a more understandable and informative presentation that would provide more pertinent information to the users of the financial statements.

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## NONPROFIT CASH FLOW STATEMENT

### Classification of Items Within the Statement

- Revise how the items detailed within the statement of cash flows are classified as follows:

| | Current Presentation | Proposed Presentation |
|---|---|---|
| Cash gifts received with donor-imposed restrictions stating that the organization use the funds to purchase, construct or otherwise acquire long-lived assets for operating purposes | Inflows from financing activities | Inflows from operating activities |
| Cash payments to purchase, construct or otherwise acquire long-lived assets for operating purposes | Outflows from investing activities | Outflows from operating activities |
| Cash dividends and interest income | Inflows from operating activities | Inflows from investing activities |
| Cash payment of interest expense | Outflows from operating activities | Outflows from financing activities |

The Board discussed the need for these changes to the definitions of cash flows from operating, investing and financing activities as a result of the tentative definition of the intermediate measure of operations that they developed at an earlier meeting. (See discussion in the Fall 2013 issue of the *Nonprofit Standard* in the article titled “Update on the FASB Not-for-Profit Financial Reporting Package” by Laurie De Armond.)

The Not-for-Profit Advisory Committee members are interested in achieving alignment between the net cash provided by operating activities and the intermediate measure of operations that is presented in the statement of activities. At this point the final determination of what this intermediate measure of operations will ultimately be and whether it will be required or recommended is still in discussion as part of this project.

These tentative decisions will be considered in the ongoing discussions and the development of a proposal for public comment on the full spectrum of the proposed changes to the financial statements of nonprofit organizations as a result of this project. Based on FASB’s technical plan, an exposure draft is supposed to be issued in the first half of 2014 that will reflect all the proposals related to the presentation of nonprofit organization financial statements as a result of this project.

For more information on earlier FASB discussions and other tentative decisions made by the Board related to this project, please see the Fall 2013 issue of the *Nonprofit Standard* as noted above.

***For more information, contact Laurie Arena De Armond, partner, at ldearmond@bdo.com.***

## IRS RELEASES DRAFT 2013 FORM 990 INSTRUCTIONS

**By R. Michael Sorrells, CPA**

In late September, the Internal Revenue Service (IRS) released a draft of the 2013 Form 990 instructions, as well as drafts of the 990 schedules and schedule instructions.

The most significant change in the instructions relates to Schedule B (Schedule of Contributors) and Schedule A (Public Charity Status and Public Support). Organizations that qualify as publicly supported under the Section 509(a)(1) test generally receive at least one-third of their revenue from gifts, grants and other contributions and should fill out Schedule A, Part II. Section 509(a)(1) organizations are allowed to limit their reporting on Schedule B to only those donors whose donations equaled the greater of either $5,000 or 2 percent of the organization’s total contributions and grants. Organizations who do not qualify under 509(a)(1) are required to use the general rule, which requires disclosure of all donations of $5,000 or more. Many organizations that are not 509(a)(1) organizations but otherwise qualify under this support test have followed the 2 percent rule on Schedule B without completing the Part II support test. Now, the draft instructions specify that if an organization checks the box on Schedule B to be able to use the 2 percent rule, it must complete the Schedule A, Part II support test to prove that it are eligible to use this rule. For example, consider a charity that is originally classified under 509(a)(2) because of its exempt function income. If this charity receives sufficient grants and contributions to qualify under 509(a)(1), it will have to complete the Schedule A, Part II support test in order to follow the 2 percent rule for Schedule B. This will not, however, change its public charity status with the IRS (as provided on the organization’s determination letter). It’s important to note that the IRS allows organizations to be publicly supported under more than one test.

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## FORM 990 INSTRUCTIONS

Other changes include the following clarifications and explanations:

- A short year Form 990 cannot be e-filed unless it is designated as an initial or final return with the appropriate box checked in the 990 heading, page 1, item B.
- A 990-N (electronic postcard) filer can only report an accounting period change on Form 990, 990-EZ or Form 1128.
- Organizations that change accounting methods must report any Section 481(a) adjustment in Parts VIII through XI of Form 990, as well as in Schedule D, Parts XI and XII, as applicable.
- Listing of documentation that must be attached to Form 990 to support:
  - A name change by the organization
  - An organizational termination, dissolution, merger or exemption revocation
- Clarification as to when an organization must answer "yes" to report that it became aware of an excess benefit transaction that had occurred in a prior year (if the transaction had not been previously reported)
- Directors' compensation for non-director independent contractor services must be reported on Part VII, Section A
- Compensation from a management company to one of the organization's officers, directors, key employees or highest compensated employees is generally not reportable on Part VII, Section A
- Discounts on services cannot be reported as contributions
- Instructions on how cost of expense reimbursements and expense payments to contractors should be reported on Part IX, the statement of functional expenses
- Glossary: there are a few new definitions and clarifications included
- Schedule H (hospitals): a few changes are noted on the form and there are additional options with regard to the Community Health Needs Assessment (CHNA) required on this schedule, including an option for a hospital to make its CHNA widely available by posting it to "another website"

Keep in mind that these changes are currently only in draft form, so there may be additional changes before the Form 990, the 990 schedules and the instructions are finalized. Do you have thoughts concerning these new draft instructions? If you wish to relay your suggestions directly to the IRS, comments may be made on the IRS site here.

## NONPROFIT FACTS: *Did you know...*

- Today, nonprofit sales of goods and services to households in the U.S. amount to almost $1 trillion a year - more than 5 percent of gross domestic product.
- The Nonprofit Governance Index found that 45 percent of nonprofit board members were women, compared with roughly 17 percent on Fortune 500 boards.
- Organizations in this year's NPT 100 reported total revenue of $70.067 billion, up 3.19 percent from last year, while public support was up 5.6 percent to $34.931 billion.
- Prices in the U.S. economy went up 1.7 percent last year. College tuition rates rose 2.9 percent.
- The cost of higher education, as measured by private and public tuition, has risen at rates higher than inflation, roughly 4 percent per year for nonprofit private tuition.
- Many taxpayers age 70½ or older can transfer as much as $100,000 a year directly from their IRAs to qualified charities without having to count any of that transfer as income. The transfers count toward the taxpayer's required minimum distribution for the year.
- In August 2013, the unemployment rate for individuals age 25 and older without a high school diploma exceeded 11 percent. Meanwhile, the rate was over 7 percent for high school graduates, compared to only 6.1 percent for individuals with some college or an associate's degree and just 3.5 percent for those with a bachelor's degree.
- Although the U.K. is one of the more generous nations in Europe, just 28 percent of higher-income taxpayers make charitable donations, compared with about 98 percent in the U.S.
- The biggest hit to charities' bottom lines in 2012 was a continued decline in government support, down 5.6 percent to $10.34 billion, but also investment income, which dipped 6.26 percent to $2.633 billion after a nice rebound in 2011.
- Fearing changes in tax policy, contributors poured money into donor-advised funds in 2012, helping assets in those accounts climb to nearly $45.4 billion that year, according to a study released by the National Philanthropic Trust. Contributions to the funds, which allow people to set up charitable accounts, receive an immediate tax deduction and name beneficiaries later, increased 34.6 percent to top $13.7 billion.

*For more information, contact Michael Sorrells, national director, Nonprofit Tax Services, at msorrells@bdo.com.*

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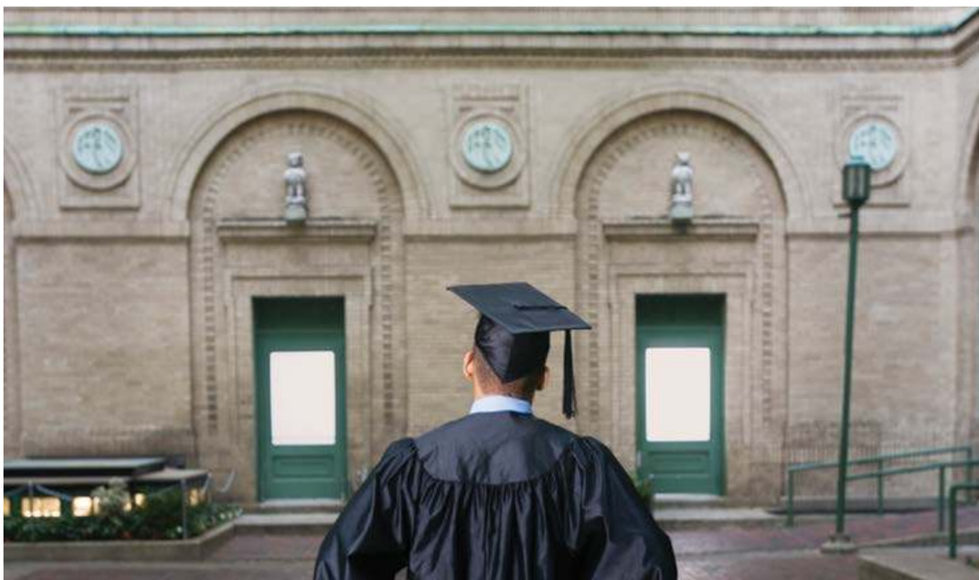
# A CRISIS OF CONFIDENCE – HIGHER EDUCATION AT A CROSSROADS

By Tom Gorman, CPA

In the last issue of the *Nonprofit Standard*, I highlighted a few of the key points President Obama's proposed higher education scorecard may include. Since then, Arne Duncan, Secretary of Education, has embarked on a cross-country tour of town hall meetings to gather input on the scorecard and address the numerous concerns that have been raised. While many within higher education feel they can police themselves and thus obviate the need for a new rating system, others feel the system will change only when external pressures force change.



## A FEW BRIGHT SPOTS

The College Board recently issued a report on the rate of published (read "sticker price") tuition increases in higher education. The report showed that in-state tuition at public four-year institutions rose 2.9 percent, the slowest rate of increase in nearly 30 years. On the private four-year side the sticker price rose 3.8 percent, about in line with recent years.

While some point to this moderation in the rate of increase as a positive sign, the story gets a little more complicated when we look at net tuition. Here we see that net tuition continues to increase at rates well above the rate of inflation. As the amount of federal aid levels off after more than six years of significant increases, colleges and universities are not filling the gap with institutional funds.

While this moderation in the rate of increase is a welcome sign for many, it is likely too little too late to derail the growing pressure to rein in tuition.

## THE FIGHT FOR STUDENTS – BUILD IT AND WILL THEY COME?

As noted in my recent industry update article, enrollment challenges persist in many parts of the country and in many segments. It seems the response to these enrollment challenges is the need to build new and better facilities to attract students. Perhaps fueled in part by the improving economy and donor support, a growing number of schools have announced ambitious plans to construct new square footage. Unlike what we saw in the past decade when student centers were all the rage, this time it looks like science and technology are getting the boost.

But this strategy is not without its own risks. College statements of financial position continue to pile on significant amounts of debt. And since many schools have not sufficiently diversified their revenue streams, the need to fill seats and generate tuition revenue remains the primary driver.

## YET ANOTHER RATING SYSTEM

For many families, the college search process begins by reviewing one of the widely known and recognized college rating sources. These lists rank schools based on any number of criteria; selectivity is one of those. Yet we have seen several high-profile cases in recent years where institutions have admitted to anomalies in the data they submit to the companies that compile the lists. It turns out that there are few, if any, rules over how the information is gathered. In some cases there is no review of the information submitted.

## GOVERNANCE MATTERS

It is understandable then why the president and other regulators are pressing for a new rating system. And it is almost a certainty that whatever metrics ultimately become part of the rating system there will be specific rules over how the information is prepared and submitted. Just like the "new" Form 990 (Okay, six years in, I think we can drop the word new!) introduced nonprofits to a whole range of governance oversight, it is likely going to be the same with the new rating system. Boards of trustees should take heed now over the entire range of external reporting that happens at their school.

While the financial activity is most often subject to an audit, and most audit committees receive reports on financial activity, the same is not always the case with non-financial reporting. Boards should dust off their governance, risk and compliance plans and make sure they consider the broadening scope of compliance. As I had said before – we don't know exactly what the new regulations will look like, but it is almost certain that regulations will increase.

***For more information, contact Tom Gorman, director, at tgorman@bdo.com.***

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# SIGNIFICANT DIVERSION OF ASSETS

**By Laura Kalick, JD, LLM**

Recent reports regarding the significant diversion of assets by nonprofit organizations has caused federal and state officials to launch investigations as to what this actually means. The revised Form 990 Part VI, Section A (Governing Body and Management) line 5 asks: Did the organization become aware during the year of a significant diversion of the organization's assets? The instructions to Form 990 expound upon how the question should be answered. As you may be aware, the Governing Body and Management section was very controversial when added to the Form 990 during its revision. Segments of the public argued that only questions authorized by the statute should be reported on the form. The Internal Revenue Service (IRS) responded saying that a well-governed organization was more likely to be tax-compliant and, therefore, in order to insure that taxes are properly collected, they had the authority to ask the questions. Many in the nonprofit sector agreed that the transparency provided by the new form allowed the public to gain information that was necessary, especially in the case of a donor who was considering making a gift to a charity.

In April 2012 the IRS announced the results of a study it had done to see if a well-governed organization was more likely to be tax-compliant and stated they had found that the greatest correlation between "good governance" practices and tax compliance was where the board of directors was significantly involved in setting compensation and also where organizations had procedures in place for the proper use of charitable assets. At the same meeting, the IRS announced a new audit program whereby the IRS would audit organizations that had indicated there had been a significant diversion of assets. The IRS looked at:

> The tax filings and publicly available information on the 285 organizations that reported a significant diversion of assets in 2009 and that initial research found "roughly $170 million in significant diversions was identified" and 82 cases resulted in civil or criminal charges against the responsible party. These are charges that were brought by the organizations involved, or by local authorities, who were outraged by the activity. They are not IRS charges. Forty-seven individuals were incarcerated or served probation for the diversion of the assets. Again, this did not arise from IRS actions. In nine cases restitution was paid in full; in 11 cases there was partial restitution.

See http://www.irs.gov/pub/irs-tege/georgetown_04192011.pdf for more details.

Here are the details of what is supposed to be reported. "Significant" means the gross value of all diversions (not taking into account restitution, insurance or similar recoveries) discovered during the organization's tax year to the extent they exceed the lesser of:

(1) 5 percent of the organization's gross receipts for its tax year,
(2) 5 percent of the organization's total assets as of the end of its tax year, or
(3) $250,000.

If the organization became aware of the diversion during the tax year, even though the diversion occurred in another year, the diversion is supposed to be reported. The organization is supposed to report on Schedule O the nature of the diversion, the amounts of property involved, corrective actions taken to address the matter and other pertinent circumstances.

A diversion of assets includes theft, embezzlement or any unauthorized use of the organization's assets and can involve any person, whether or not an officer, director, key employee or independent contractor. So it could also include a grantee diverting grant funds or an investment advisor. Diversions of assets do not include transactions at fair market value. For example, if an exempt organization sets up a taxable subsidiary and takes back the stock or enters into a partnership agreement where the exempt organization gets a quid pro quo interest, these are not a diversion of assets to be reported.

The IRS instructions to Form 990 note that, "A diversion of assets can in some cases be inurement of the organization's net earnings. In the case of section 501(c)(3), 501(c)(4), and 501(c)(29) organizations, it also can be an **excess benefit transaction** taxable under section 4958 and reportable on Schedule L (Form 990 or 990-EZ)." So this means that if it is found that a Disqualified Person, i.e., someone who can substantially influence the organization, diverts assets for his/her own behalf, in addition to any other adverse actions that could result, that person could be subject to a 25 percent tax on the excess amount and a 200 percent tax if the transaction is not corrected by returning it with interest.

*For more information, contact Laura Kalick, national director, Nonprofit Tax Consulting, at lkalick@bdo.com.*

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# FAC AND DCF UPDATE

## Federal Audit Clearinghouse

Due to the federal government shutdown the Federal Audit Clearinghouse's (FAC) projected rollout of its new updated system was delayed from its original projected date and occurred on Nov. 15. As noted in our Fall 2013 issue of the *Nonprofit Standard*, there are several changes to the FAC system. Now that the system is up and running, each user should create his/her own account using one email address. Access to the site with one shared password and report ID by multiple users is no longer permitted. If your email address is the same as in the past you will be able to access your previous submissions from 2008 through 2012. The certifying official must be identified as such in order to complete the final certification of the data collection form. The FAC has also improved the template upload options allowing for an easier upload of large amounts of data.

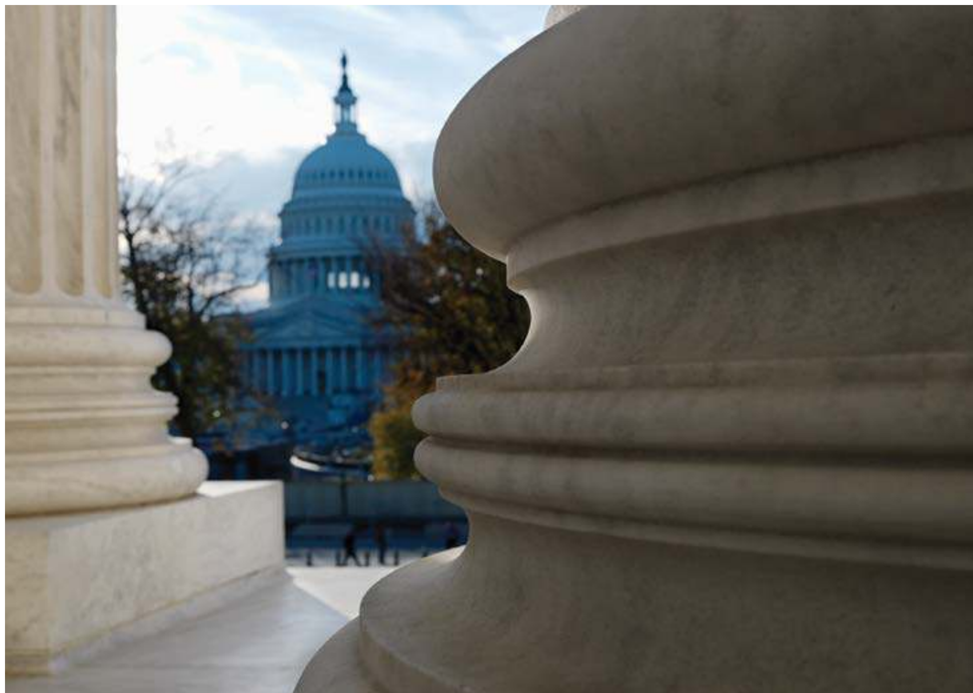
## Data Collection Form

The 2013 data collection form (DCF) was issued in the Federal Register (FR) for a final 30-day comment period on Nov. 19. The FR notice is intended to allow the public a final opportunity to review and comment on the changes made by the Office of Management and Budget (OMB) in response to the previous round of public comments received on the DCF. Comments on the new DCF are due on Dec. 19. You can find the draft DCF and instructions under "Recent News" at www.whitehouse.gov/omb/financial_default.

Since the 2013 DCF is still not available for use the OMB has granted an extension until Jan. 31, 2014, for filing the DCF for a single audit for a fiscal period ending in 2013 where the DCF is due before the final form is available. This extension is automatic and there is no approval required. The extension applies only to single audits for fiscal periods ending in 2013. This 2013 DCF submission waiver language is posted on the FAC website.

# ARE YOU PREPARED FOR THE OMB SUPERCIRCULAR?

By Eric Sobota



## THE FEDERAL GOVERNMENT PLACES MANY REQUIREMENTS ON ENTITIES SEEKING GOVERNMENT FUNDING, WHETHER THROUGH GRANTS OR BY CONTRACT.

For grant recipients, the regulatory landscape is disparate and complex, with numerous rules and guidelines governing the accounting and administrative functions for a variety of recipient categories. Hospitals are governed by a different set of cost principles than universities, and state and local agencies are subject to a third. Anytime one requirement changes within one category, the process needs to be reassessed from the beginning. This system, while inelegant, has gained stability through usage. The marketplace, by necessity, has adapted to this complicated, inconsistent regime. Grant recipients have trained their compliance professionals and other staff to their own particular stovepipe of rules and practices. Entities that meet multiple definitions and government offices that administer multiple types of grants have gained expertise over time in determining which requirements apply to which category.

Now, change is on the way in the form of an omnibus Office of Management and Budget (OMB) circular — colloquially referred to as the "Supercircular" that will consolidate this constellation of regulations and (hopefully) provide consistent guidance for both the recipients and issuers of federal grants. OMB hopes to publish the final rule, accounting for any comments, by the end of 2013, with the rule fully implemented for new awards in "mid-2014." The new requirements will apply to continuing awards as of the start of the 2014-2015 fiscal year on Oct. 1, 2014. With the advent of this new guidance, grant recipients and administrators must carefully re-evaluate their grant practices to determine what is likely to remain the same and what may change. Below, we outline just a few of the major changes on the horizon:

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## SUPERCIRCULAR

### Reforms to Procurement Standards

For some recipients, these reforms may represent a significant increase in the administrative burden of awarding contracts to vendors who are essential for their grant operations. The Supercircular requires a formal, almost Federal Acquisition Regulation (FAR)-like process for ensuring competition, presumably to ensure the most efficient use of grant dollars. The Supercircular also requires recipients to offer disappointed offerors for grant-funded contracts an opportunity to protest the decision to the grantee and, in the case of a violation of federal law, to the awarding agency itself. A robust and effective procurement process will be critical to the success of navigating these new administrative burdens.

### Subrecipient Monitoring and Management

The proposed guidance places increased emphasis on assessing and monitoring subrecipients. This, too, will require a rigorous, FAR-like approach similar to the subcontractor monitoring practices currently employed by for-profit organizations.

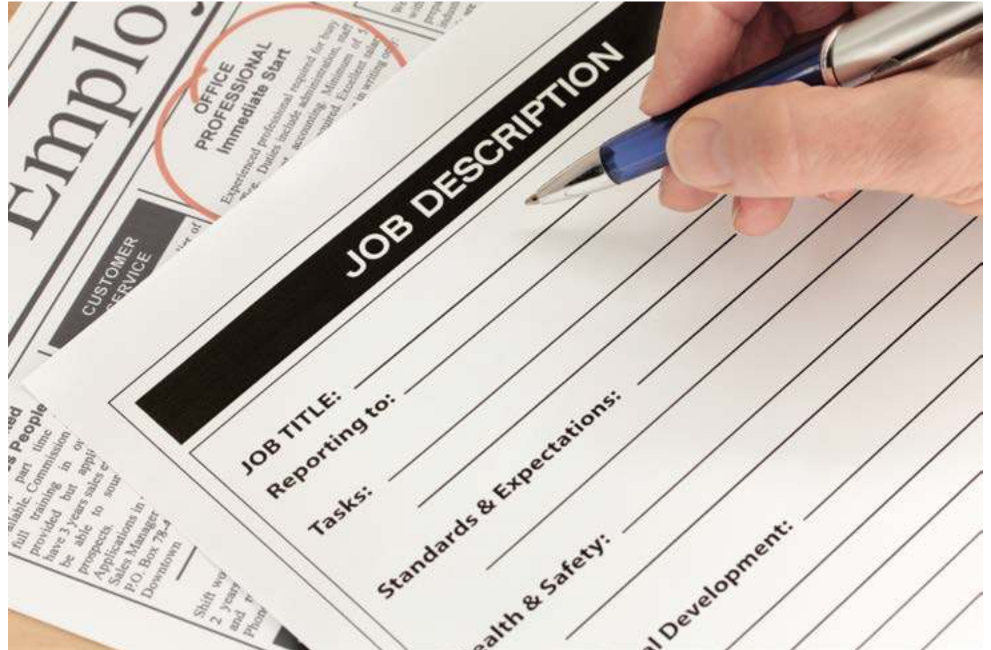
### New Choices for the Recovery of Indirect Costs

For recipients who strategically position themselves, these choices may offer significant advantages. Notwithstanding the current method of negotiating indirect rates, higher education institutions and nonprofit organizations may now be able to use negotiated lump sums for indirect expenses, predetermined multiyear indirect rates, negotiated fixed rates with carryforward provisions, and even fixed rates by award. Determining which solutions work best for your organization *now* will help you quickly incorporate this new approach into your estimating process as soon as the final rule is issued.

***For more information, contact Eric Sobota, director with BDO's Government Contracting practice, at esobota@bdo.com.***

# EXECUTIVE EMPLOYMENT AGREEMENTS

By Mike Conover




***"Don't you have some standard boilerplate we could use? We don't want to spend a lot of time on this."***

With increasing frequency, I am encountering client situations involving employment agreements. They are becoming more prevalent among all sorts of organizations, including nonprofits, and are most commonly used for the executive director/chief executive officer positions and, in some instances, some other top level positions such as chief operating officer and chief financial officer. It seems newly hired and long-tenured individuals both want clarity around the arrangements for their employment. Organizations sometimes view providing the agreement as something "given to" or "done for" the benefit of the individual, rather than an opportunity for employer clarity and protection.

In light of the importance of an employment agreement, it is surprising to discover that an employer would ask for some "boilerplate" form or allow it to simply be the list of bundled items negotiated in the course of wooing the individual. It is also important to note that this is a topic that is important to the Internal Revenue Service (IRS) as noted in several sections of Form 990 Schedule J that specifically ask about the use of agreements and several of the provisions they may contain.

Let's spend a few minutes on some employment agreement basics as well as the changing trends in terms of their contents. In addition to typical practices and trends, I will offer some suggestions for determining the best approach for your organization.

The term employment agreement is being used broadly here to include not only formal employment contracts, but also the less formal employment letter. The distinction for our purposes here is the "guaranteed" employment in the contract versus the confirmation of terms in the employment letter.

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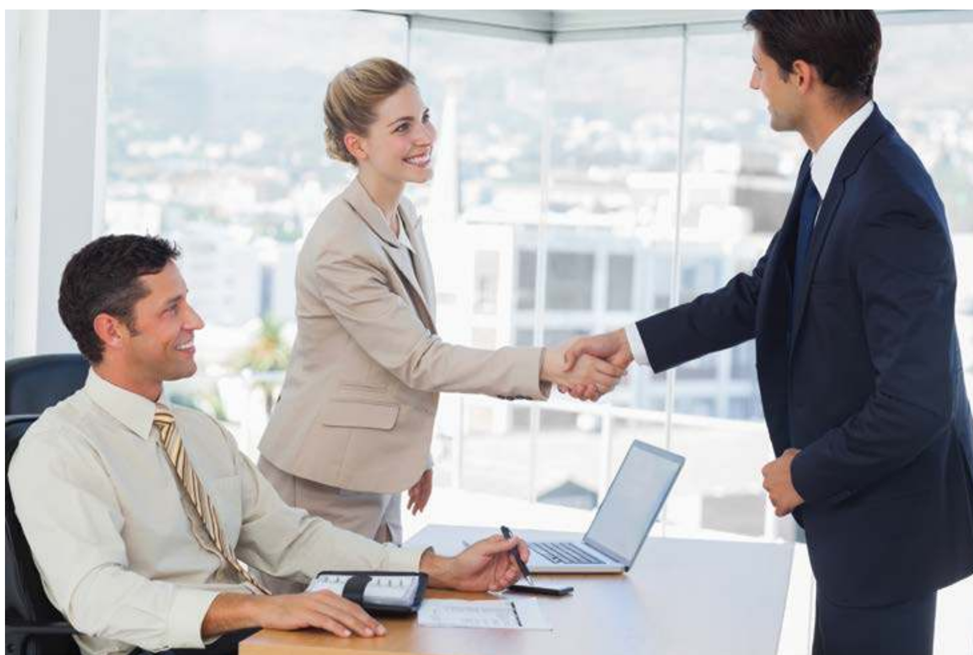
## EXECUTIVE EMPLOYMENT AGREEMENTS

The standard topics covered in the agreement include a confirmation of key points related to the position in question. Position title, summary of key responsibilities and reporting relationships are typically standard items that are addressed early in the document. In addition, details on compensation arrangements are also spelled out, including: salary, bonus/incentive opportunity, as well as confirmation of participation in the broad benefit plans/coverages maintained by the organization for all employees. Often, the agreement will also contain details of the organization's paid time off (i.e., paid holidays, sick leave and general vacation policy). Finally, for newly hired individuals, this agreement will often detail the terms of the organization's relocation assistance.

Beyond the standard topics described above, there is considerable variation in the additional items they may contain. Despite an increase in the overall prevalence of the agreements themselves, the variety of these additional items, most notably perquisites, has been steadily declining in past years. At one time, it was not unusual to find many different types of special benefits offered to the executive director/chief executive officer. Depending on the type of organization and its size, the list could specify first-class travel, country club membership, cell phone, fax machine, tax preparation services, etc.

Ongoing instances of excessive executive compensation in for-profit and nonprofit organizations alike, as well as increasing public skepticism about executive pay practices in general, have exerted strong pressure on a great many of the personal benefits that were once so typical. The financial crisis and severe economy which followed have led many to question the need and the fairness associated with these practices. Many believe these individuals are highly paid and should be able to pay for their own personal benefits and services rather than have them employer-paid.

Accordingly, the particular arrangements that are specific to the executive director/chief executive officer are now generally limited to: supplemental retirement coverages; extra vacation and automobile/automobile expense allowance (if offered). Of course, this may vary somewhat by type of nonprofit. For example, educational institutions will often include



provisions related to campus housing or housing allowances.

Employment contracts should also include information about: the period of employment; contract renewal and related notifications; termination and severance arrangements; and any applicable post-retirement or post-employment obligations. When offered, most contracts tend to be two or three years in duration and contain provisions for renewal or extension in one-year increments, subject to cancellation by either party with notice. When severance protection is offered, it is generally for 12 months or less, with longer periods of time becoming increasingly rare.

Knowing there are many different types and sizes of nonprofit organizations, the information offered here is necessarily quite general. However, I don't want to leave you with the impression that simply including the list of topics covered here is all that is necessary to produce an agreement that is suitable for your organization. On the contrary, I want to impress upon you the importance of ensuring that any agreement developed for your organization is tailored to its needs, not some boilerplate or template.

There are excellent survey sources that can help an organization determine a great deal about the prevalence of employment agreements among comparable organizations as well as the types of provisions that are found in them. These survey sources can be extremely helpful in assessing individual items considered for inclusion in an agreement as well as the overall reasonableness of the entire employment agreement. Organizations would be well-advised to secure information and advice concerning competitive practices in comparable organizations in order to be well-informed about competitive practices. Simply relying on the executive recruiter's negotiation of candidate requirements or an agreement borrowed from elsewhere may result in an agreement that becomes a liability for the organization and its governing body.

*For more information, contact Michael Conover, senior director, Specialized Tax Services – Global Employer Services, at wconover@bdo.com.*

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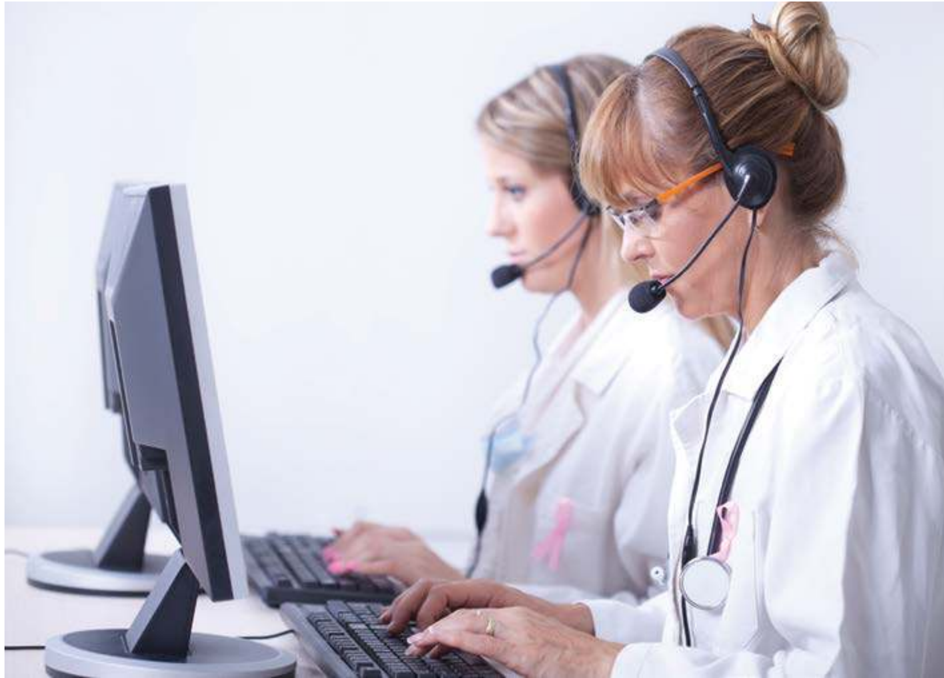
# TOP CHALLENGES FACING NONPROFIT SKILLED NURSING FACILITIES

By Mike Musick

## NONPROFIT SKILLED NURSING FACILITIES (SNFs) ARE UNDERGOING A COMPLETE PARADIGM SHIFT.



New reimbursement models, an aging population and changes mandated under the Affordable Care Act have placed tremendous pressure on SNFs. The changing healthcare landscape will require nonprofit SNFs to deliver better outcomes, lower costs and more appropriate access to care. Evolving to these new standards is challenging, so in order to keep their doors open, nonprofit SNFs will need to:

### Move toward a model of consumer-driven healthcare.

As consumers become more responsible for paying for their own healthcare, healthcare-related decisions will be increasingly influenced by how much a service costs and what value it provides to the patient. To help patients, their families and caregivers compare nursing facilities more easily, the Centers for Medicare and Medicaid Services (CMS) created the Five Star Quality Rating System. The system gives each nursing facility a quality rating between one and five stars, with five being the highest, based on specific quality measures including staffing patterns. The system represents a clear shift toward a model that recognizes that more consumers are beginning to shop for the best value.

To account for this, nonprofit SNFs will need to engage with patients in new ways, proactively identifying solutions to problems or issues they may face. Innovative strategies such as cost-sharing programs and new technologies that enable patients to interact with healthcare providers and access their healthcare information are at the forefront as the focus on service and overall customer experience brings enormous change to the SNF industry.

### Develop new and more efficient operating models.

To succeed in this new environment, nonprofit SNFs will need to develop strategies that will enable them to transform the way care is delivered. They must focus on day-to-day operations to realize gains associated with short-term cost savings opportunities and performance improvements, while also ensuring that their cost structure and operational infrastructure are aligned with their long-term vision.

### SNFs will need to improve their data and IT infrastructure.

Leveraging analytics, SNFs can develop adaptive and interactive technology platforms to detect care gaps, manage costs, anticipate and measure consumer needs and expectations, and better manage chronic illness and end-of-life care.

### Measure outcomes to inform future practices.

Successful nonprofit SNFs of tomorrow will not look like those of today. Nonprofit SNFs need to identify the sources of poor care and establish improvement goals and measures in order to work toward continuous improvements. Additionally, they must determine their future care models now and begin developing the infrastructure and capabilities required to navigate toward their future state.

*What is your organization doing to meet these challenges?*

*For more information, contact Mike Musick, partner, Healthcare practice at mmusick@bdo.com.*

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# FASB FELLOW LEE KLUMPP REFLECTS ON BUSY, FRUITFUL FIRST YEAR

*"We've really made some good progress on the FASB's Not-for-Profit standard-setting project, even getting a tentative decision on a matter that the board couldn't reach a decision on 20 years ago," says Klumpp. "That's especially gratifying."*

When Lee Klumpp accepted a prestigious two-year appointment as a Financial Accounting Standards Board (FASB) fellow (see the Fall 2012 issue of the *Nonprofit Standard* for the article announcing his fellowship), he knew the demands on his time would be substantial. But one year into the fellowship, the Nonprofit auditing and accounting technical director can report that the time has been well-spent with an impressive amount of headway made on key projects.

"We've really made some good progress on the FASB's Not-for-Profit standard-setting project, even getting a tentative decision on a matter that the board couldn't reach a decision on 20 years ago," says Klumpp. "That's especially gratifying." Klumpp continues to work on projects such as leases and accounting for financial instruments. He also interacts with the FASB Not-for-Profit Advisory Council, participating in speaking engagements and submitting articles for publication.

### Sharpened skills, expanded network

Through it all, Klumpp says he's sharpened his research, analysis and communication skills, gained a unique insight into the process FASB uses in setting financial standards and even learned a few things about international standard setting. He's also been able to expand his network by working with nonprofit healthcare and community organizations.

Although Klumpp is prohibited from client interaction during his fellowship, the skills and knowledge he'll bring back to the firm will benefit Nonprofit clients, as well as any BDO professionals with nonprofit industry clients or prospects.

### Differentiating BDO

Nonprofit & Education industry group leader Bill Eisig says Klumpp's fellowship goes a long way toward positioning BDO as a true thought leader in the industry. "It's very important for us to be recognized by the profession as experts in industries we're targeting," says Eisig. "Lee's exposure to FASB – and FASB's exposure to BDO – build our credentials and reputation with the CPA world and the professional world."

## BDO PROFESSIONALS IN THE NEWS

BDO professionals are requested to speak on a regular basis at various conferences due to their recognized experience in the industry. The following is a list of some of the upcoming events where you can hear BDO professionals. In addition to these external venues, BDO offers both live and local seminars, as well as webinars, on such topics as nonprofit tax and accounting updates, international accounting and business issues, and charitable solicitation registration. Please check BDO's website at www.bdo.com for upcoming local events and webinars.

### FEBRUARY

**Laurie Arena De Armond** and **Rebekuh Eley** are speaking at the Illinois CPA Society's 2014 Not-for-Profit Corporate Governance half-day conference on Feb. 5 from 8:30 a.m. to 12:05 p.m. in Chicago, Ill. Laurie and Rebekuh will be presenting the topic "Governance Tax Policies." Then both Laurie and Rebekuh will sit on a six-member panel discussing "Succession Planning Among Executive Management."

### MARCH

**Mike Sorrells** and **Laura Kalick** will be presenting a session entitled "NOL Carryforwards: Is Your School at Risk?" at the University of Texas School of Law's 2014 Higher Education Taxation Institute on Mar. 4 in Austin, TX.

**Dick Larkin** will be presenting two sessions at the Washington Nonprofit Tax & Legal Conference on March 20 in Crystal City, Va. One session will be on Statement of Position 98-2 and the second session will be an accounting and auditing update.

▶Read more

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### BDO NONPROFIT & EDUCATION PRACTICE

For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations.

With more than 2,000 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients – and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

In addition, BDO's Institute for Nonprofit Excellence℠ (the Institute) has the skills and knowledge to provide high quality services and address the needs of the nation's nonprofit sector. Based in our Greater Washington, DC Metro office, the Institute supports and collaborates with BDO offices around the country and the BDO International network to develop innovative and practical accounting and operational strategies for the tax-exempt organizations they serve. The Institute also serves as a resource, studying and disseminating information pertaining to nonprofit accounting and business management.

The Institute offers both live and local seminars, as well as webinars, on a variety of topics of interest to nonprofit organizations and educational institutions. Please check BDO's web site at www.bdo.com for upcoming local events and webinars.

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