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Could You Have Unrelated Business Taxable Income?

by Marvin M. Mendieta, CPA, Audit Manager

One of the major benefits of running a not-for-profit organization is the ability to be exempt from federal income taxes on income earned to carry out the organization's mission. However, an organization may also be conducting activities that, depending on the organization's mission, could be generating income that is subject to federal income tax. If your organization is generating unrelated business income of \$1,000 or more, you must file Form 990-T, *Exempt Organization Business Income Tax Return*, in addition to other required returns that you need to file with the IRS. So how do you know if your organization has unrelated business income?

According to the IRS, unrelated business income is subject to unrelated business income tax (UBIT) if the activity that generated the income meets the following three standard criteria:

1. It is a **trade or business** (The activity must be operated to earn a profit.)
2. It is **regularly carried on** (The activity is conducted with frequency and continuity.)
3. It is **not substantially related** to an organization's exempt purpose (The activity does not contribute significantly to further the purpose of the organization that qualified its tax-exempt status.)

For example, a recreational center at a university sells memberships to the general public year round for use of the university's recreational facilities. This activity would be considered an unrelated business activity for the university; the income generated would be subject to UBIT because the sale of memberships to the public is operated as a business to earn a profit, is regularly carried on, and does not substantially contribute to the exempt purpose of the university, which is education and research.

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Accounting Standards Update (ASU) 2010-06

by Kimberly A. Robinson, CPA, Partner

In January 2010, the FASB released ASU 2010-06 entitled *Improving Disclosures about Fair Value Measurements*. It updates FASB ASC Topic 820 entitled *Fair Value Measurements and Disclosures*. ASU 2010-06 raises-the-bar associated with disclosures that need to be made in financial statements in interim and reporting periods beginning after December 15, 2009, except that the new disclosures about purchases, sales, issuances, and settlements in the roll-forward activity in Level 3 fair value measurements; for those Level 3 disclosures,

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FASB ASC 958-805 Business Combinations

by Kimberly A. Robinson, CPA, Partner

In 2009, the Financial Accounting Standards Board issued rules to help nonprofit organizations properly account for mergers and acquisitions involving other not-for-profits. FASB ASC 958-805 *Business Combinations* governs the information that a not-for-profit entity should provide in its financial reports about a combination with one or more other not-for-profit entities, businesses or nonprofit activities.

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Unrelated Business Taxable Income (Cont'd from Page 1)

As a general rule, if the activity in question meets the above three criteria, income generated from that activity would be considered unrelated trade or business and subject to UBIT.

However, there are certain types of activities that can be excluded when calculating unrelated business taxable income:

1. Volunteer labor (The activity is substantially performed without compensation.)
2. Convenience of members (The activity is primarily for the members' convenience.)
3. Selling donated merchandise (The items sold were received substantially as gifts or contributions.)
4. Employee association sales (The items sold are primarily for the association members' convenience at their employment.)
5. Bingo games and other gambling activities
6. Other activities such as pole rentals, distribution of low cost articles, exchange or rental of member lists, certain hospital services, qualified public entertainment activity, and convention or trade show activity

In addition, there are also specific types of income that are exempt from UBIT, among them:

1. Dividends, interest, annuities, and other investment income
2. Royalties
3. Rents
4. Income from research
5. Gains and losses from disposition of property
6. Income from services provided under federal license
7. Member income of mutual or cooperative electric companies

Unrelated business taxable income is a critical element in an organization's financial operations that requires careful consideration.


Understanding your organization's exempt purpose and knowing the different types of activities that generate income in your organization are essential in ensuring all types of income are properly identified for reporting to the IRS.

Questions? Contact Marvin at (602) 277-9449, ext 324 or marvinm@heinfeldmeech.com. 

Business Combinations (Cont'd from Page 1)

FASB ASC 958-805 sets out the principles and requirements for how a not-for-profit entity should determine whether a combination is in fact a merger or an acquisition. The standard applies the carryover method in accounting for a merger, and the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer. In addition, FASB ASC 958-805 determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition involving a not-for-profit.

FASB ASC 958-805 is effective for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009.

Questions? Please contact Kimberly Robinson at (602) 277-9449, x305 or kimr@heinfeldmeech.com. 

Let's Eat!!!

by Michael Hoerig, Audit Manager

H&M visits over 100 different communities across the Southwest every year. Almost every community that we visit has great local establishments that our staff loves to frequent (sometimes multiple times a week!). Below are some of our favorite dining choices that we frequent during our travels. If you ever find yourself in one of these places, consider checking these out!

If one of your favorites is missing, please let us know- we're always looking for great local cuisine! (*Listings shown in alphabetical order by location. Our favorite menu items are also listed.*)

Blythe, CA

Maria's (231 W Hobsonway)
Cocktail de camarones, sopapillas, barbacoa

Douglas, AZ

El Chef (1057 E 11th St)
Menudo, posole

Eloy, AZ

A & M Pizza (116 W Frontier St)
Eggplant parmesan sandwich, fresh breads

Flagstaff, AZ

Beaver Street Brewery (11 Beaver St)
Pizza, burgers

Holbrook, AZ

Butterfield Steakhouse (609 W Hopi Dr)
Bacon-wrapped filet mignon

Lake Havasu City, AZ

Mudshark Brewery (210 Swanson Ave)
Beef ribs

Javelina Cantina (1420 McCulloch Blvd)
Fish tacos

Las Cruces, NM

Andele (1950 Calle del Norte)
Roasted chili bar, tacos al carbon

Morenci, AZ

R & R Pizza (1970 W River Rd)
Wings, pizza

Page, AZ

Blue Buddha Sushi (815 N Navajo Dr)

Rio Rancho, NM

Smokehouse BBQ (4000 Barbara Loop SE)
Breakfast burritos

Safford, AZ

Copper Steer Steak House (1206 U.S. 70)

Santa Fe, NM

Marias
555 West Cordova Rd
Fajitas, margaritas
Plaza Café (54 Lincoln Ave)
Yogurt parfaits for breakfast

Snowflake, AZ

Enzo's Ristorante Italiano (50 E 1st St North)
Anything, but its cash only!

Williams, AZ

Pine Country Restaurant (107 N Grand Canyon Blvd)
Pies

Yuma, AZ


Burgers & Beer (321 W 20th St)
Lute's Casino (221 S Main St)
Hot dog and hamburger combo
Kneader's Bakery (2851 South Avenue B)

H&M Announcements

CPA Achievements: The following staff recently received their CPA certifications: Michael L. Lauzon, Audit Manager, and Joseph D. Mosier, Audit Senior.

Staff Promotions: H&M congratulates the following staff on their recent promotions:

Jatin Shah and James Rebanar to Manager; Joseph Mosier, Eugene Park, Matthew Reams and KJ Weihing to Senior; and

Diane Robinson, Stephanie Lopez, Cynthia Montoya, Amir Bolic, Krissy Agudo, Bethany Howell, Joshua Jumper, and Cassandra Perwin to Staff II. 

ASU Update (Cont'd from Page 1)

there is a need to include them in financial statements for fiscal years beginning after December 15, 2010.

Depending on your entities situation, you may or may not see changes to you financial statement footnotes for this update.

The new disclosure requirements associated with fair value measurements are intended to address concerns of end-users of financial statements related to the need for increased transparency associated with the fair value disclosures. All reporting entities that are required to make disclosures about recurring or nonrecurring fair value measurements need to follow the disclosure provisions in this updated guidance.


As updated by the guidance in ASU 2010-06, the new disclosure requirements now applicable in FASB ASC Topic 820 are as follows:

- *Transfers in and out of Levels 1 and 2.* Reporting entities need to separately-disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
- *Activity in Level 3 fair value measurements.* In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), reporting entities need to separately-present information about purchases, sales, issuances, and settlements (i.e., on a gross basis rather than as one net number).

The disclosures in the second bullet-point above are the disclosures that can be deferred until calendar-year 2011. Of course, nothing would preclude a reporting entity from implementing the guidance early in order to increase the transparency of disclosures that currently are required.

In addition to the new disclosure requirements, the guidance in ASU 2010-06 also provides clarification of existing FASB ASC Topic 820 disclosures, as follows:

- *Level of disaggregation.* Reporting entities need to provide fair value measurement disclosures for each class of assets and liabilities. A class often is a subset of assets or liabilities within a line-item within the statement of financial position. Judgment will need to be utilized in determining the appropriate classes of assets and liabilities.
- *Disclosures about inputs and valuation techniques.* Reporting entities need to provide disclosures about the valuation techniques and inputs used in measuring fair value for both recurring and nonrecurring fair value measurements. These type disclosures are required for fair value measurements in Level 2 or Level 3.

Questions? Please contact Kimberly Robinson at (602) 277-9449, x305 or kimr@heinfeldmeech.com. 

About Heinfeld, Meech & Co., P.C.

H&M is an Arizona-based CPA firm with offices in Tucson, Phoenix and Flagstaff that is exclusively dedicated to providing accounting and auditing services to not-for-profit and governmental entities. We offer this free quarterly newsletter as part of our commitment to providing resources and training to Arizona's non-profit business personnel.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at www.heinfeldmeech.com.