Nonprofit Accounting and Auditing Update

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- Over **36 years** of experience providing audit and advisory services to the not-for-profit and health care industries
- **Focus:** Organizations serving individuals with special needs, religious organizations, educational institutions, membership associations, social service providers, healthcare providers, foundations, and arts and culture
- **Advises On**: Financial reporting systems, implementation of new accounting standard updates, sustainability/succession planning, internal control reviews, strategic planning, retreat facilitation, and providing quality board education and governance advice
- **Firm Involvement:** Member of the Accounting and Auditing Committee and the Strategic Partner Retreat committee, which plays a significant role in cultivating the firm's culture and strategic objectives
- **Community Involvement:** Serves on the Board of the National Multiple Sclerosis Society, the New York Council of Nonprofits (NYCON) and Governance Matters and is a member of the AICPA and NYSSCPA
- **Presentations and Publications:** AICPA and NYSSCPA Conferences, internal education sessions, webinars and the CPA Journal

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AICPA Audit and Accounting Guide and Audit Risk Alert

- Audit and Accounting Guide, Not-for-Profit Entities
  - Published annually; latest is the 2022 edition
  - Although nonauthoritative, it contains recommendations from FinREC in areas not covered by the FASB ASC
  - Format based on common errors and questions
  - Before-and-after context to enhance understanding of various changes
  - Includes updates on revenue recognition, leases and new ASUs

- Audit Risk Alert, Not-for-Profit Entities Industry Developments
  - Discontinued as a hard-copy print publication after 2021
  - Still pertinent – discusses the impact of the pandemic

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Recent Suite of Auditing Standards

Implemented for Calendar year 2021 and fiscal year-ends in 2022

- SAS No. 134 -Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements
- SAS No. 135 - Omnibus Statement on Auditing Standards – 2019
- SAS No. 136 - Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA
- SAS No. 137 - The Auditor's Responsibilities Relating to Other Information Included in Annual Reports
- SAS No. 138 - Amendments to the Description of the Concept of Materiality
- SAS No. 140 - *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137 – Compliance Audits*

Changes to the Auditor's Report on Financial Statements

- SAS No. 134 includes the following report changes
  - The "Opinion" section will be presented first, followed by the "Basis for Opinion" section
  - The "Basis for Opinion" section will include a statement that the auditor is required to be independent of the entity and to meet other ethical responsibilities
  - Provides a framework for auditors of nonissuers to communicate key audit matters (KAM). Although communication of KAM is not required for audits of nonissuers, if the terms of the engagement include reporting KAM, the auditor would be required to follow the new AU-C Section 701
    - Communicate in a separate "Key Audit Matters" section

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Changes to the Auditor's Report on Financial Statements

- SAS No. 134 includes the following report changes
  - Expands the description of the responsibilities of management for the financial statements to include management's responsibility to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern
  - Expands the description of the responsibilities of the auditor and key features of the audit, including references to the auditor's professional judgment and professional skepticism, responsibility to conclude on an entity's ability to continue as a going concern and responsibility to communicate with those charged with governance

Changes to the Auditor’s Report Employee Benefit Plans Subject to ERISA

- Statement on Auditing Standards No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
- Creates a new AU-C Section 703
- Form and content of auditor’s report on employee benefit plans consistent with SAS No. 134
- Changes the term, “ERISA limited-scope audits” to “ERISA Section 103(a)(3)(C) audits”

Changes to the Auditor's Report
Employee Benefit Plans Subject to ERISA

- The ERISA Section 103(a)(3)(C) report will explain the nature and scope of the engagement
- Whereas ERISA limited-scope audits required a disclaimer, ERISA Section 103(a)(3)(C) audits will include a two-pronged opinion
  - Whether the information not covered by the certified investment information is presented fairly in all material respects in accordance with U.S. GAAP
  - Whether the certified investment information in the financial statements agrees with or is derived from the certification

Changes to the Auditor’s Report Employee Benefit Plans Subject to ERISA

- For non-ERISA-section 103(a)(3)(C) audits, requires the auditor to include a statement about whether the form and content of the information in the Form 5500 supplemental schedules are presented in conformity with DOL‘s requirements
- Includes new performance requirements, including
  - For ERISA Section 103(a)(3)(C) audits, performing certain procedures relating to the certification of investment information
  - Obtaining a substantially complete Form 5500 and reading it to identify material inconsistencies with the financial statements
  - Communicating with those charged with governance

Audit Evidence

- SAS No. 142, *Audit Evidence*
- Effective for periods ending on or after December 15, 2022
- Addresses
  - Expanded guidance on whether sufficient appropriate audit evidence has been obtained
  - The increased use of automated tools and techniques
  - Gathering audit evidence when the auditor is working remotely
  - Whether the information corroborates or contradicts management's assertions
  - The application of professional skepticism, including susceptibility of information to bias

Auditing Estimates

- SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*
- Effective for periods ending on or after December 15, 2023
- Addresses
  - The auditor's responsibilities relating to accounting estimates, including risk assessment requirements
  - The auditor's focus on factors driving estimation uncertainty and potential management bias
  - The separation of the inherent risk and control risk assessments
  - The application of professional skepticism

Assessing the Risk of Material Misstatement

- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- Effective for audits of periods ending on or after December 15, 2023
- Does not change the fundamental audit risk concepts
- Provides auditors with improved guidance for identifying and assessing risks of material misstatement

Assessing the Risk of Material Misstatement

- SAS No. 145
  - Requires separate assessments of inherent risk and control risk - changes the definition of *significant risk*
  - Introduces the concept of the *spectrum of significant risk*
  - Revises the definition of *relevant assertions*
  - Provides new application guidance when controls are relevant to information technology
  - Updates guidance on scalability for less complex entities

Assessing the Risk of Material Misstatement

- Requires auditors to identify controls that address significant risks and to evaluate whether the controls have been designed effectively and implemented
- The assessment of significant risk determines whether a risk of material misstatement qualifies as a significant risk
  - Discusses the combination of the likelihood and magnitude of a material misstatement on the spectrum of inherent risk and whether a risk should be considered significant

Assessing the Risk of Material Misstatement

- The scalability provisions of SAS No. 145 make quality risk assessments more attainable
  - Firms may scale their risk assessments for a wide range of engagements
  - Lengthy risk assessments are not necessarily required for less complex entities
  - Every risk assessment does not necessarily need pages upon pages of data and information
- AICPA will release an updated risk assessment guide to provide clarity and guidance

Audits of Less Complex Entities

- ASB task force studying what European standard setters have been doing in terms of audit rules for less complex entities
  - Many smaller NFPs would qualify as "less complex entities"
- Task force working to determine whether it can identify areas where U.S. GAAS can be scaled for less complex entities

Recent Attestation Standards

- Statement on Standards for Attestation Engagements
  - No. 19, *Agreed-Upon Procedure Engagements*
    - Effective for reports dated on or after July 15, 2021
    - Provides practitioners with flexibility in the engagement
  - No. 21, *Direct Examination Engagements*
    - Effective for reports dated on or after June 15, 2022
    - Establishes a new type of engagement different from an assertion-based examination
  - No. 22, *Review Engagements*
    - Effective for reports dated on or after June 15, 2022
    - Clarifies what a review engagement entails

AICPA Audit Guide

- AICPA Audit Guide, *Government Auditing Standards and Single Audits*
- Published annually; 2022 is the latest edition
- Incorporates
  - 2020 revision to the Uniform Guidance
  - 2021 technical updates to *Government Auditing Standards*
  - Updates to the auditor reports, including the SAS 134-141 updates

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Single Audit - Audit Report Due Dates

- Nine months after year-end
  - September 30th for December 31 year-ends
  - March 31st for June 30 year-ends
- If issued earlier, then submission to the Federal Audit Clearinghouse must be within 30 days the financial statements are available to be issued

Single Audit - 2022 Audit Filing

- The 2022 Data Collection Form (SF-SAC) was issued, to be used for 2022 year-end audit submissions
- The Internet Data Entry System (IDES) is the place to submit the single audit reporting package to the Federal Audit Clearinghouse (FAC)
- Beginning with the 2022 submissions, the FAC is collecting the Unique Entity Identifier (UEI)

Single Audit - 2022 Audit Filing

- For any report package submissions for fiscal periods ending between January 1, 2022 and October 31, 2022, the requirement that single audits are due to the FAC thirty days after receipt of the auditor's report(s) is waived
- These audits will be considered on time if they are submitted within nine months after the end of the fiscal period

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Assistance Listing Number

- The Assistance Listing Number AL# replaced the Catalog of Federal Domestic Assistance (CFDA) Number

Unique Entity Identifier

- In April 2022, the federal government stopped using the DUNS Number to uniquely identify entities
- Entities doing business with the federal government now will use the Unique Entity Identifier (UEI) located in SAM.gov
- If the entity is registered in SAM.gov, the UEI has been assigned and is viewable

Single Audit - COVID Funding

- According to the Small Business Administration (SBA)
  - The Paycheck Protection Program (PPP) loans are not subject to single audit because they are actually loans from financial institutions
  - The Economic Injury Disaster Loans (EIDL) are direct loans from SBA and are subject to single audit
  - HHS general and specific distribution funds are directly awarded and subject to single audit
- GAQC has developed a nonauthoritative summary of new federal COVID-19 programs and whether each is subject to single audit

Provider Relief Funds (PRF)

- Expected to be considered "higher risk" in 2022 supplement
- TQA Section 9160.36, Reporting on the Provider Relief Fund in the Schedule of Expenditures of Federal Awards in Relation to the Financial Statements in a Single Audit issued
- PRF amounts reported on the SEFA align with report submissions to the HHS PRF Reporting Portal

SEFA Reporting – General

- SEFA → **S**chedule of **E**xpenditures of **F**ederal **A**wards
- Subject to a Single Audit once total federal awards expended exceed $750,000
- Ensure all expenditure of federal awards are included as defined by 2 CFR 200.502
- The determination of expenditures reported on the SEFA is based on when expenses are incurred, or for Provider Relief Funds, when reported in the HHS portal.

PRF Reporting Information

	Payment Received Period*	Period of Availability	Reporting Time Period	Deadline for Returning Unused Funds	SEFA (NFP) Reporting Period
Period 1	April 10, 2020 to June 30, 2020	January 1, 2020 to **June 30, 2021**	July 1 to September 30, 2021	October 30, 2021	FYE June 30, 2021 through June 29, 2022
Period 2	July 1, 2020 to December 31, 2020	January 1, 2020 to **December 31, 2021**	January 1 to March 31, 2022	April 30, 2022	FYE December 31, 2021 through June 29, 2022
Period 3	January 1, 2021 to June 30, 2021	January 1, 2020 to **June 30, 2022**	July 1 to September 30, 2022	October 30, 2022	FYE June 30, 2022 through June 29, 2023
Period 4	July 1, 2021 to December 31, 2021	January 1, 2020 to **December 31, 2022**	January 1 to March 31, 2023	April 30, 2023	FYE December 31, 2022 through June 29, 2023
Period 5	January 1, 2022 to June 30, 2022	January 1, 2020 to **June 30, 2023**	July 1 to September 30, 2023	October 30, 2023	FYE June 30, 2023 and later

*Payments Exceeding $10,000 in Aggregate Received

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PRF - Compliance Requirements

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
Program #	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement, Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
93.498	Y	Y	N	N	N	N	N	N	N	Y	N	Y

PRF - Compliance Requirements

- Activities Allowed or Unallowed and B. Allowable Costs/Cost Principles
  - To prevent, prepare for, and respond to coronavirus, for necessary expenses to reimburse eligible health care providers for health care related expenses or lost revenues that are attributable to coronavirus.
  - That funds appropriated shall be available for building or construction of temporary structures, leasing of properties, medical supplies and equipment (including PPE and testing supplies), increased workforce and trainings, emergency operation centers, retrofitting facilities, and surge capacity.
  - That these funds may not be used to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse.

PRF - Compliance Requirements

- Reporting
  - Recipients must comply with the reporting requirements on the HHS PRF Reporting Portal. Auditors are expected to test this special reporting for fiscal years ending on or after June 30, 2021.

Expenses	Lost Revenues
Total Nursing Home Infection Control Expenses - Cell that contains the aggregated total sum	**2019 Actuals** - Total Column for Total Revenue/Net Charges from Patient Care for each quarter in year 2020 and 2021
Total Other Provider Relief Fund Expenses - Cell that contains the aggregated total sum	**2020 Budgeted** - Total Column for Total Revenue/Net Charges from Patient Care (Budgeted) for each quarter in year 2020 and 2021 - Total Column for Total Revenue/Net Charges from Patient Care (Actuals) for each quarter in year 2020 and 2021
	Alternate Method of Calculating Lost Revenues Attributable to Coronavirus – audit back to the narrative and documentation

2022 OMB Compliance Supplement

- Effective for audits of fiscal years beginning after June 30, 2021, e.g., FYE June 30, 2022, December 31, 2022
- Adds, deletes, and modifies prior Supplement sections, as usual
- About 2,000 pages
  - Available on OMB website (one single PDF)
  - AICPA GAQC posted it by section on its website

2022 OMB Compliance Supplement

- Part 2, Matrix of Compliance Requirements
  - Not many programs have modified the requirements subject to audit
  - Identifies those changes in bold and yellow highlighting
  - The six-requirement mandate and its rules continue in effect (only if the program is included in the Supplement
  - Identifies which six compliance requirements are subject to audit for a particular program
- Part 3, Compliance Requirements
  - Includes the generic program objectives and audit procedures pertaining to the twelve types of compliance requirements
  - Certain compliance requirements apply to all federal programs; therefore, the requirements are written once in Part 3
    - Allowable costs/cost principles, Cash management, Equipment and real property management, Period of performance, Procurement, suspension and debarment, Program income and Subrecipient monitoring

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2022 OMB Compliance Supplement

- Part 4, Agency Program Requirements
  - Includes several key new programs
  - Programs from the two 2021 addenda are included in Part 4
  - Approximately 50 programs have significant changes

2022 OMB Compliance Supplement

- Appendix IV includes a listing of programs with a "higher risk" designation and describes how that designation impacts the major program determination process
  - A "higher risk" designation will often result in a Type A program or other cluster being audited as a major program
  - Auditor is not precluded from determining that a higher risk Type A non-ARP program qualifies as low risk if the program otherwise meets the criteria for a low-risk Type A program and the percentage of COVID-19 funding in the program is not material to the program
  - There are no changes to the normal risk assessment process for higher risk Type B programs

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2022 OMB Compliance Supplement

- Appendix V provides an overview of the changes made from the 2022 Supplement
- Appendix VII, Other Audit Advisories
  - Most of the changes provide additional guidance on COVID-19 funding
  - Provides requirement to identify COVID-19 programs on the SEFA
  - Requires pass-through entities to identify to each subrecipient the federal award number and amount of COVID-19 funds

2022 OMB Compliance Supplement

- OMB stated that there will not be an addendum to the 2022 Supplement
- Any new programs that are established as a result of the Infrastructure Investment and Jobs Act will be included in the 2023 Supplement

AICPA Audit Guide

- AICPA Audit Guide, *Government Auditing Standards and Single Audits*
- Published annually; 2022 is the latest edition
- Explains auditors' responsibilities when
  - Auditing financial statements under both GAAS and GAS
  - Performing a single audit or program-specific audit under the Single Audit Act and the Uniform Guidance (UG)
- Provides illustrative auditors' reports for both GAS audits and compliance audits under the UG

Government Auditing Standards ("Yellow Book")

- GAO issued an exposure draft of proposed revisions to Government Auditing Standards (The Yellow Book)
- GAO first issued the standards in 1972
- Current version of the Yellow Book was issued in 2018

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Government Auditing Standards ("Yellow Book")

- Major changes in the proposed revision of chapter 5 would align with standards issued by AICPA and IAASB
  - Provides flexibility for audit organizations subject to other quality management standards
  - Emphasizes the responsibility of leadership for quality management
  - Adds risk assessment process and information and communication components
  - Emphasizes monitoring of the entire system of quality management
  - Promotes scalability for use by audit organizations differing in size and complexity
  - Provides for the use of engagement quality reviews
  - Includes application guidance for key audit matters

Government Auditing Standards ("Yellow Book")

- Proposed revision to chapter 6 would update guidance when to report on key audit matters
- "Although there is no requirement to communicate key audit matters, auditors may be required to communicate key audit matters for audits of government entities and entities that receive government financial assistance if (1) engaged to do so by management or those charged with governance, or (2) required by law or regulation"

Government Auditing Standards ("Yellow Book")

- Will supersede the April 2021 Technical Update to the 2018 Yellow Book
- Effective date will be included when the Yellow Book is issued in final form
- Early adoption will be permitted
- Quality management systems required to be designed and implemented within two years from issuance of the 2023 revision

FASB Effective Dates Philosophy
Two-Bucket Approach for Major Standards

- Bucket 1 – SEC Filers, excluding smaller reporting companies as defined by the SEC
- Bucket 2 – All other entities, including all not-for-profit entities
- Effective dates for major standards for Bucket 2 entities will be at least two years after the effective dates for Bucket 1 entities
- Examples of major standards are revenue recognition and leases

Revenue Recognition

- ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)
- In effect for all nonprofits
- Contributions are not in scope
- Establishes a single, principle-based revenue standard
- Sets forth a five-step approach for revenue recognition

Revenue Recognition

- Focuses on contracts with customers (previously called "exchange transactions"), except lease contracts, insurance contracts, financial instruments, guarantees and certain nonmonetary exchanges
- Contributions and collaborative arrangements are not in the scope
  - They are not contracts with customers as defined in ASC Topic 606
- Establishes a single, principles-based revenue standard
- Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services
- Revenue from a contract with a customer will be recognized either at a point in time or over time as the contract is fulfilled, based on the facts and circumstances

Revenue Recognition

The standard sets forth a five-step approach for revenue recognition

- Identify the contract(s) with customers
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price to the performance obligations
- Recognize revenue when (or as) a performance obligation is satisfied

Revenue Recognition of Grants and Contracts by Not-for-Profit Entities

- ASU No 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made
- In effect for all nonprofits - applies to both contributions received by a recipient and contributions made by a resource provider
- Provides guidance to help determine whether a transaction should be accounted for as a contribution or as an exchange transaction
  - Contribution – follow Subtopic 958-605
  - Exchange transaction – follow Topic 606
- Clarifies the definition of a conditional contribution

Credit Losses

- ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments
- Effective for NFPs for years beginning after December 15, 2022 (ASU No. 2019-10)
- Early adoption permitted
- Changes the financial accounting model applicable to all financial instruments other than those measured at fair value
- Aimed at financial institutions, but does apply to NFPs

Credit Losses

- Included are loans and trade receivables
  - Contributions receivable and most grants receivable (if following the contribution model) are scoped out
- Impairment model is changing from an incurred loss model to an expected loss model (accelerated recognition)
- Requires an entity to measure all current expected credit losses (CECL) over the contractual life of a financial asset
- NFPs have traditionally considered historical experience, e.g., payment history, and current conditions, e.g., aging, in assessing collectability
- Standard requires consideration of future conditions, especially the foreseeable future, including reasonable and supportable forecasts

Gifts-in-Kind

- ASU No. 2020-07, Presentation and Disclosures by *Not-for-Profit Entities for Contributed Nonfinancial Assets*
- Effective for fiscal years beginning after June 15, 2021, early adoption is permitted and retrospective application required to all periods presented
- Improves transparency in the reporting by NFPs of contributed nonfinancial assets, aka, gifts-in-kind (GIK)
- GIK include fixed assets, the use of fixed assets or utilities, materials or supplies (food, clothing, pharmaceuticals), intangible assets, services and unconditional promises of those assets
- Does not change existing recognition and measurement requirements
- Requires NFPs to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets

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Contributed Nonfinancial Assets

Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions			
Cash and other financial assets	98,400	30,200	128,600
In-kind or **nonfinancial assets***	37,300	10,800	48,100
Government grants	267,900		267,900
Other	8,200		8,200
Total revenues	411,800	41,000	452,800

*In-kind could be presented as a separate column on the line, "contributions"

No requirement to separately report related expenses, although if presented as a separate column, need to display and track expenses

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Gifts-in-Kind

- Required disclosures
  - Contributed nonfinancial assets recognized on the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets and, for each category
    - Qualitative information about whether contributed nonfinancial assets were either monetized or utilized during the reporting period and, if utilized, a description of the programs or other activities in which those assets were used
- The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
- The valuation techniques and inputs used to arrive at a fair value measure at initial recognition
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets

Reporting Donated Services Received From an Affiliate

- The following guidance related to equity transfers became applicable to all NFPs with the issuance of ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities
  - Previously it applied only to not-for-profit business-oriented health care entities
- The increase in net assets associated with services received from personnel of an affiliate for which the affiliate does not charge the recipient NFP should be reported as an equity transfer

Reporting Donated Services Received From an Affiliate

- Before the change in ASU No. 2016-14, an NFP that received donated services from an affiliate was recording the credit as contribution revenue
- Now, the credit should be recorded as an equity transfer
- Equity transfers should be reported separately as a change in net assets after a subtotal such as "change in net assets before equity transfer"
- The debit would continue to be reported as an expense, such as salaries, which would be functionalized, or as an asset

Paycheck Protection Program (PPP)

- Most organizations have reported revenue in their financial statements based on forgiveness.
  - Conditional contribution model
  - Loan model
- CFR reporting requires by CFR-1 program reporting of expenses (payroll, line 16) and related revenue on line 79

Employee Retention Credit (ERC)

- Accounted for as a non exchange conditional contribution within the scope of FASB ASC Topic 958 605, Not for Profit Entities: Revenue Recognition, that has both one or more barriers and a right of return
- These should be treated as a refund receivable and grant income are recognized when the conditions have been substantially met (could be over time or in stages as qualifying expenses are incurred and other applicable conditions are met)
- May not be claimed for wages paid with the proceeds of a PPP loan that has been forgiven
- ERC applicable for wages paid through September 30, 2021
- CFR reporting on line 79 of CFR-1

NYS Healthcare Worker Bonus

- Consideration must be made along with a formal accounting policy on your determination of proper accounting for these bonuses
  - Is there truly variance power?
    - If not, recording as an agency transaction would be appropriate
- NYS CFRS Interagency Committee issued a non-authoritative memo on CFR reporting
- On the audited financial statements…
  - If the HWB is accounted as a balance sheet transaction, then report it on the CFR on the applicable line(s) of Schedule CFR-2A and do not report the HWB on any other Core, Claiming and/or Supplemental schedule
  - If the HWB is accounted for as revenue and expenses, then report it on the CFR on the applicable line(s) of Schedule CFR-2A and as reconciling items on the Reconciliation Worksheet (where applicable) and do not report the HWB on any other Core, Claiming and/or Supplemental schedule

OPWDD Workforce Stabilization Initiative

- Accounted for under the conditional contribution model, presuming that conditions exist that must be cleared before revenue can be recognized in the financial statements
- For CFR reporting, expenses are reported on CFR-1, lines 16 and 18, and/or line 35 and also reported on lines 68f and 68g
  - Revenue is reported on line 94 – "ARPA/Mirrored ARPA Funding"

Crypto Assets

- Proposed ASU, Accounting for and Disclosure of Crypto Assets
  - Objective is to improve the recognition, measurement, presentation and disclosure of crypto assets
  - Organizations have been accounting for crypto assets as indefinite-lived intangible assets—does not reflect the economics—no gains until realized
  - Some NPOs hold crypto assets, whether received as a contribution or as an investment of resources

Leases - Effective Dates

- Public entities: annual periods beginning after December 15, 2019
- Non-public entities: annual periods beginning after December 15, 2021, and interim periods in years beginning after December 15, 2022
  - Thus, year end 2022 for calendar year-end and June 30, 2023 for fiscal year-ends

Bottom Line

- New Guidance under ASU 2016-02 Under the new guidance, leases will be recognized under a "right-of-use" (ROU) model which replaces all capital and operating leases…
  - In other words, **ALL leases will be reported on the balance sheet**

ASSETS

Cash and cash equivalents	$	1,137,958
Investments		1,643,241
Accounts receivable, net		8,061,747
Prepaid expenses and other assets		727,732
Right-of-use assets - finance lease		323,391
Right-of-use assets - operating lease		1,410,445
Assets limited as to use		166,486
Fixed assets, net		2,537,004
TOTAL ASSETS	$	16,008,004

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	$	845,449
Accrued salaries payable and related benefits		2,206,694
Line of credit		-
Paycheck Protection Program loan payable		3,720,175
Due to government agencies		416,911
Deferred rent		-
Deferred revenue		26,400
Lease liabilities - finance lease		327,980
Lease liabilities - operating lease		1,434,468
Loans and mortgages payable, net		495,675
Bond payable, net		123,017
TOTAL LIABILITIES		9,596,769

Key Considerations

- How is this relevant to debt and other agreements and the FS?
- Debt covenants may be affected materially if the Operating Lease Liability will be considered debt
  - Can advocate that an additional add back of the related operating lease expense is warranted if debt coverage falls below required ratio
- Balance sheets will include a Lease Asset for operating leases
- Equipment under capital leases may be a Lease Asset, not Equipment
- Key performance indicators (KPIs) may have to be revised

NFP Impact

Key Considerations:

- Several NFP organizations maintain various cost centers within their GL for reporting purposes
  - Identify cost center each lease agreement correlates to
  - Consider impact on Statement of Functional Expenses

Lease Definition

- What is a Lease under ASC 842? It includes BOTH:
  - An identified asset
    - May be explicitly or implicitly specified
    - No practical ability or economic incentive to substitute the asset
  - The right to control use of the asset during the term
    - Decision-making authority held by lessee
    - Lessee obtains substantially all economic benefits

Leases - Scope

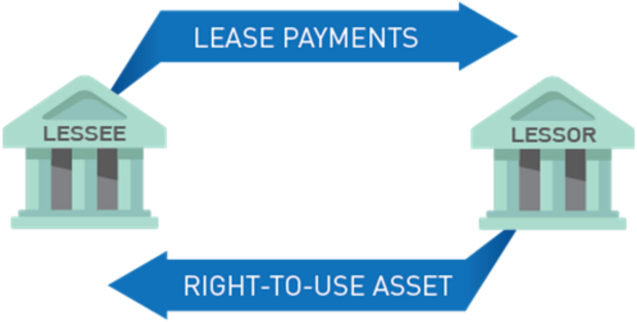
- What about leases with service contracts, such as a lease of a car that includes servicing and maintenance?
  - Separate components and apply lease accounting only to the lease components
  - Use estimates when allocating payments to lease vs. services
- Are any leases scoped out?
  - Leases with a term of 12 months or less
  - What about **month-to-month** leases then? Include periods for which it is "reasonably certain" the lease will continue – footnote disclosures still necessary
  - What about small ticket items, like $600 laptops? Final GAAP contains NO scope out for small ticket items.
    - While most GAAP does not have to be applied to immaterial items, be careful that the amount is not material in total, if there are many small leases

Leases – Other Factors

- Renewal options included only if the lessee is reasonably certain to exercise the option based on relevant economic factors, considering renewal terms and the degree of asset customization
- Short-term leases with a term of twelve months or less, without renewal options that are reasonably certain of exercise, are not required to be recognized on the balance sheet

Right of Use (ROU) Asset

- Dual income statement model: Amortization of the ROU asset will differ based on the type of lease and will limit impact on P&L:
  - Most current capital leases (now finance leases) will be amortized separately from interest on the lease liability (similar to depreciation and interest expense currently), and
  - Most current operating leases will be amortized as a single lease expense amount on a straight-line basis (similar to rent expense currently).



Lease Determination

- Finance Lease vs. Operating Lease
  - Finance Lease: formerly known as "Capital Lease", for the most part (but be careful of changes). Is a Finance Lease if it meets **ANY** of the following:
    - Transfer of ownership
    - Option to purchase is reasonably certain to be exercised
    - Lease term is a "<u>major part</u>" of economic life
    - PV of lease payments is "<u>substantially all</u>" of the FV
    - OR
    - Asset has a specialized nature ***[note this is a new criterion]***

<u>If none of the above is met, it is an **Operating Lease**</u>

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Lease Presentation

- Right of use assets and lease liabilities should be segregated on the statement of financial position between operating leases and finance leases

- The disclosure of future minimum lease payments should be segregated between operating leases and finance leases

Disclosure

- What disclosures are required under ASC 842-20-50-4?
  - Amounts related to total lease cost:
    1. Finance lease cost, segregated between the amortization of the assets and interest on the lease liabilities
    2. Operating lease cost
    3. Short-term lease cost, excluding expenses relating to leases of one month or less
    4. Variable lease cost
    5. Sublease income, disclosed on a gross basis
    6. Net gain or loss recognized from sale and leaseback transactions
    7. Amounts segregated between those for finance and operating leases for weighted average remaining lease term, weighted average discount rate, cash paid for amounts in lease liabilities, and supplemental non-cash info

Lease Transition

- Modified retrospective approach
  - At the beginning of the earliest year presented
  - Comparative periods required to be in accordance

or

- Cumulative effect adjustment to net assets at the beginning of the year of adoption (**most common**)
  - Comparative periods not required to be in accordance
  - Topic 840 disclosures required

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Lease Transition – Lease Term

- **Question** - At the time of adoption, when discounting the remaining lease payments, does an entity use the historical rate in effect at the commencement of each lease?
  - **Answer** - Use the rate in place as of the later of the beginning of the earliest year presented in accordance with ASC 842 or the lease commencement date
- **Question** - At the time of adoption, entity has five years remaining on a ten-year lease. Do they use a ten-year discount rate or a five-year discount rate?
  - **Answer** – Not covered in the standard – use either

Lease Transition – Discount Rate

- ASU No. 2021-09, Discount Rate for Lessees That Are Not Public Business Entities
- Provides guidance to an entity that is not a PBE, including all NFPs
  - Must use the rate implicit in the lease, when it is readily determinable for any individual lease
  - If not readily determinable, may use the incremental borrowing rate, i.e., what the entity would have paid if it had financed the acquisition, if determinable
  - May elect to use a risk-free discount rate by class of asset rather than at an entity-wide level
  - Disclose its election, including which classes it has elected to apply a risk-free rate

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Quantitative Disclosures

The following table represents lease activity for the year ended December 31, 2020:

Lease cost:		
Finance lease cost		
Amortization of right-of-use assets	$	273,383
Interest on lease liabilities		12,263
Operating lease cost		70,466
Short-term lease cost		-
Variable lease cost		-
Sublease income		-
Total lease cost	$	356,112
Other information:		
(Gains) and losses on sale and leaseback transactions, net	$	-
Cash paid for amounts included in the measurement of lease liabilities		-
Operating cash flows from finance leases		278,016
Operating cash flows from operating leases		64,953
Financing cash flows from finance leases		-
Right-of-use assets obtained in exchange for new finance lease liabilities		-
Right-of-use assets obtained in exchange for new operating lease liabilities		-
Weighted-average remaining lease term - finance leases		1.5 years
Weighted-average remaining lease term - operating leases		5.5 years
Weighted-average discount rate - finance leases		0.6%
Weighted-average discount rate - operating leases		11.2%

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Quantitative Disclosures

Total remaining lease payments under the Company's leases are as follows:

Years Ending December 31:	Finance Leases	Operating Leases
2021	$ 254,719	$ 883,087
2022	188,301	438,093
2023	122,884	153,849
2024	1,467	52,799
2025	-	36,973
Total discounted cash flows	567,371	1,564,801
Less: Imputed interest	58,948	95,489
Total Lease Payment Liabilities	$ 508,423	$ 1,469,312

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Donated Space or Below - Market Leases

- A lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration
- Leases for no or de minimis consideration are not subject to the guidance in ASC 842
  - Must use ASC 958-605
    - If specified period of time greater than one year – restricted contribution
    - Asset could be described as pledge receivable, building or leasehold
    - If indefinite period, recognize revenue and expense each year, when received and used

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Donated Space or Below - Market Leases

- Also subject to the presentation and disclosure guidance in ASU 2020-07 on contributed nonfinancial assets
- Leases for below-market consideration, e.g., lease of office space by an NFP below the fair rental value of the property, may result in a partial donation from an inherent contribution
  - NFP tenant may need to consider both the ASC 842 guidance and the inherent contribution guidance under ASC 958-605
  - When calculating right of use asset and lease liability, exclude the fair value of the contribution

Leases – Considerations

- Inventory of leases – How many do you have, considering all leasing activities?
- Materiality – Does the impact of this statement have a material impact on the financial statements?
- Donated space – Not within this scope – consider topic 958 for proper accounting
- Debt covenants – How do the new reporting requirements (on the balance sheet) impact and affect covenant calculations?
- Footnote reporting – Are you able to capture all the required elements of the new footnote requirements?
- Auditor Consideration – Pre-adoption operating lease disclosures – have they increased in qualitative significance?

FASB's Current Research Agenda

- No major NFP-specific projects in the agenda
- Projects of interest to NFPs
  - Accounting for and disclosure of intangibles – improve accounting and disclosure
  - Accounting for government grants – determine if IAS 20 should be incorporated into GAAP
  - Statement of cash flows – provide additional decision-useful information to users of financial statements

Questions?

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David M. Rottkamp, CPA, is an Audit Partner, Nonprofit Practice Leader, at Grassi. David has over 36 years of experience providing audit and advisory services, include Uniform Guidance audits, to the not-for-profit and health care industries. David focuses on organizations serving individuals with special needs, religious organizations, educational institutions, membership associations, social service providers, healthcare providers, foundations, and arts and culture.

David has advised some of the area's most successful not-for-profits in areas such as: financial reporting systems, implementation of new accounting standard updates, sustainability/succession planning, internal control reviews, developing financial forecasts, and providing quality board education and governance advice. Through his focus on education and board awareness, he has improved the internal structure and sustainability model for many of his clients, demonstrating his industry leadership.

David has presented in several Nonprofit industry conferences, including the AICPA and the NYSSCPA. David leads internal education sessions, webinars and has been published in the CPA Journal several times. David is also a member of the firms' Accounting and Auditing Committee and the Strategic Partner Retreat committee, which plays a significant role in cultivating the firm's culture and strategic objectives.

David serves on the Board of the National Multiple Sclerosis Society, the New York Council of Nonprofits (NYCON) and Governance Matters and is a member of the AICPA and NYSSCPA. David is a graduate from Pace University with a BBA in Accounting.

Thank You!

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