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# Accounting for Uncertainty in Significant Estimates in Nonprofit Financial Statements

GWSCPA Nonprofit Symposium 2023



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# Speakers



- Julien Decosimo, CPA, MBA
  - Principal at CLA
  - Nonprofit Industry



- Alex Shin, CPA
  - Manager at CLA
  - Nonprofit Industry



# Learning Objectives

## Chapter 1

### Nature of Accounting Estimates

- Definition of accounting estimates
- Sources of uncertainty vs. sources of errors
- The impact of complexity and subjectivity on accounting Estimates
- Relationship between accounting policies and accounting estimates
- Accounting estimates for different frameworks

## Chapter 2

### Approaches in Accounting for Uncertainty in Significant Estimates

- Steps in addressing uncertainty in accounting estimates in accounting estimates
- Consideration of the range of possible measurement Outcomes
- Matters relevant to selection of management's point Estimate
- Work of a specialist

## Chapter 3

### Disclosure Requirements for Accounting Estimates

- Explanation of disclosure requirements for significant estimates
- Key components in the disclosure requirements
- Any additional uncertainty that are most difficult, subjective, or complex
- Example of disclosure requirements

## Chapter 4

### Best practices for Significant Estimates and Auditors Perspective

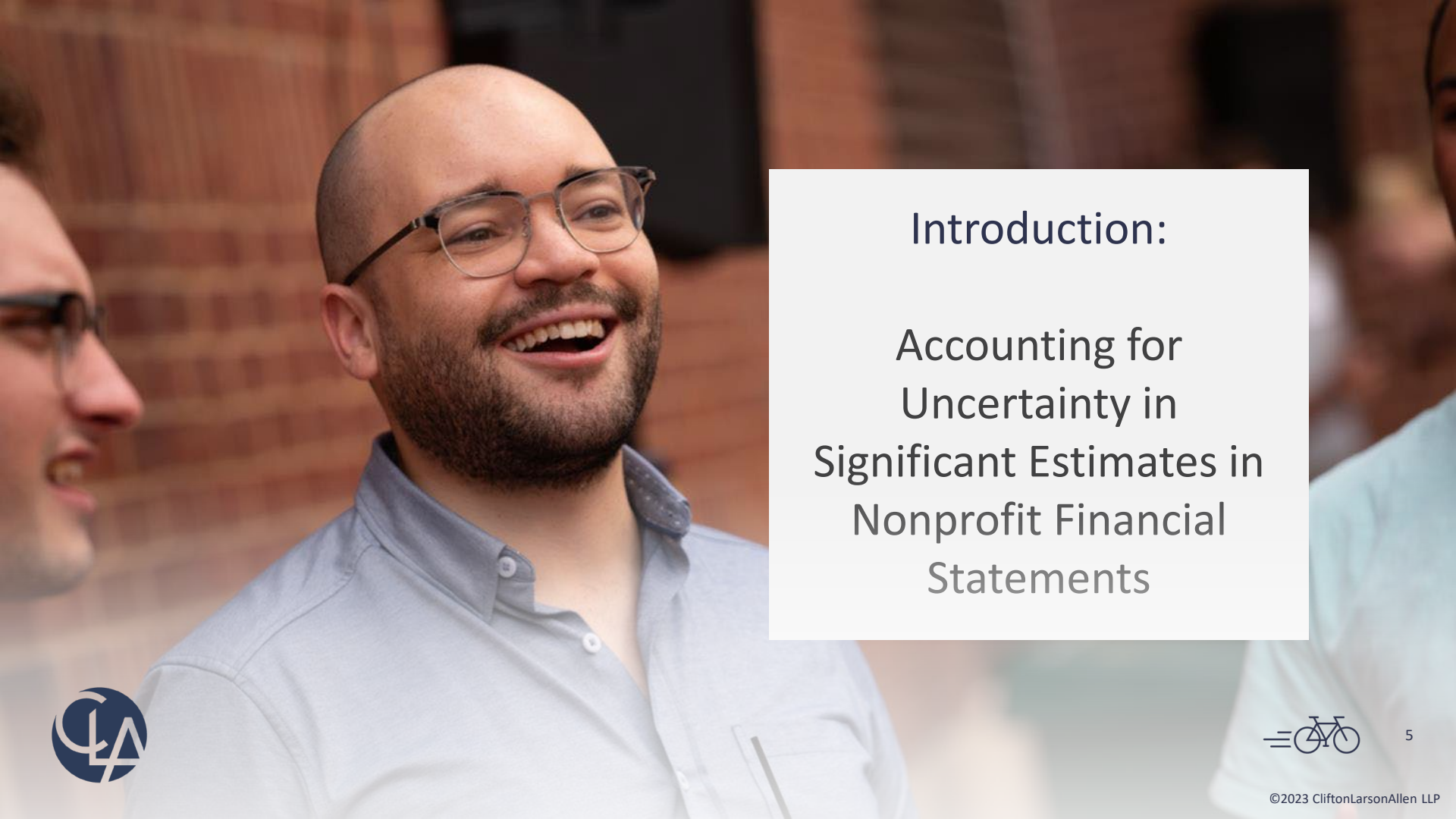
- Establishing and following best practices for accounting for uncertainty in significant estimates
- Examples of best practices for accounting for uncertainty in significant estimates
- Additional SAS 143 updates for auditors

## Chapter 5

### Conclusion and Q&A

- Recap of key points
- Call to action for nonprofit organizations to prioritize accounting for uncertainty in significant estimates
- Time for audience members to ask questions and seek clarification on the topic.





Introduction:

Accounting for  
Uncertainty in  
Significant Estimates in  
Nonprofit Financial  
Statements

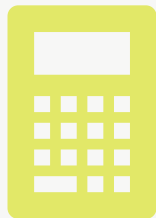


# Chapter 1

- Nature of Accounting Estimates
  - Defining Accounting Estimates
  - Sources of Uncertainty Vs. Sources of Errors
  - The Impact of Complexity and Subjectivity on Accounting Estimates
  - Relationship Between Accounting Policies and Accounting Estimates
  - Accounting Estimates for Different Accounting Frameworks



# Defining Accounting Estimate



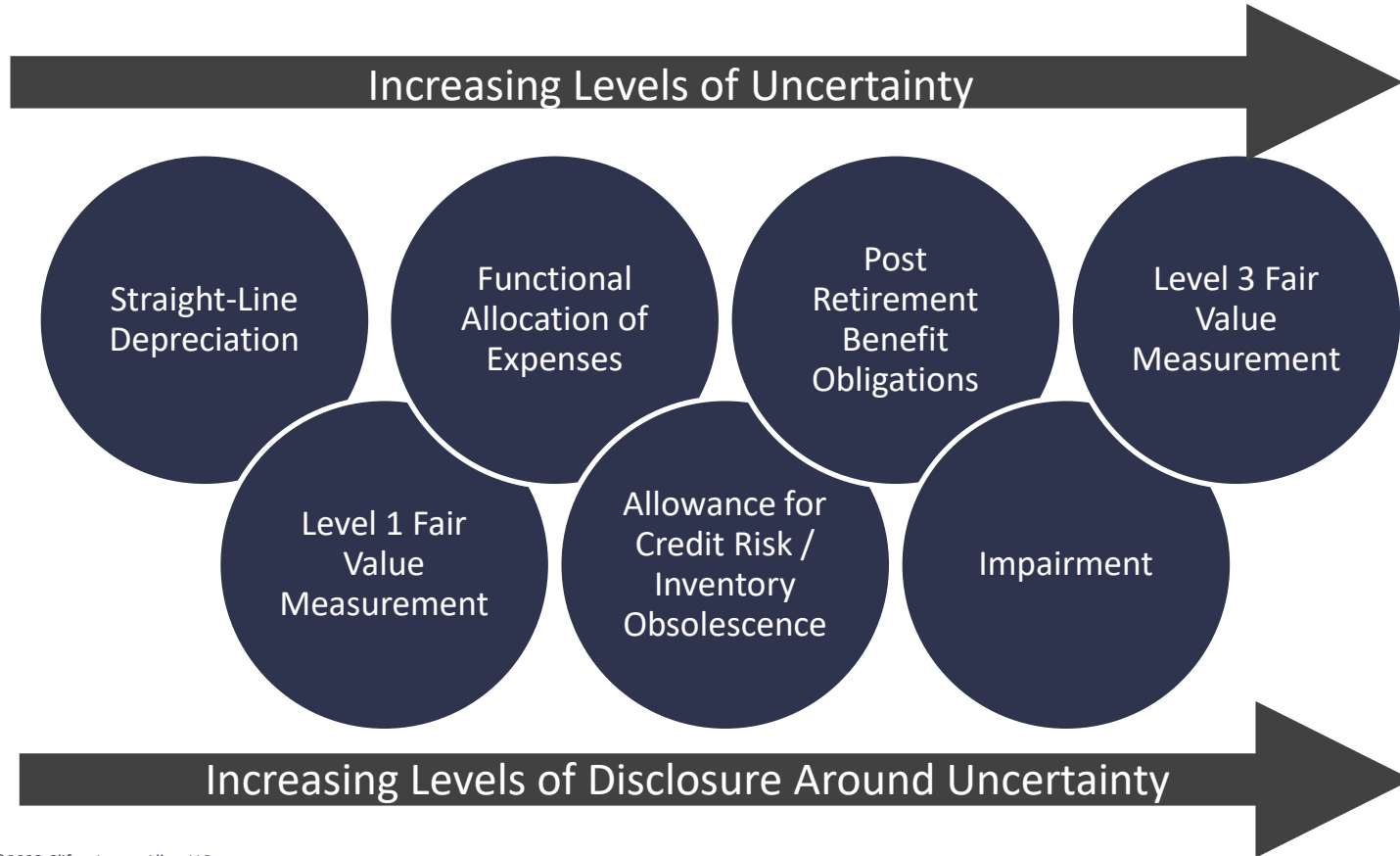
***Accounting estimate:*** A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty.



***Estimation uncertainty:*** Susceptibility to an inherent lack of precision in measurement.



# Degree of Estimation Uncertainty





# Source of Uncertainty Vs. Sources of Errors

## Errors

- Incorrect data entry or calculation
- Misapplication of accounting principles
- Lack of internal controls over accounting estimates
- System errors or glitches in accounting software
- Lack of appropriate basis such as supporting calculation for making the estimate

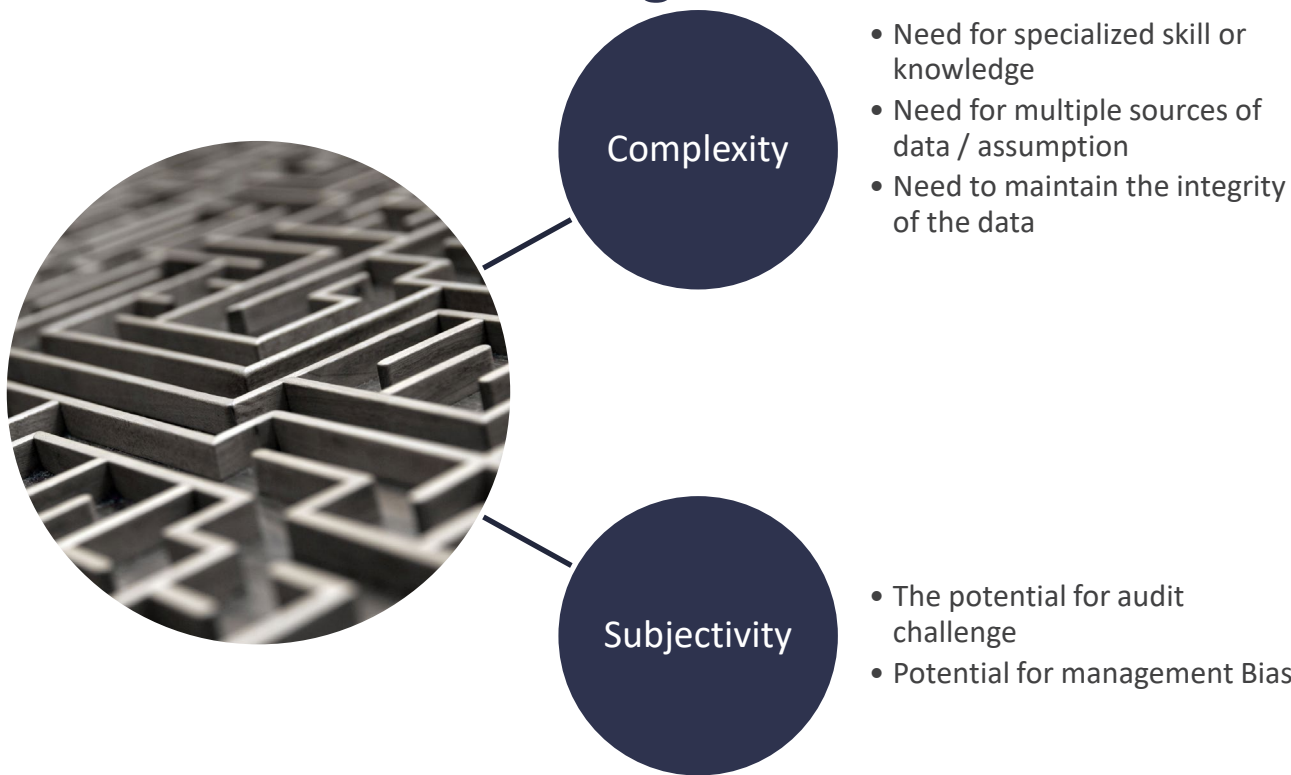


## Uncertainty

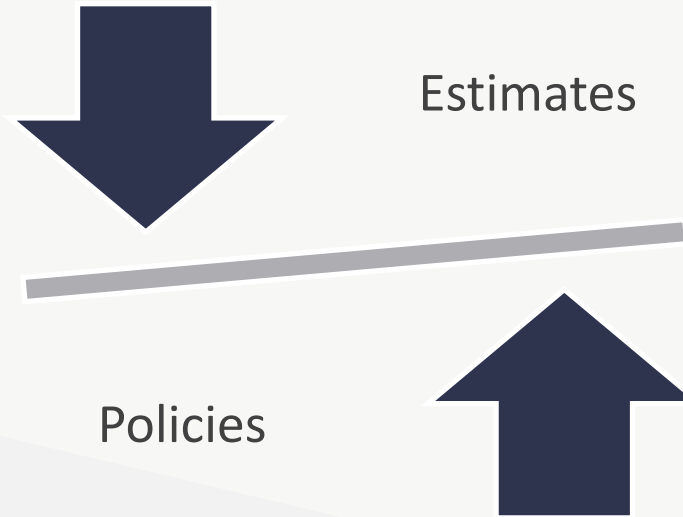
- Changes in market conditions or economic factors
- Unforeseen events
- Unknown future cash flows
- Multiple sources of input data to choose from
- Changes in technology or industry trends that may impact the value of assets or liabilities.
- Unobservable inputs



# The Impact of Complexity and Subjectivity on Accounting Estimates



# Relationships Between Accounting Policies and Accounting Estimates



# Accounting Estimates for Different Frameworks

GAAP



IFRS



Tax Accounting



GASB



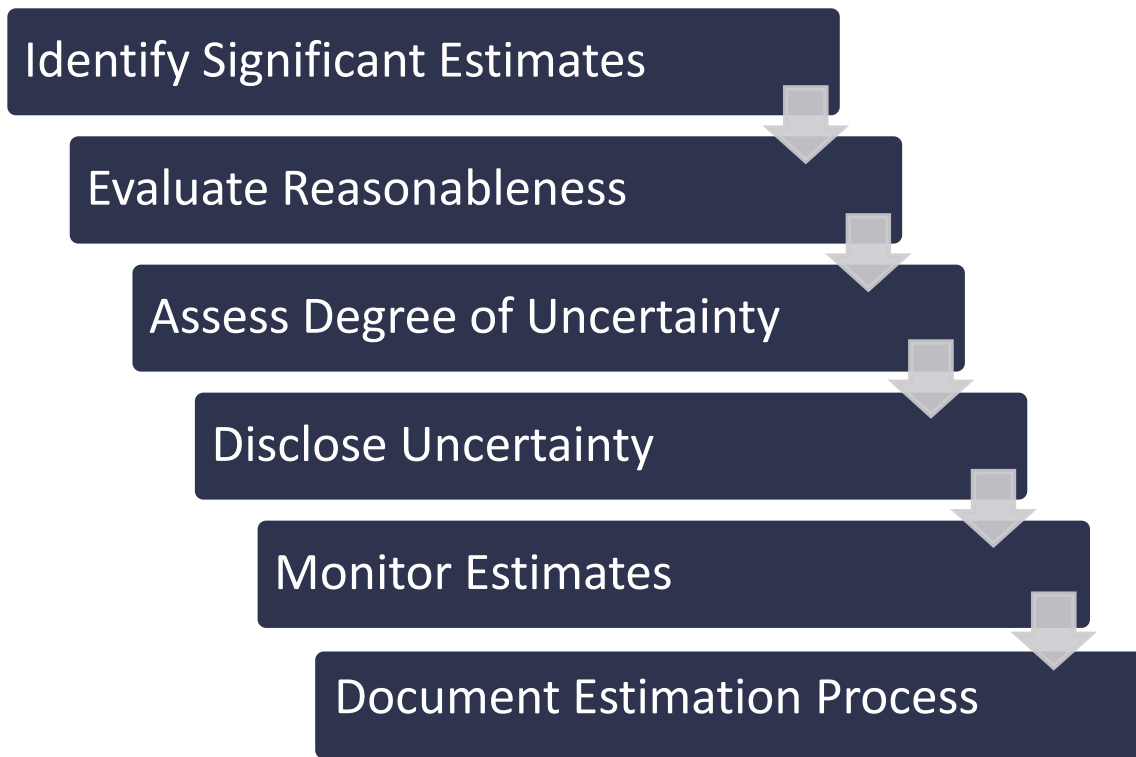
# Chapter 2

## Developing Estimates

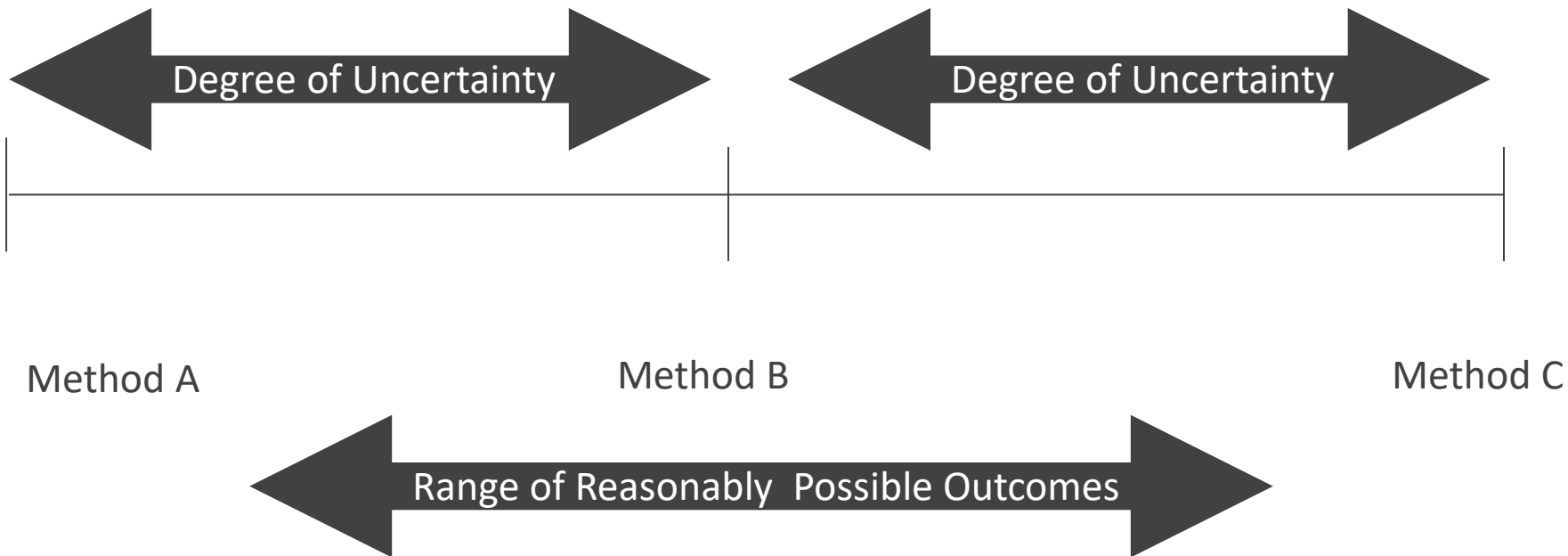
- Steps in addressing uncertainty in accounting estimates
- Consideration of the Range of Reasonably Possible Measurement Outcomes
- Matters Relevant to Selection of Management's Point Estimate
- Work of a specialist



# Steps in Accounting for Uncertainty and Error in Estimates



# Considering the Range of Possible Outcomes



## Matters for Management to Consider When Selecting their Point Estimate

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Selection of  
Management  
Point  
Estimate

---

Methods and Data are appropriate

---

Valuation Attributes are Complete

---

Reasonableness of Assumptions

---

Appropriateness of Data

---

Accuracy of Calculation

---

Selected from Range of Reasonable Outcomes

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Disclosures are appropriate

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# Using the Work of a Specialist to Develop Estimates



*Management specialists can provide expertise in areas such as:*

- Valuation of assets and liabilities
- Forecasting and modeling
- Industry specific knowledge
- Defined benefit and other post retirement plans



Important to evaluate the suitability and reliability of the work

- Understand significant assumptions
- Evaluate the reasonableness of methods, data and assumption
- Evaluate the validity and reliability of any models

# Chapter 3

## Disclosure for significant accounting estimates

- Key components in the disclosure requirements
- Any additional uncertainty that are most difficult, subjective, or complex
- Example of disclosure requirements



## Chapter 3

### Disclosure requirements

- Core values to consider for disclosure requirements:  
**Transparency, Completeness, Consistency, Neutral, and Accuracy**
- 6 basic components to consider disclosing

Description

Basis and methodology

Sensitivity analysis

Changes in the estimate

Impact of the estimate on FS

Expected future changes



## Additional disclosure – High risk estimates

**The nature of the assumption or other source of estimation uncertainty**

**The sensitivity of carrying amounts to the methods and assumptions used, including the reasons for the sensitivity**

**The expected resolution of an uncertainty and the range of reasonably possible outcomes to affected balances**

**An explanation of changes made to past assumptions concerning those assets and liabilities, if remain unresolved**



# Disclosure example

- Can you identify which basic components of the disclosure is missing from the example?

## Note X - Pledge Receivable Allowance

The organization recognizes pledges receivable as contributions when they are unconditional, and the amount can be reasonably estimated. Pledges receivable are recorded at their estimated net realizable at the date of the pledge. Management evaluates the collectability of pledges receivable on an ongoing basis and establishes an allowance for uncollectible pledges.

As of [date], the organization has determined that an allowance for uncollectible pledges of \$X is necessary. This allowance is reflected as a reduction of the pledge receivable balance on the statement of financial position. The allowance is based on management's best estimate of the portion of pledges receivable that may not be collected.

Actual write-offs of uncollectible pledges are recorded as a reduction of the allowance for uncollectible pledges. Changes in the allowance for uncollectible pledges are recognized as an expense in the statement of activities. The organization maintains a detailed record of pledges receivable and the corresponding allowance, and regularly reviews and updates this information, as necessary.

It is important to note that the allowance for uncollectible pledges is subject to inherent uncertainties, as it requires management to make judgments and estimates. Changes in economic conditions, the financial position of donors, or other factors may result in material adjustments to the allowance in future periods.

The organization continues to monitor the collectability of pledges receivable and may adjust the allowance in future periods based on changes in circumstances. Any significant changes in the allowance or the factors influencing its determination will be disclosed in subsequent financial statements.

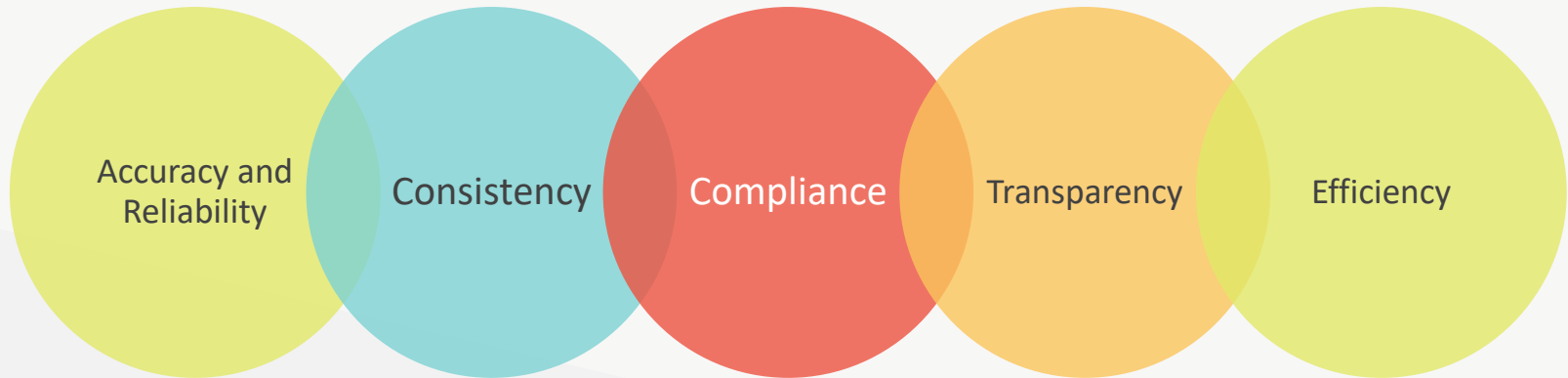
# Chapter 4

## Best practices for Significant Estimates and Auditors Perspective

- Values added by establishing best practices for significant estimates
- Recommended best practices for uncertainty in significant estimates
- SAS – 143: Updates on the auditing procedures regarding significant estimates



## Establishing and following best practices for significant estimates



## Best practices for accounting for uncertainty in significant estimates

Develop a comprehensive estimation policy & maintain documentation

Involve multiple stakeholders and avoid management bias

Monitor and update estimates

Perform sensitivity analysis

Ensure appropriate internal controls





## Chapter 4

### SAS-143 : Auditor's Perspectives

- When estimation uncertainty, complexity, or subjectivity are very high, such procedures would be expected to be much more extensive (higher risk of material misstatement)
- Auditors will not only evaluate whether management has included required disclosures, but also those beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole.



# Recap

Understanding nature  
of our accounting  
estimates and  
uncertainties around  
them

Assessing the risk around  
our significant estimates  
and properly  
addressing uncertainties

Following best  
practices around  
use of specialists

Ensuring accounting  
estimates meet  
requirements of our  
applicable financial  
reporting framework

Key disclosure  
requirements

Maintaining best  
practices for  
accounting  
estimates



# Q&A Session

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