

FORVIS

GWSCPA Nonprofit Symposium

GAAP Update and Other Accounting Topics

Presented by: Richard Cole

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Speaker Biography



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Rick is a partner with FORVIS with more than 25 years of experience serving nonprofit organizations. He is the New York Market Industry Leader for Nonprofit and Education and is a member of FORVIS' Higher Education Center of Excellence, which is an internal committee focused on addressing issues important to the higher education industry. Rick focuses on audits and advisory services for nonprofit and higher education organizations.

Prior to this role, he worked at the FASB, where he served as a supervising project manager for almost six years. In that role, he was the project manager on Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*; ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*; and ASU 2019-03, *Updating the Definition of Collections*. He also was coordinator for FASB's NFP Advisory Committee and Private Company Council. Before joining the FASB, Rick was vice president and controller at a large national museum in New York for seven years and a senior manager with a large international accounting firm where he worked for 14 years and specialized in audits of higher education institutions and other not-for-profit organizations.

Rick is a member of the AICPA Not-for-Profit Expert Panel. He is a lecturer at Columbia University's School of Professional Studies in their Nonprofit Management program. He also has been a frequent speaker with NACUBO, the American Institute of CPAs (AICPA), and various state CPA societies.

He is a CPA in New York and New Jersey and is a member of the AICPA and New York State Society of Certified Public Accountants. Rick is a graduate of Montclair State University, New Jersey, with a B.S. degree and an M.B.A. degree.

Agenda

- Leases – Update
- Current Expected Credit Losses (CECL)
- FASB Projects
- Common Errors in Accounting and Reporting
- Financial Statement Design and Flexibility
- Reference Rate Reform
- Contributions and Grants
- Endowment Accounting
- Gifts of Nonfinancial Assets and Fair Value Accounting
- Questions

Leases - Update

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Leases Under Common Control

- Leases – Common Control (ASU 2023-01 issued March 2023)
 - Issue 1 (expedient) available to private companies & nonprofits but not available to nonprofits with conduit debt
 - Provide a practical expedient to use written terms to determine if a lease exists & if so its classification
 - Issue 2 available to all entities
 - Leasehold improvements amortized over the economic life of the improvements as long as lessee continues to use the underlying asset (rather than the shorter of life of asset or lease term)
 - If stopped using lease, it is a transfer between entities under common control

Current Expected Credit Loss (CECL)

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CECL - Overview

- Effective for fiscal years that begin in 2023
- Applies to loans & trade receivables (including student receivables)
- Does not apply to contributions/grants receivable
- Need to consider historical losses plus current conditions plus/minus predictions/forecasts
- This is different than the amount expected to collect under revenue recognition (Topic 606) & the application of discounts to tuition

CECL - Disclosures

Required disclosures to enable financial statement user to understand

- The credit risk inherent in a portfolio & how management monitors the credit quality of the portfolio
- Management's estimate of expected credit losses
- Changes in the estimate of expected credit losses that have taken place during the period (this includes both qualitative descriptions of how the estimate changed & quantitative rollforward of allowance for credit loss by portfolio segment)

Example Analysis

- Example: Estimating Expected Credit Losses for Accounts Receivable
- NFP A has tracked historical loss information for its accounts receivable and compiled the following historical credit loss percentages:

Receivable Aging				
Current	1-30	31-60	61-90	>90
.3%	8%	26%	58%	82%

FASB Projects

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FASB Agenda (from fasb.org September 29, 2023)

PROJECT	Next Milestone	Expected Date
Accounting for and Disclosure of Crypto Assets	Final ASU	4Q 2023
Accounting for and Disclosure of Software Costs	Board deliberations	Ongoing
Accounting for Environmental Credit Programs	Board deliberations	Ongoing
Codification Improvements (next phase)	Board deliberations	Ongoing
Codification Improvements—Amendments to Remove References to the Concepts Statements	Final ASU	2H 2023
Financial Instruments—Credit Losses (Topic 326)—Acquired Financial Assets	Final ASU	1Q 2024
Induced Conversions of Convertible Debt Instruments (EITF Issue No. 23-A)	Deliberations	Ongoing
Scope Application of Profits Interests Awards: Compensation—Stock Compensation (Topic 718)	Final ASU	1Q 2024
Topic 815—Hedge Accounting Improvements	Board deliberations	Ongoing

PROJECT	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Exposure Draft	Comments due October 30, 2023
Disclosure Improvements in Response to the SEC's Release on Disclosure Update and Simplification	Final ASU	4Q 2023
Improvements to Income Tax Disclosures	Final ASU	4Q 2023
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	1H 2024
Segment Reporting	Final ASU	4Q 2023

Accounting for Crypto Assets

Final ASU Expected in Q4 2023

Balance Sheet

Crypto assets separate from other intangible assets measured using other measurement bases at fair value

Income (Activities) Statement

Gains and losses in net income (changes in net assets) separate from amortization and impairment of other intangible assets

Statement of Cash Flows

Classify cash flows from crypto assets received in ordinary course of business or as a contribution and converted nearly immediately into cash as operating activities*

Crypto Assets - Disclosures

- Significant crypto assets holdings
- Restrictions on crypto assets held
- Reconciliation of activity between beginning and end of period
- Historical realized gains and losses

Common Errors in Accounting and Reporting

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Common Mistakes

- Donated art or other items for auction – fair value at date of gift versus the value received during the auction
 - The auction is an extension of the donation (958-605-25-20)
- Broad language used during capital campaigns and if there are real restrictions
 - It often becomes so broad it is without donor restrictions
- Board designated endowments are not part of the underwater analysis
- Two elections for the “simultaneous release” accounting policy
 - Had a condition and was satisfied & never had a condition

Common Mistakes, continued

- Investment return, net is required information on the statement of activities, and you need to be careful when displaying components
- PPE, held for sale is separated and not depreciated

Common Mistakes, continued

If You Have an Operating Measure, How Should the Following be Treated?

1. Gain or loss on the sale of fixed assets
2. Impairment losses of long-lived assets
3. Costs associated with exiting activities that are not considered discontinued operations

Answer: ALL of them are required to be operating (958-225-45-11)

4. The other than service cost component of pension expense is required to be excluded from operations, and the service cost is required to be included in operations

Financial Statement Design and Flexibility

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Use of an Operating Measure

- An operating measure is optional by an NFP, and it is self-defined, subject to a few restrictions (for example gains/loss on the sale of fixed assets must be inside the operating measure). See 958-225-45-9 through 45-12.
- Most NFPs that use an operating measure will include the endowment spending rate inside the operating measure and investment return in excess of the spending rate outside of the operating measure.
- With this presentation style the spending rate would be included within the operating measure when you have an overall investment loss. It just makes the nonoperating loss larger by the amount of the spending rate.
- If you use an operating measure, you are required to disclose what is included or excluded unless it is obvious.

Some Other Reporting Reminders

- Remember that 958- 225-14-14 requires NFPs to report investment return, net. That is realized and unrealized gains, dividends, and interest are netted on the statement of activity in one line and includes all external and direct internal investment expenses.
- The endowment rollforward requires investment return, net to be shown, but not the components of investment return.
- Individual investment portfolios may be reported separately and have income reported separately. For example, if you have an active cash management policy for operating cash you may not want to net that with your endowment investment income.
- Short-term treasury opportunities – Short-term rate opportunities such as prime money funds, treasury bills, etc.
- Disclosures of what is considered cash and restricted cash for the Statement of Cash Flows. (This was clarified in FASB's ASU 2016-18.)

Some Interesting Accounting Policies and Observations

- Some NFPs have all bequests without donor restrictions go into the board designated endowment because they are not budgeted for (and some have a threshold for bequests over a certain dollar go into the board designated endowment).
- Some NFPs regularly manage any operating surplus by moving a portion of it into their board designated endowment.
- Some NFPs use the operating measure to reflect some of these activities or essentially to manage how they view their operations.

Reference Rate Reform

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Reference Rate Reform

- Reference rates such as USD LIBOR & other inter-bank offered rates are planned to be phased out & replaced by new rates that are tied to observable arms-length transactions. The original phase-out date was December 31, 2021
- ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* were issued to provide optional accounting relief related to hedge accounting & contract modifications. That relief is set to expire on December 31, 2022 (“sunset date”) – See next slide for extension of sunset date.
- There are specifics that must be met to qualify for the relief, for example a change from LIBOR to SOFR for the same terms.

Reference Rate Reform

- On March 5, 2021, LIBOR's administrator indicated that major tenors of USD LIBOR will cease to be published as of June 30, 2023
- FASB voted at the December 15, 2021, meeting to propose that the sunset date be extended to December 31, 2024. ASU 2022-06 was issued in December 2022.
- Reminders for NFPS
 - Review contracts & agreements that may be affected by reference rate reform
 - Discuss timing with your creditor/lender
 - Consider the guidance in Topic 848

Contributions and Grants

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Conditional vs. Unconditional Contributions

For a *Donor-Imposed Condition* to Exist:

- A right of return/release must exist; **and**
- The agreement must include a barrier
- Indicators and examples to help in determination

To determine what is a barrier, an NFP will consider indicators which will include, but are not limited to, the following:

The inclusion of a measurable performance-related barrier or other measurable barrier.

(e.g., specified level of service, specific output(s) or outcome(s), match)

The extent to which a stipulation limits discretion by the recipient on the conduct of an activity

(e.g., qualifying expenses, specific protocol)

The extent to which a stipulation is related to the purpose of the agreement.

(excludes administrative or trivial)



Key judgment area: performance metrics on which entitlement depends vs. “best efforts” metrics (sometimes referred to as guideposts).

Contributions and Grants, Some Clarifications

- Group Discussion Topics:
 - Is the District of Columbia legislature approval of a grant a barrier?
 - Is a line-item budget in a grant agreement an example of limited discretion?
 - Employee Retention Credit (ERC) part 1 - If you don't file the 941x do you have a barrier?
 - ERC part 2 - Is the filing of the 941x administrative in nature?
 - A museum sells auctions off art on behalf of an artist. The artist said he will donate to them half the proceeds if it is sold. If it is not sold they return the art. Estimated fair value is \$25,000. What is the accounting?

Contributions and Grants, Some Clarifications, Continued

- Group Discussions, continued:
 - Agency transactions versus restricted contributions. What is the delineation you should look for? (And the codification section 958-605-55 has a lot of examples. Warning, many staff do not understand what an agency transaction is.)
 - Some donors ask their Donor Advised Fund to make a contribution. Is this a contribution when you receive that donor letter informing you of this? (Warning, many staff do not know what a DAF is.)

Disclosures

No additional recurring disclosures have been added in the guidance.

Guidance in Sub-topic 958-310 (this is the nonprofit receivables subtopic in the FASB Codification) includes disclosures for unconditional and conditional promises to give.

For conditional promises to give, recipients are required to disclose:

- The total of the amounts promised
- A description and amount for each group of promises having similar characteristics

It seems many nonprofits forget the disclosure requirement for conditional promises to give. It is intended to show the pipeline. Deferred revenue for cash received but not yet earned only shows a partial picture so this completes the pipeline story.

Endowment Accounting

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Donor Restricted Endowment Fund:

When classifying net asset classes consider the donor's explicit stipulations and the applicable laws that extend donor restrictions.



Since there is a requirement to appropriate for expenditure, the funds are time-restricted until that appropriation takes place.



If the fund is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) it extends a donor's restriction to use of the funds. This includes the corpus and the investment return until the funds are appropriated for expenditure by the governing board.



49 of the 50 states have an enacted version of UPMIFA.

Board-Designated Endowment Fund:

Funds without any purpose-type restrictions.

The original fund and all investment returns are free of donor restrictions.

Reported in net assets without donor restrictions.

Set up by the Board.

NOT subject to an enacted version of UPMIFA.

NOT subject to underwater disclosure requirements.

Subject to the disclosure requirements under FASB's ASU 2016-14.

- Since both board designated and donor endowments are typically shown in the notes side by side, no additional disclosures may be necessary. (This is shown on the next slide.)
- It is optional to bifurcate this within net assets without donor restrictions on the balance sheet.

How Should a NFP Report the Income from Endowments?

Earnings from endowments are included in the statement of activities in the same net asset class as the related investments.

- ⑩ Net Assets with donor restrictions - all earnings on donor endowments
- ⑩ Net Assets without donor restrictions – all earnings on board designated endowments
- ⑩ Endowment funds typically are tracked by assigning units which allow the investment income/return to be allocated

Accounting policy election on “simultaneous release”. You can report restricted investment income as part of without donor restrictions if the investment income has been appropriated and spent if you have a similar election for contributions. See 958-225-45-6.

Accounting for Donor Endowments with an Enacted Version of UPMIFA:

The original gifted amount, additional gifts, and investment returns should initially be classified as net assets with donor restrictions.

Donors may provide specific instructions on spending from a donor-restricted endowment fund.

When an appropriation is recorded, the amount of net Assets with donor restrictions are transferred to Net assets without donor restrictions, utilizing the release from restrictions category. The restriction expires as long as all time restrictions have lapsed, and all-purpose restrictions have been met.

If restrictions have not lapsed, you wait to transfer the net assets to without donor restrictions until all the restrictions have been satisfied.

The Board can plan and budget for future appropriations. However, the appropriations are not recorded as a reduction of the endowment and net assets with donor restrictions until the year which the funds are intended to be spent. Operating appropriations are typically defined in the budget and released in equal amounts throughout the period the budget relates to.

There could also be special appropriations beyond the typical annual approvals for things like capital projects, liquidity needs, etc. as long as you stay within the appropriation percentage amounts permitted by law.

Underwater Endowment Fund:

A donor-restricted endowment fund with a fair value at the reporting date that is less than either the original gift amount or the amount required to be maintained by the donor or by law.

Accumulated losses should be included in net assets with donor restrictions.

Disclosures per 958-205-50-2:

- A. The fair value of the fund
- B. The original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions
- C. The amount of the deficiencies of the underwater endowment funds (A – B)

During the creation of FASB's ASU 2016-14 the Attorney General/State Charity offices had voiced concern that underwater funds still need to be tracked by the nonprofit and they expressed concern that enacted versions of UPMIFA gave a false belief that since you could spend if you are underwater that you no longer needed to track underwater amounts. Those that were spoken to seemed relieved at this requirement.

Factors in Appropriating or Accumulating Donor-Restricted Endowment Funds:

The following are required as part of SPMIFA and the FASB shows it as part of its example disclosure. See 958-205-50-1B and 958-205-55-38.

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of NFP

Enacted versions of UPMIFA could have other requirements. For example, NYPMIFA also has - alternatives to appropriation.

Consideration of these factors when appropriating, along with the spending rate, should be documented in the board committee minutes.

Disclosures:

FASB Codification 958-205-50-1B says A NFP should disclose information about the Endowment Fund's Net Asset Classification, Net Asset Composition, Changes in net asset composition, Spending policies, and Related investment policies.

Minimum disclosures:

- A description of the governing board's interpretation of the law or laws that underlie the NFP's net asset classification of donor-restricted endowment funds, including its interpretation of the ability to spend from underwater endowment funds.
- A description of the NFP's policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies), including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds.
- A description of the NFP's endowment investment policies, including all of the following: Return objectives and risk parameters, how it relates to spending policies, and strategies employed.
- The composition of the NFP's endowment by net asset class at the end of the period, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds.
- Reconciliation of the beginning and ending balance of the endowment fund. Including: Net investment return, contributions, amounts appropriated for expense, other changes.

Examples from the FASB Codification:

Composition

200Y
Endowment Net Asset Composition by Type of Fund as of June 30, 200Y

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 7,084	\$ -	\$ 7,084
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	97,759	97,759
Accumulated investment gains	-	35,201	35,201
Term endowment	-	4,388	4,388
Total funds	<u>\$ 7,084</u>	<u>\$ 137,348</u>	<u>\$ 144,432</u>

Rollforward

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 200Y

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,947	\$ 142,053	\$ 149,000
Investment return, net	10	372	382
Contributions	-	2,000	2,000
Appropriation of endowment assets for expenditure	(373)	(7,077)	(7,450)
Other changes:			
Transfers to create board-designated endowment funds	500	-	500
Endowment net assets, end of year	<u>\$ 7,084</u>	<u>\$ 137,348</u>	<u>\$ 144,432</u>

Endowment Note:

Endowment

The [Organization]'s governing body is subject to the State of [_____] Prudent Management of Institutional Funds Act ([]PMIFA) *OR* [Uniform Prudent Management of Institutional Funds Act (UPMIFA)]. As a result, the [Organization] classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with []PMIFA [UPMIFA], the [Organization] considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

The [Organization]'s endowment consists of approximately [] individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Gifts of Nonfinancial Assets (GIKs) and Fair Value Accounting

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Gifts of Nonfinancial Assets – The Project

Objective

Increasing transparency about contributed nonfinancial assets through enhancements to presentation and disclosure

Scope

Contributions of nonfinancial assets (fixed assets, use of fixed assets, materials and supplies, intangibles, services)

Gifts of Nonfinancial Assets - Requirements

- Present contributed nonfinancial assets as separate line item in the statement of activities
- Disclose disaggregation by category of nonfinancial asset, including whether used or monetized. If used, in which areas/programs; also, any monetization policies
- Disclose a description of donor restrictions associated with nonfinancial asset
- Provide description of the valuation techniques & inputs used to arrive at a fair value measure for contributed nonfinancial assets in accordance with paragraph 820-10-50-2(bbb)(1) of codification for initial recognition
- Disclose principal market (or most advantageous market if there is no principal market) used to arrive at fair value measure if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed asset

Gifts of Nonfinancial Assets – Quick Mentions

- Legal restrictions versus donor restrictions
- Materiality
- Donated cryptocurrency is an intangible asset which is a nonfinancial asset
- Donated stocks & other financial assets (separate from nonfinancial assets & out of scope)
- Donated services

Gifts of Nonfinancial Assets – Fair Value Reminders

- Principal Market vs Most Advantageous Market
- Legal Restrictions vs Donor Restrictions
- Historical cost/donated value for items held

Questions?

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