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NFP Accounting & Audit Update

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Presentation Roadmap

- COVID-19 Impact
- Review of Recently Adopted Accounting Standard Updates (ASU's)
- New Standards Applicable for 2020
- New Standards Applicable Beyond 2020
- Compliance Update
- NFP Industry Update

COVID-19 Impact

NFP Financial Reporting Questions and Challenges

- Presentation of COVID impact
- What should we disclose in our footnotes?
- Is our COVID relief grant conditional, or can we recognize it now?
- If our COVID relief grant is conditional, how do we determine when we've met the condition?
- How do we record our PPP loan and related disclosures?

NFP Financial Statement Impact

- Footnote disclosures to consider
  - Operating impact (i.e., dates closed/reopened, services cancelled, activities moved online, etc.)
  - Receipt of COVID relief funding
  - Expense details
  - Lost/refunded revenue (i.e., reimbursement of fees)
  - Conditional grants that are outstanding – haven’t yet met the conditions
  - Plans for continuing operations (going concern?)
  - Significant changes to operations
  - PPP loan details
- Need to consider what would be informative to the readers of your financial statements
- Liquidity/availability disclosure will likely have heightened interest
- Debt covenant concerns

COVID Relief Funds – Revenue Recognition

- In most cases, the funds are conditional contributions (958-605) due to the existence of a barrier and right of return
  - PPP Loans: when forgiven or conditions substantially met (depending on accounting method used) – see upcoming slide
- Many others exist – Treasury CRF (Coronavirus Relief Fund), FEMA, etc.
  - Need to consider the specific details and conditions of each
- Don't forget about the SEFA! (more later)

PPP Loan Accounting

- AICPA TQA 3200.19 (Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program). Options include
  - Debt Model follows loan accounting (ASC 470) where revenue recognized when formal forgiveness (legal release) is received….loan liability until forgiveness
  - Government Grant Model follows conditional contribution accounting (ASC 958-605) where revenue recognized when conditions are "substantially met"….grant advance liability until conditions are met
- Double-dipping is not permitted. NFP's will not be permitted to use PPP funds for the same expenses that are being paid with other government funds.

PPP Loan – Debt Model

- Initially record the cash inflow from the loan as a liability (i.e., debt)
- Accrue interest at the stated interest rate
- Continue to record the loan and accrued interest as a liability until either:
  - The loan is partly or wholly forgiven and debtor has been legally released, or
  - The debtor pays off the loan
- If partly or wholly forgiven, reduce the liability by the amount forgiven and record a gain on extinguishment.
- Be aware of how the debt model may affect loan covenants such as debt to equity ratio

PPP Loan – Government Grant Model

- Entity expects to meet the PPP's eligibility criteria and concludes the loan represents, in substance, a grant that is expected to be forgiven
- Initially record the cash inflow from the loan as a liability (i.e., refundable advance)
- Subsequently reduce the liability and recognize the contribution systematically over the period(s) in which the entity recognizes as expenses the related costs for which the grant is intended to compensate
- We recommendation it be shown separately as "PPP loan forgiveness" since it is an unusual item!
- The Government Grant Model may only be used by a borrower if it is probable that the loan forgiveness criteria will be met
- If, in a subsequent year, some or all of the loan is not forgiven, then it will be treated as a change in estimate in the subsequent year

Poll Question #1

How you are accounting for your Organization’s PPP Loan?

A. Debt model
B. Government grant model
C. Unsure
D. Not applicable

PPP Loan Financial Statement Disclosures

- All organizations with material PPP loans should adequately disclose their accounting policy and the related impact on the financial statements
- Disclosure should also be made alerting the financial statement user of the SBA's 6 year audit requirement contingency (e.g. the possibility that, upon SBA audit, some or all of the PPP loan may need to be paid back)

Review of Recent Major ASU's

(Accounting Standards Overload!)

FASB ASU NO. 2016-14: Presentation Of Financial Statements Of Not-for-profit Entities

- Two classes of net assets:
  - Subject to Donor Restrictions
  - Not Subject to Donor Restrictions
- Qualitative information on liquidity management and availability of financial assets to meet entity's cash needs.
- Information about underwater endowment funds
- Report investment returns net of external and direct internal expenses
- Use place in service approach for reporting expiration of restrictions on gifts of cash or other assets used to acquire or construct long-term assets

Revenue Recognition

Exchange Transactions:

- ASU 2014-09 Contracts with Customers (Topic 606)
  - Reciprocal transfers in which each party receives and sacrifices approximately equal value
  - In an exchange transaction, the potential public benefits are secondary to the potential proprietary benefits to the resource provider.
  - Five step model to determine how and when to recognize revenue

Contributions:

- ASU 2018-08 Contributions Made And Received
  - An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity
  - In a contribution transaction, the value, if any, returned to the resource provider is incidental to potential public benefits.
  - Also considered meaning of "Conditional", see next slide

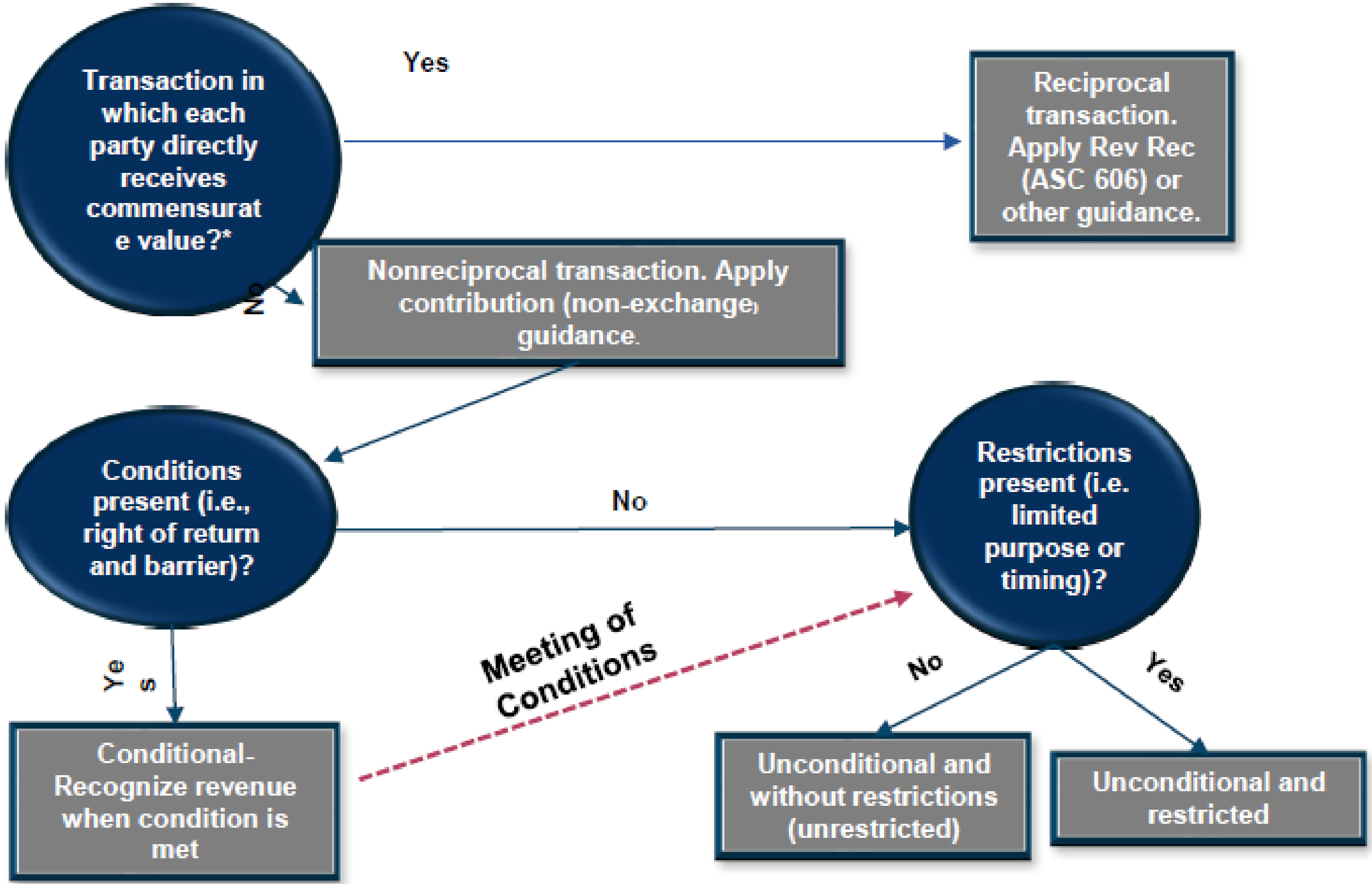
Conditional Contribution

- Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.
- Imposing a condition creates a barrier that must be overcome before the recipient of the transferred assets has an unconditional right to retain those promised assets.
- A right of return/release must exist and the agreement must include a barrier.
- Expect more grants to be accounted for as contributions

Exchange vs. Contribution

Indicator	Contribution	Exchange Transaction
NFP's intent in soliciting the asset	NFP asserts that it is soliciting a contribution	NFP asserts that it is seeking resources in exchange for specified benefits
Resource provider's expressed intent about the purpose of the asset to be provided	Resource provider asserts that it is making a contribution to support the NFP's programs	Resource provider asserts that it is transferring resources in exchange for specified benefits
Method of delivery of the asset to be provided by the NFP to third-party recipients	Delivery method is at the discretion of the NFP	Delivery method is specified by the resource provider
Method of determining payment amount	Resource provider determines the amount of the payment	Payment by the resource provider equals the value of the assets to be provided by the recipient NFP, or the assets' costs plus markup
Penalties assessed if the NFP fails to make timely delivery of assets	NFP is not penalized for non-performance	NFP is penalized for non-performance
Delivery of assets to be provided by the NFP	Assets are to be delivered to individuals or organizations other than the resource provider	Assets are to be delivered to the resource provider or to individuals or organizations closely connected to the resource provider.

Revenue Recognition Decision Process – ASU 2018-08



*Includes third-party payments on behalf of identified customers. These do not create new revenue.

ASU 2020-05 Delayed Effective Dates

- ASU 2014-09, Revenue From Contracts With Customers (Topic 606)
  - Implementation delayed 1 year for financial statements not yet issued
  - Adoption required for calendar year 2020, or fiscal years beginning in 2020

- ASU 2016-02, Leases (Topic 842)
  - Now effective for calendar year 2022, or fiscal years beginning in 2022

Poll Question #2

With ASU 2020-05 being released in June 2020, did you defer the adoption of ASU 2014-09 Contracts with Customers (Topic 606)?

A. Yes, we elected to defer one year

B. No, we adopted the standard

C. ASU 2014-09 was not applicable

Upcoming Accounting Standards Effective for December 31, 2020

ASU 2014-09 Contracts with Customers (Topic 606)

- Effective for Organizations that elected the one year deferral under ASU 2020-05
- The core principle of Topic 606 is that an entity should 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

Step 1	Step 2	Step 3	Step 4	Step 5
Identify the contract with a customer	Identify the performance obligations	Determine the transaction price	Allocate the transaction price to the performance obligations	Recognize revenue when (or as) the entity satisfies a performance obligation

ASU 2018-08 Contributions Made And Received

- Effective for Resource Providers
- Exercise of the resource provider's mission doesn't constitute comparable value received by the resource provider for purposes of determining whether the transfer of assets is a contribution or an exchange.
- Grantors must apply criteria to determine the appropriate timing of expense recognition for U.S. GAAP financial reporting. Therefore, if a donor awards a grant containing conditions as defined in ASU 2018-08, they will recognize the expense only as the conditions are satisfied, regardless of whether the grant has been funded or not.

ASU 2019-03: Not-for-Profit Entities (Topic 958): Updating the Definition of Collections

- This ASU specifically addresses the use of proceeds from sales of collections and related disclosures.
- Collections includes groupings of art, historical treasures or similar assets that are:
  - Held for the public;
  - Preserved and protected; and,
  - When sold, the proceeds are reserved for specified uses.
- Under the clarified definition, proceeds from the sale of collection items can be used either to acquire new items or directly care for existing items already in possession. Previous guidance required proceeds to be used only for the acquisition of additional collections.
- Requires disclosure of policy regarding use of funds from selling items
- Effective for periods beginning after December 15, 2019

ASU 2018-13: Changes to the Disclosure Requirements for Fair Value Instruments

- This ASU includes significant disclosure changes for Level 3 investments. Other changes relate to disclosures for transfers between Level 1 and Level 2 investments and investments in certain entities that calculate net asset value.
  - Removal of disclosures related to transfers between Level 1 and Level 2
  - Removal of disclosures related to valuation process for Level 3 measurements
  - In lieu of a rollforward for Level 3 fair value measurements, required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.

ASU 2016-02—Leases (Topic 842)

- Effective date for conduit debt NFPs – "Public NFP"
  - Conduit debt securities are defined as municipal securities issued by state or local governments, agencies or instrumentalities on behalf of a third party (i.e., a NFP)
  - Fiscal years beginning after December 15, 2019
- All other organizations
  - Fiscal years beginning after December 15, 2021 (Calendar year 2022)
  - More info on upcoming slide

Upcoming Accounting Standards Effective Beyond December 31, 2020

ASU 2020-07: Presentation And Disclosure For Contributed Nonfinancial Assets

- Objective is to increase transparency about contributed nonfinancial assets, including how they are used and how they are valued
- Present contributed nonfinancial assets as a separate line item in Statement of Activities
- Required to disclose the types of contributed nonfinancial assets that have been recognized during the reporting period by category and how they were used
- The entity's policy about monetizing rather than utilizing contributed nonfinancial assets
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
- Effective for periods beginning after June 15, 2021 (Calendar year 2022)
- Retrospective application is required

ASU 2016-02—Leases (Topic 842)

- Fiscal years beginning after December 15, 2021 (Calendar year 2022)
- Affects any entity that enters into a lease, or sublease, with some specified scope exemptions
- The primary objective of the leases project was to address off-balance-sheet financing concerns related to lessees' operating leases
- The most significant change in the ASU is its lessee model that brings most leases on the statement of financial position
- The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases

ASU 2016-02—Leases (Topic 842)

- A lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term.
- The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance lease or an operating lease.
- The ASU requires qualitative and quantitative disclosures to help users of financial statements better understand the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2016-02—Leases (Topic 842)

- Finance Lease if
  - Transfer of ownership OR
  - Option to purchase that lessee is reasonably certain to exercise OR
  - Lease term is for major part of the economic life of the asset OR
  - Present value of the sum of payments ≥ substantially all of the fair value

    OR
  - Asset is so specialized that it has no alternative use at end of lease term
  - If not Finance Lease, then Operating Lease

Old GAAP	Statement of Financial Position	Statement of Activities	Statement of Cash Flows
Capital lease	Leased asset Lease obligation	• Amortization expense • Interest expense	**Operating** • Interest **Financing** • Principal
Operating lease		Rent expense	**Operating**

New GAAP	Statement of Financial Position	Statement of Activities	Statement of Cash Flows
Finance lease	Right-of-use asset Lease liability	• Amortization expense • Interest expense	**Operating** • Interest **Financing** • Principal
Operating lease	Right-of-use asset Lease liability	Lease expense on straight-line basis	**Operating**

Poll Question #3

What is your level of readiness for implementing the lease accounting standard (Topic 842)?

A. Already adopted!
B. We're ready
C. Getting there, need to finish up or learn more
D. Not ready, lots of preparation to do

Compliance Update

2020 OMB Compliance Supplement - What's Changed?

- Regular updates unrelated to COVID-19
- 6-requirement mandate maintained; some agencies modified the requirements subject to audit
- Removal of Part 3-1
- A Part 5 cluster list that is not expected to change
- Appendix VII includes a new section on COVID-19 implications

6-Requirement Mandate

- OMB limit of 6 compliance requirements subject to the compliance audit per program or cluster will continue for programs in the Supplement
  - Exception: The R&D cluster is permitted to identify 7
  - Some agencies may have less than 6 requirements
- For "counting" purposes, the requirements relating to A. Activities Allowed and Unallowed, and B. Allowable Costs and Cost Principles, are counted as one requirement
- Agencies may have changed the requirements subject to audit from those chosen in 2019
- The 6-requirement mandate does not apply to programs not included in the Supplement. Auditors will continue to use Part 7 guidance to identify the types of compliance requirements to test As a result, the auditor may test more than 6 requirements for these programs

COVID-19 Funding

- New programs: At least 20 new programs
- CARES Act provided many existing programs with additional funding
- Some existing federal programs have been granted significant flexibilities and/or waivers of compliance requirements by federal agencies such as:
  - Student Financial Assistance
  - Child Nutrition Cluster
  - HUD programs

COVID-19 funding – Largest 4 new programs

- Paycheck Protection Program (>$600B)
  - Federal Agency: SBA
  - For-profits, NFPs
  - Is not subject to single audit
  - CFDA: 59.073
- Coronavirus Relief Fund ($150B)
  - Federal Agency: Treasury
  - Governmental Entities and Tribes
  - Is subject to single audit
  - CFDA: 21.019
- Provider Relief Fund ($175B)
  - Federal Agency: HHS
  - For-Profits, NFPs, Governmental
  - Entities
  - Is subject to single audit
  - CFDA: 93.498
- Educational Stabilization Fund ($30.75B)
  - Federal Agency: Education
  - States, Schools, IHE
  - Is subject to single audit
  - CFDA: 84.425

Poll Question #4

Did your Organization receive CARES Act funding besides a PPP loan?

A. Yes
B. No
C. Unsure

More Single Audits Than In Previous Years

- Many states and large localities received significant amounts of Coronavirus Relief Fund funding directly from the federal government
  - These direct recipients may also be passing the funds down to smaller entities that may not have had single audits in prior years
- Healthcare entities that have not previously had single audits may have received significant Provider Relief Fund funding
- Other funding through the CARES Act to existing CFDA numbers may take recipients over the $750K threshold

Separate Identification of COVID-19 Related Awards

- This includes both new and existing programs
- On a separate line by CFDA number with “COVID-19” as a prefix to the program name.
- Also presented separately on the Data Collection Form
- SEFA Example:

COVID-19 Temporary Assistance for Needy Families	93.558	$1,000,000
Temporary Assistance for Needy Families	93.558	$3,000,000
Total – Temporary Assistance for Needy Families		$4,000,000

Poll Question #5

Is your Organization going to be required to undergo a Single Audit this year due to receiving additional CARES Act funding?

A. Yes
B. No
C. Unsure
D. We already undergo a Single Audit

NFP Industry Update

State of NFP's

- NFPs play a large role in the world economy and is third largest workforce in the U.S.
- Currently more than 1.6 million NFPs registered with the IRS and employ more than 11 million employees (10% of the U.S. workforce)
- Contributions to NFPs in 2018 exceeded $427 billion
- Record-breaking giving by foundations of 75.86 billion in 2018 (18% of total giving)
- Corporate giving also grew 2.9% in 2018, adjusted for inflation, totaling $20.05 billion
- Contributions to Donor Advised Funds grew to $37.12 billion in 2018 – all-time high and 86% increase in contributions over the past five years.

Current Economy

- Important considerations affecting the NFP industry
  - COVID-19
  - Interest rates
  - Availability of credit
  - Consumer confidence
  - Charitable contributions
  - Overall economic expansion or contraction
  - Inflation
  - Real estate values
  - Labor market conditions

S&P Mid-Year Sector Outlook (August 2020)

- Remains "Negative" and "A Fall unlike any we have ever seen before"
- Impacts from current recession will vary state by state, bringing reductions in state funding for higher education while at the same time, most public colleges and universities have eliminated any tuition increases for fiscal 2021
- Auxiliary revenue will suffer due to many institutions choosing remote instruction; Average FY19 revenue from auxiliary enterprises is 11% for private and 10% for public
- More expense cuts are likely, such as hiring freezes, furloughs and layoffs, as well as functional consolidations

Repeal of the "Parking Tax"

- Organizations that are due this refund will need to file amended Form 990-Ts, write "Amended Return" at the top of the form.
- Time limits for filing refund claims are three years from the time of the original Form 990-T was filed or two years from the time the tax was paid, whichever is later.

COVID Audit Impact

- Remote audit considerations & access to books and records
- Going concern
- Collectability of receivables and pledges
- Inventory observations
- Internal controls and segregation of duties – What's different?

Thank You!

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