Wegner CPAs

Accounting & Audit Update

Presented by Kyle Ager, CPA, Senior Manager

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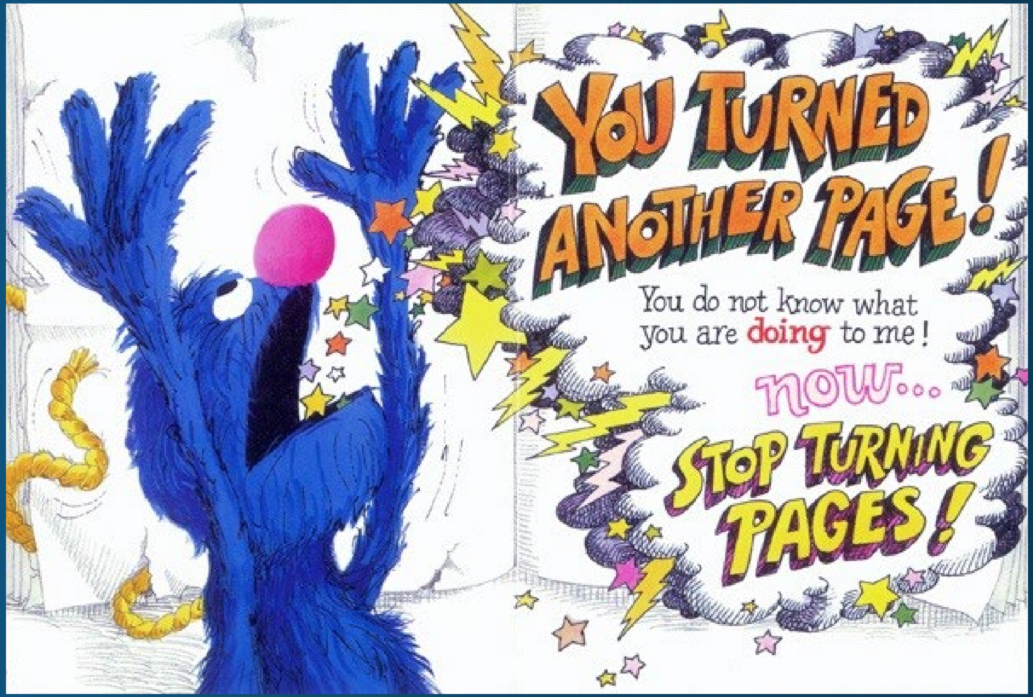
Presentation Roadmap



- New auditing standards and what they mean for you
- Accounting standards effective in 2022: Gifts-In-Kind and Leases
- Covid-19 funding update

New Auditing Standards And What They Mean For You

SAS No. 142, *Audit Evidence*

- Develops a framework for evaluating attributes of audit evidence, including:
  - Sufficiency
  - Appropriateness
    - Relevance and reliability (including its source)
  - Whether the information corroborates or contradicts management’s assertions
  - Whether the information is sufficiently precise and detailed

“New” Requirement in SAS 145

Primarily Indirect Controls	Primarily More Direct; but May Be Indirect	Primarily Direct Controls
Control Environment; Risk Assessment; Monitoring	Information Systems and Communication	Control Activities

• Understand and evaluate	• Understand and evaluate	• Understand and evaluate, including transaction controls
		• For *identified controls*, evaluate design and determine implementation:
		• *Identified controls* are those related to:
		    • Significant risks
		    • Journal entries and other adjustments
		    • Controls tested for operating effectiveness
		    • Other controls based on auditor’s judgment
		    • General IT controls

Accounting Standards Effective in 2022

Gifts-In-Kind (ASU 2020-07)

- Effective for periods beginning after June 15, 2021 (In effect for December 31, 2022 year ends).
- Objective is to increase transparency about contributed nonfinancial assets, including how they are used and how they are valued.
- Applies to contributions of nonfinancial assets (fixed assets, the use of fixed assets, materials and supplies, intangibles, services, etc.).
- Retrospective application is required if presenting comparative financial statements.

Gifts-In-Kind: Why is Transparency Important?

- Many NFP's receive and use significant amounts of gifts-in-kind (GIK).
- The value of GIK can impact key metrics such as the program expense ratio.
- Can also have significant implications for the financial and/or programmatic sustainability.

Gifts-In-Kind: Overview Of Requirements

- Does not change how not-for-profit organizations recognize and measure gifts-in-kind.
- 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.
- Disclose information about how the assets are used, any associated donor restrictions, and how they are valued.

Gifts-In-Kind: Separate Line Example Presentation

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions, primarily from individuals:			
Cash and other financial assets	67,920	74,330	142,250
In-kind	127,760		127,760
Government grants	52,600	-	52,600
Other income	66,580	-	66,580
Net assets released from restrictions	19,200	(19,200)	-
Total revenues, gains, and other support	334,060	55,130	389,190
Expenses			
Animal shelter operations	212,960	-	212,960
Supporting services:			-
Management and general	20,385	-	20,385
Fundraising	21,570	-	21,570
Total expenses	254,915	-	254,915
Change in net assets	79,145	55,130	134,275

Gifts-In-Kind: Disclosure Example

In-kind contributions recognized within the statement of activities include:

Building	$	400,380
Veterinary supplies		70,640
Food		57,120
	$	528,140

The fair value of the contributed building was estimated on the basis of comparable sales prices in the real estate market of the metropolitan area in which the building is located. Contributed veterinary supplies and food items are valued at the estimated fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

No in-kind contributions were restricted, except for $15,000 of veterinary supplies restricted for use in animal rescue programs. The NFP does not sell gifts-in-kind and only distributes goods for program use, including the animal rescue and adoption programs.

Gifts-In-Kind: Commonly Missed

- Contributed advertisement and radio time
- Contributed use of facilities/utilities
- Contributed personnel costs from an affiliate
- Contributions for fundraisers
- Contributed administration costs
- Below-market interest rates

Leases (Topic 842) – Overview

- Fiscal years beginning after December 15, 2021 (Calendar year December 31, 2022).
- The most significant change in the ASU is its lessee model that brings most leases on the statement of financial position as assets and liabilities that arise from leases.
- The FASB's thought process around this standard goes back to how assets and liabilities are defined:
    - Assets are probable future economic benefits obtained or controlled by a particular entity as result of past transactions or events.
    - Liabilities are probable future sacrifices of economic benefits arising that the entity is obligated to make as a result of past transactions or events.

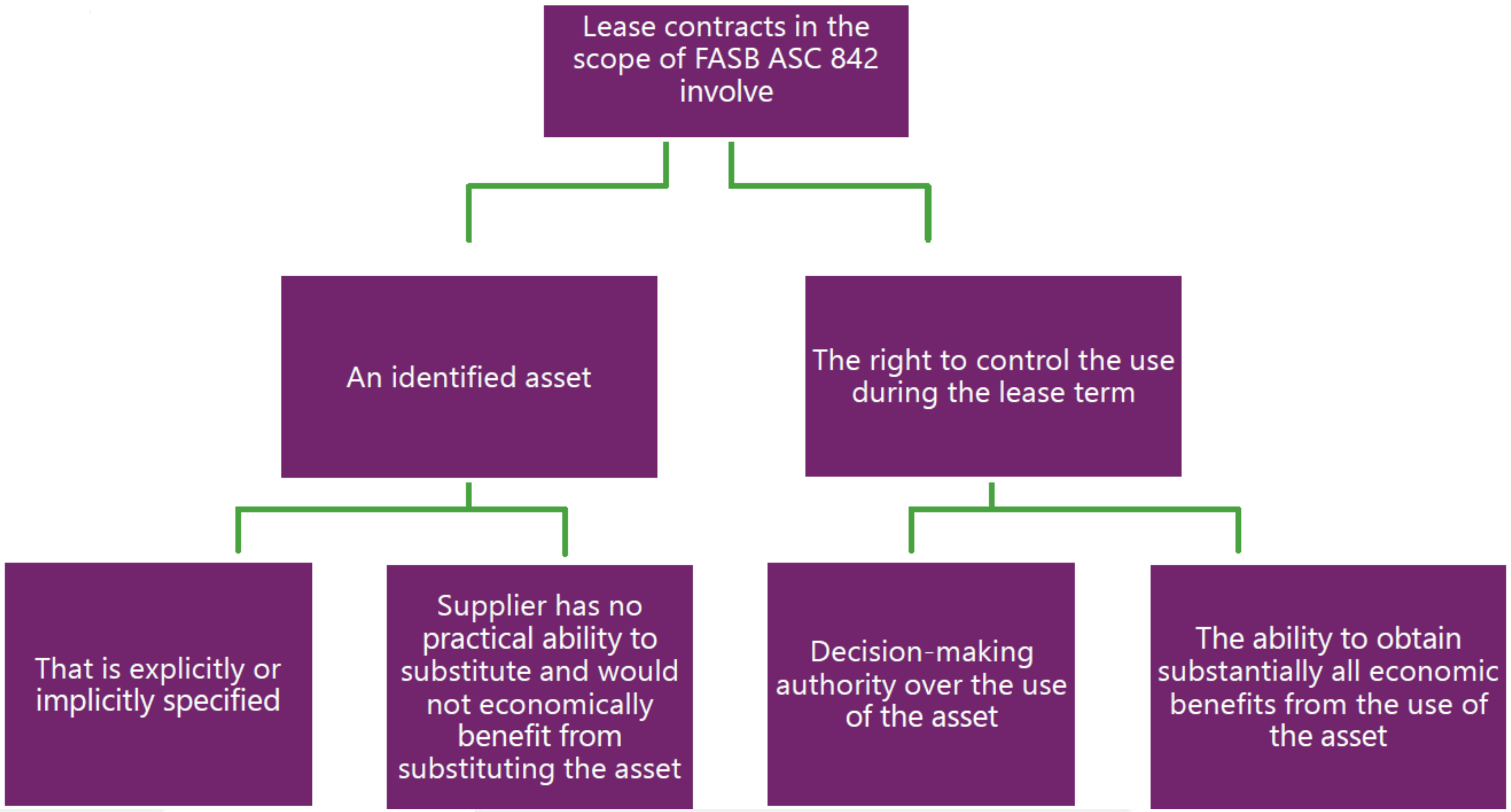
Leases – Highlights and Difficulties

- May affect compliance with contractual agreements and loan covenants
- Remeasurements and the process for making remeasurements
- Segregating between lease and non-lease components
- Incremental borrowing rate
- Treatment of variable lease payments
- Transition and disclosures
- Need for software

Leases – What Is A Lease?

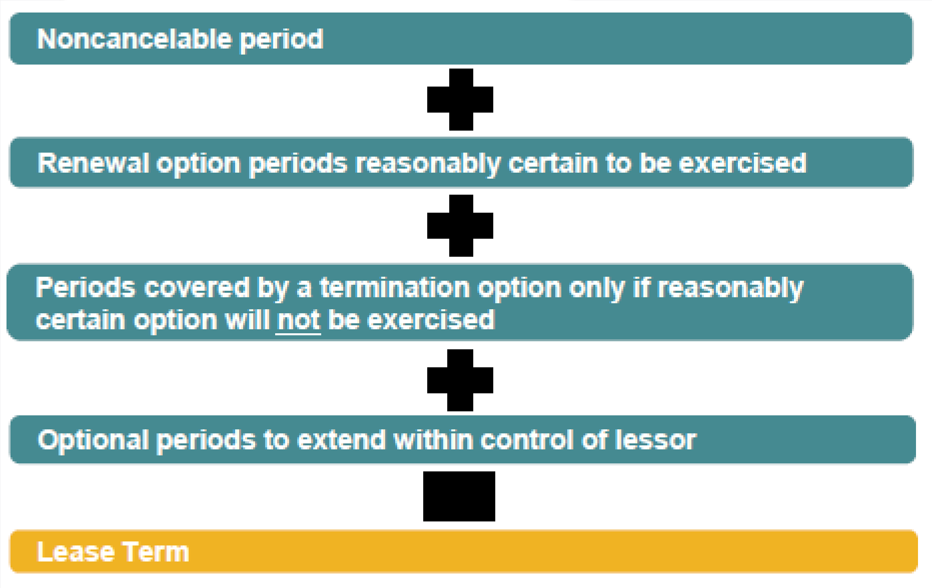
- A lease is a contract, or part of a contract, that conveys the **right to control** the use of identified property, plant, and equipment for a period of time in exchange for consideration. **Must be a physical asset!**
- Does not apply to:
  - Intangible assets
  - Minerals, oil, gas, and similar resources
  - Inventory
  - Assets under construction
- Donated use of assets are not within scope of the lease standard, but they are subject to the GIK disclosures.

Leases – Identifying A Lease



Leases – What Is The Lease Term

- The <u>noncancellable</u> period for which a lessee has the right to use an underlying asset, including:
  - Options to extend if the lessee is reasonably certain to exercise.
  - Options to terminate if the lessee is reasonably certain not to exercise.
  - Options to extend in which the exercise is controlled by the lessor.



Leases – Lease Term Examples

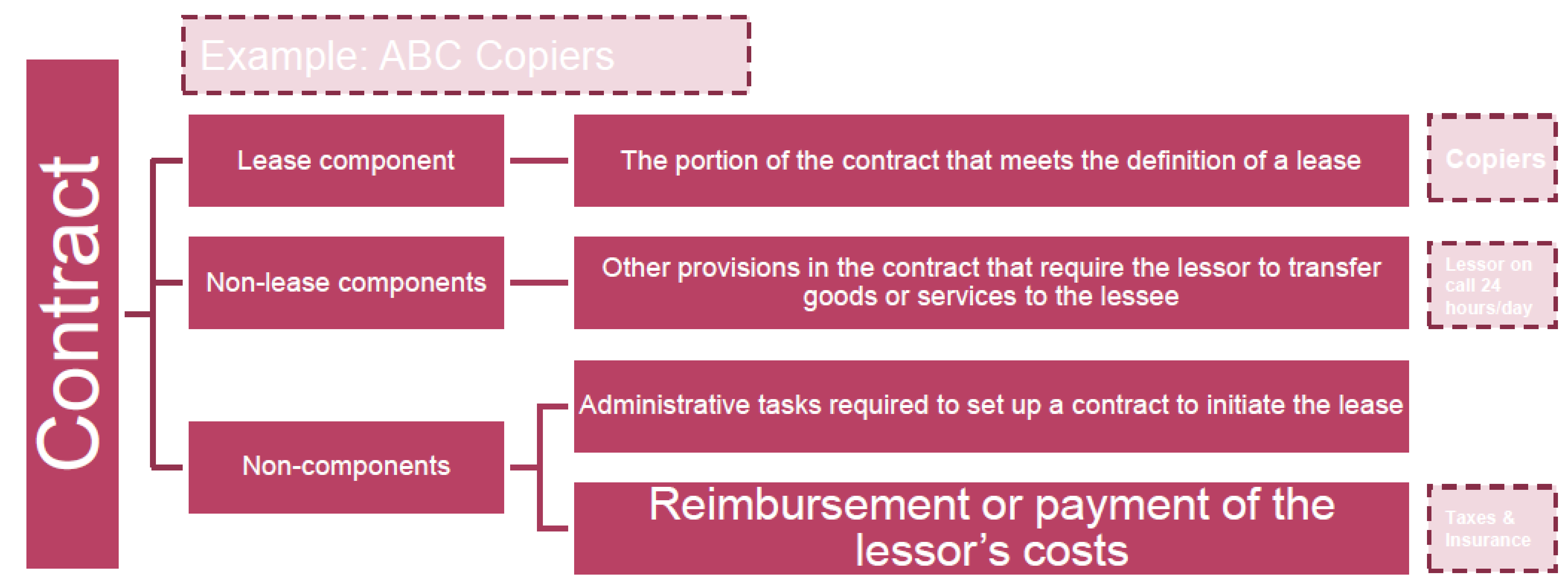
- Q: Lease with noncancellable period of 3 years with a **mutual** option to renew for an additional 3 years. What is the lease term?
- A: 3 years as **both** the lessee and lessor have to agree to the renewal option.

- Q: Lease agreement for 48 months. Lessee has the option to extend the lease for an additional 12 months. Lessee is uncertain if they will extend the lease. At the end of the 48 or 60 months, the lease may be continued on a month-to-month basis in which either the lessee or lessor can cancel without penalty. What is the lease term?
- A: The initial lease term is 48 months as lessee is not reasonably certain it will exercise the renewal option. The month-to-month options are not included as both parties can cancel.

Leases – Contracts With Multiple Components

- Generally, you will account for the lease component (e.g., the right to use a building) and nonlease component (e.g., maintenance services for the building) of a lease as separate contracts. Only the lease components are required to be accounted for in accordance with FASB ASC 842.
- In an effort to save lessees time and to some degree ease the accounting, <u>the lessee may elect</u>, by class of underlying asset, not to separating lease and nonlease components and account for the combined components as on single lease.

Leases – Components of a Contract



Leases – Discount Rate

- The rate that the entity uses to **discount future lease payments** should be the rate implicit in the lease if it is readily determinable.
- If not determinable, the entity should use its **incremental borrowing rate**. This is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.
- Private entities are permitted an accounting policy election to use a **risk-free discount rate** for the lease (normally the federal funds rate). Election aside, if the rate implicit in the lease is known, it must be used.

Leases – Discount Rate

Daily Treasury Par Yield Curve Rates

Get updates to this content

NOTICE: See Developer Notice on changes to the XML data feeds

XML View the XML feed

XSD Download the XSD Schema for the XML feed

Render the XML feed in a browser

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Select type of Interest Rate Data

Daily Treasury Par Yield Curve Rates

Select Time Period

2022

Apply

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/03/2022	0.05	0.06	0.08	N/A	0.22	0.40	0.78	1.04	1.37	1.55	1.63	2.05	2.01
01/04/2022	0.06	0.05	0.08	N/A	0.22	0.38	0.77	1.02	1.37	1.57	1.66	2.10	2.07

https://home.treasury.gov/resource-center/data-chart-center/interest-rates/

Leases – Payment Streams

- The lease payments will consist of the following related to the use of the underlying asset during the lease term:
  - Fixed payments, including any incentives
  - Variable payments that depend on an index or a rate (i.e. CPI), **initially measured using the index or rate at the commencement date.**
  - Amounts probable of being owed by the lessee under residual value guarantees
  - Exercise price of a purchase option is reasonably certain to exercise
  - Payments for penalties for terminating the lease if lessee is reasonably certain to exercise

Leases – Materiality

- The standard does not include any exemptions for leases of small assets. However, entities will likely be able to adopt reasonable capitalization thresholds below which lease assets and lease liabilities are not recognized, which should reduce the costs of applying the guidance and that an entity’s practice in this regard may be consistent with many entities’ accounting policies in other areas of GAAP (e.g., in capitalizing purchases of property, plant, and equipment).

Leases – Calculating The Lease Liability

- At the **commencement date,** the lessee will measure the lease liability at the **present value** of the lease payments not yet paid, discounted using the discount rate for the lease at lease commencement.

Instructions:

- Enter lease specific details within the teal colored cells. All other cells are formula driven.

Data Input Cell

- Adjust periods and lease payments based on your lease. Current example assume a 5 year term with $100,000 monthly lease payment made at the beginning of the month.

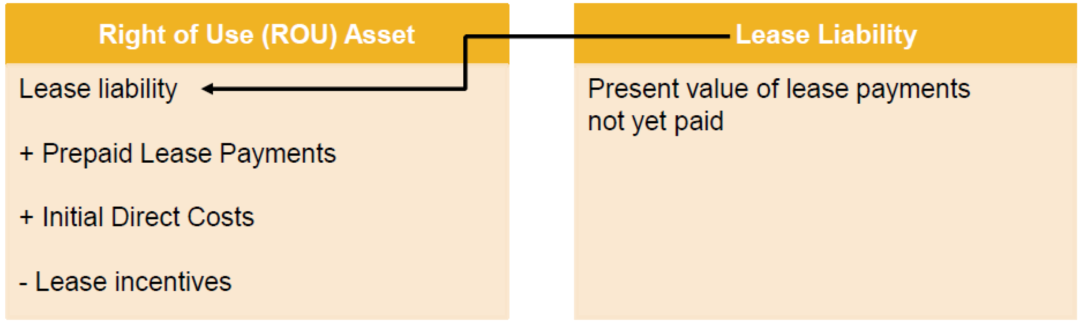
Input Lease Details

Annual Discount Rate	5.50%
Period Discount Rate	0.46%
Periodic Payment	Monthly
Are Payments Made At Beginning or End of Period?	End

Period	Lease Payment	Present Value	Total Present Value of Lease Payments
1	$ 100,000	$ 99,544	$ 5,235,284
2	$ 100,000	$ 99,090	
3	$ 100,000	$ 98,638	
4	$ 100,000	$ 98,187	

Leases – Calculating The ROU Asset

- At the commencement date, the ROU asset is made up of:
  - The initial measurement of the lease liability
  - Any prepaid or accrued lease payments
  - Plus any initial direct costs incurred by the lessee
  - Less any lease incentives received



Short-Term Lease

A lease with a term of 12 months or less (including options to extend that are reasonably certain to be exercised and options to terminate not reasonably certain to be exercised)

The contract may not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise

Short-Term Lease Accounting

+ Functionally the same as the legacy accounting for operating leases
+ A policy election only available to lessees
+ Has specific presentation and disclosure requirements
+ Can be elected by class of underlying asset

If Short-Term Election Is Made

+ Lessee recognizes similar to the legacy accounting for operating lease
+ No lease liability / ROU Asset
+ Recognize lease payments on a straight-line basis over the lease term

Finance Lease Accounting

A lease must meet one of the following criteria to be classified as a finance lease:

- Ownership of the underlying asset is transferred to the lessee
- Purchase option reasonably certain to be exercised
- Lease term is a major part of the economic life of the asset (typically equal to or greater than 75%)
- Present value of lease payments plus any guaranteed residual value is equal to or greater than substantially all the fair value of the underlying asset (typically greater than 90%)
- Underlying asset is specialized and is not expected to have an alternative use to the lessor at the end of the lease

Leases – Classification – Summary Accounting

	Balance Sheet	Statement of Activities	Cash Flow
Financing	Right-of-use (ROU) asset Financing Lease liability	Amortization expense Interest expense	Operating – Interest payments Financing - Cash paid for principal
Operating	Right-of-use (ROU) asset Operating Lease liability	Single lease expense on a straight-line basis	Operating - Cash paid for lease payments

Leases – Policy Elections

Policy 1: Short Term Leases

(FASB: 842-20-25-2): Lessee may elect NOT to apply the Lease Standard to leases of 12 months or less (i.e. do not recognize ROU Asset or Lease Liability). If this election is made, the lessee would follow previous lease accounting guidelines and recognize the lease payments as profit or loss on a straight-line basis over the lease term.

Note: A short-term lease has: (a) a maximum lease term of 12 months or less, and (b) does not include a purchase option the lessee is reasonably certain to exercise.

Policy Election:

- ☑ *Elect NOT to apply Lease Standard to short-term leases for all classes of underlying assets
- ☐ Elect NOT to apply Lease Standard for short-term leases for the following class(es) of underlying asset(s): [ ]
- ☐ Do not elect policy for short-term leases (i.e. apply Lease Standard to leases of 12 months or less)

Comments: [ ]

*__Advantage:__ Save time on accounting for short-term leases. If the policy is elected, lessee is still required to disclose the short-term lease cost, excluding expenses relating to leases with a lease term of one month or less, for each period presented.

*__Disadvantage:__ Different policy and processes for short-term leases and long-term leases.

Leases – Policy Elections

Policy 2: Nonlease Components

(FASB: 842-10-15-37) Practical Expedient: Lessee may elect to account for lease and nonlease components as a single combined lease component.

Note 1: Components of a contract include only those items or activities that transfer a good or service to the lessee. Examples of nonlease components include common area maintenance, parking expense or annual maintenance on a ROU Asset.

Note 2: If lessee does not elect to combine lease and nonlease components, the lessee shall allocate the consideration in the contract (i.e. payments) on a relative standalone price basis to the separate lease and nonlease components of the contract. If observable standalone prices are not readily available, the lessee shall estimate the standalone prices, maximizing the use of observable information. A residual estimation approach may be appropriate if the standalone price for a component is highly variable or uncertain. Examples of allocating consideration can be found at FASB: 842-10-55-131 through 140.

Policy Election:

- ☑ *Elect to combine lease and nonlease components for all classes of underlying assets
- ☐ Elect to combine lease and nonlease components for the following class(es) of underlying asset(s): [ ]
- ☐ Do not elect policy to combine lease and nonlease components

Comments: [ ]

***Advantage:** If this election is made, the lessee will not have to allocate between lease and nonlease payments, which will save time.

Common Area Maintenance (CAM) is a nonlease component often paid as part of an office lease. If this election is made, the lessee would not have to: a) allocate lease consideration between CAM and lease payments, b) determine an estimated value of CAM, and c) allocate and expense these costs separately. Instead, the lessee would treat CAM as a lease payment.

***Disadvantage:** By treating nonlease components as lease components, the lessee will have a larger Liability (and ROU Asset), which may affect debt ratios/bank covenants.

Leases – Policy Elections

Policy 4: Classification Criteria

(FASB: 842-10-25-2(c)/842-10-55-2). One of the evaluation criteria for classification is to determine if the lease term is a **major part** of the economic life of the underlying asset. Lessee can establish a policy, by class of asset, to determine what percentage constitutes a **major part**.

Note: Major part defined as 75% of the economic life is deemed a reasonable approach per (FASB: 842-10-55-2 (a)).

Policy Election:

- ☑ *Elect to define **major part** as [75%] for all classes of underlying assets
- ☐ Elect to define **major part** for the following class(es) of underlying asset(s): [*e.g.75% for computer equipment…*]

Comments: [ ]

*__Advantage:__ Lessee can elect to define **major part** as a specified percentage; however, since previous guidance had a bright line of 75%, electing a policy of 75% will ensure a consistent application across your lease portfolio.

(FASB 842-10-25-2(c)/842-10-55-2). One of the evaluation criteria for classification is to determine if the present value of the sum of lease payments equals or exceeds **substantially all** of the fair value of the underlying asset. Lessee can establish a policy, by class of asset, to determine what percentage constitutes **substantially all**.

Note: Substantially all defined as 90% of the fair value of the underlying asset is deemed a reasonable approach per (FASB: 842-10-55-2 (c)).

Policy Election:

- ☑ *Elect to define **substantially all** as [90%] for all classes of underlying assets
- ☐ Elect to define **substantially all** for the following class(es) of underlying asset(s): [*e.g. 90% for computer equipment…*]

Comments: [ ]

*__Advantage:__ Lessee can elect to define **substantially all** as a specified percentage; however, since previous guidance had a bright line of 90%, electing a policy of 90% will ensure a consistent application across your lease portfolio.

Leases – Policy Elections

Policy 5: Presentation of ROU Assets & Lease Liabilities

(FASB: 842-20-45-1/IFRS 16: Paragraph 47): Lessee shall present the following either in the statement of financial position or footnotes:

a. Finance lease ROU assets and operating lease ROU assets separate from each other and from other assets.
b. Finance lease liabilities and operating lease liabilities separate from each other and from other liabilities.

Policy Election:

☑ *Present in the statement of financial position

☐ Disclose in the footnotes:

a. Balances of ROU assets and lease liabilities
b. Which line items in the statement of financial position include the ROU asset and lease liabilities

Comments: [ ]

***Advantage**: Presentation in the statement of financial position allows for a simpler footnote.

***Disadvantage**: If leases are not significant, adding line items to the statement of financial position may dilute the reader's review.

Leases – Policy Elections

Policy 6: Initial Application Date of Standard

(FASB: 842-10-65-1(c)): Lessee may elect to apply the Lease Standard either to all reporting periods presented or only to the most recent period without restating prior periods:

Policy Election:

☐ Elect to apply Lease Standard retrospectively to all prior reporting periods with the cumulative impact reported in retained earnings of the first year presented

☑ * Elect to apply Lease Standard only to the most recent period without restating prior periods presented, with the cumulative impact reported in retained earnings (i.e. no comparative restatement, instead cumulative adjustment to retained earnings in the year of adoption)

Comments: [ ]

***Advantage:** No restatement of prior periods.

***Disadvantage:** Inconsistent reporting of Leases for each period presented in the financial statements because of no prior period restatement.

Leases – Policy Elections

ASSETS				
Cash	50,000	40,000		
Accounts receivable	7,000	9,000		
Righ of use asset	25,000	-		
Total assets	82,000	49,000		
LIABILITIES				
Accounts Payable	40,000	25,000		
Lease liability	27,000	-	(2,000)	Cumulative change
Total liabilities	67,000	25,000		
NET ASSETS				
Without donor restrictions	15,000	24,000	(9,000)	Total change
Total liabilities and net assets	82,000	49,000		
REVENUE				
Contributions	90,000	100,000		
EXPENSES				
Program	85,000	80,000		
M&G	5,500	5,000		
Fundraising	6,500	5,000		
Total expenses	97,000	90,000		
Change in net assets	(7,000)	10,000		
Net assets at BOY	24,000	14,000		
Cumulative effect of change in accounting principle	(2,000)	-		
Net assets at EOY	15,000	24,000		

Leases – Policy Elections

Policy 7: Transition Reliefs

(FASB: 842-10-65-1(f) through (g)) Practical Expedients: Lessee may elect to apply the following transition reliefs for leases commenced before the Standard's effective date.

Policy Election:

☑ Elect the following transition reliefs (ASC: 842-10-65-1(f)) as a package and apply to all leases:

- Lessee need not reassess whether any expired or existing contracts are or contain leases
- Lessee need not reassess the lease classification for any existing or expired leases
- Lessee need not reassess initial direct costs for any existing leases (whether those costs would have qualified for capitalization under the new lease accounting standard)

☐ Do not elect transition reliefs

Policy Election:

☐ Elect the following transition reliefs (FASB: 842-10-65-1(g)) as a package and apply to all leases:

- Lessee uses hindsight with respect to lease renewals and purchase options when determining the lease term
- Lessee uses hindsight in assessing impairment of a ROU asset

☑ Do not elect transition reliefs

Comments: [ ]

(FASB: 842-20-55-17): For discounts:

Policy Election:

☐ Apply a single discount to a portfolio of leases with reasonably similar characteristics (such as similar lease term for a similar class of underlying asset)

☑ Do not apply single discount to a portfolio of leases

Comments: [ ]

Leases – Operating Lease Example

- A 3 year lease with monthly payments of $1,000 in year 1, $1,200 in year 2, and $1,400 in year 3. No renewal options.
- No purchase options, incentives, or other costs
- Initial measurement of the ROU asset and liability is $40,000
- Incremental borrowing rate is 4.7152%

Leases – Operating Lease Monthly Schedule

Implied Interest Rate 4.7152%

		Payment	Interest	Reduction to Lease Liability	Lease Liability	Rent Expense	Deferred Rent	ROU Asset Bal.
	Initial	$ -	$ -		$ 40,000.00			$ 40,000.00
	1	$ 1,000.00	$ 157.17	$ 842.83	$ 39,157.17	$ 1,200.00	$ 200.00	$ 39,157.17
	2	$ 1,000.00	$ 153.86	$ 846.14	$ 38,311.03	$ 1,200.00	$ 400.00	$ 38,311.03
	3	$ 1,000.00	$ 150.54	$ 849.46	$ 37,461.57	$ 1,200.00	$ 600.00	$ 37,461.57
	4	$ 1,000.00	$ 147.20	$ 852.80	$ 36,608.77	$ 1,200.00	$ 800.00	$ 36,608.77
	5	$ 1,000.00	$ 143.85	$ 856.15	$ 35,752.62	$ 1,200.00	$ 1,000.00	$ 35,752.62
	6	$ 1,000.00	$ 140.48	$ 859.52	$ 34,893.10	$ 1,200.00	$ 1,200.00	$ 34,893.10
	7	$ 1,000.00	$ 137.11	$ 862.89	$ 34,030.21	$ 1,200.00	$ 1,400.00	$ 34,030.21
	8	$ 1,000.00	$ 133.72	$ 866.28	$ 33,163.92	$ 1,200.00	$ 1,600.00	$ 33,163.92
	9	$ 1,000.00	$ 130.31	$ 869.69	$ 32,294.24	$ 1,200.00	$ 1,800.00	$ 32,294.24
	10	$ 1,000.00	$ 126.89	$ 873.11	$ 31,421.13	$ 1,200.00	$ 2,000.00	$ 31,421.13
	11	$ 1,000.00	$ 123.46	$ 876.54	$ 30,544.59	$ 1,200.00	$ 2,200.00	$ 30,544.59
Y1	**12**	**$ 1,000.00**	**$ 120.02**	**$ 879.98**	**$ 29,664.61**	**$ 1,200.00**	**$ 2,400.00**	**$ 29,664.61**
	13	$ 1,200.00	$ 116.56	$ 1,083.44	$ 28,581.18	$ 1,200.00	$ 2,400.00	$ 28,581.18
	14	$ 1,200.00	$ 112.30	$ 1,087.70	$ 27,493.48	$ 1,200.00	$ 2,400.00	$ 27,493.48
	15	$ 1,200.00	$ 108.03	$ 1,091.97	$ 26,401.51	$ 1,200.00	$ 2,400.00	$ 26,401.51
	16	$ 1,200.00	$ 103.74	$ 1,096.26	$ 25,305.25	$ 1,200.00	$ 2,400.00	$ 25,305.25
	17	$ 1,200.00	$ 99.43	$ 1,100.57	$ 24,204.68	$ 1,200.00	$ 2,400.00	$ 24,204.68

Leases – Operating Lease Journal Entries

	Payment	Interest	Reduction to Lease Liability	Lease Liability	Rent Expense	Deferred Rent	ROU Asset Bal.
Initial	$ -	$ -		$ 40,000.00			$ 40,000.00
1	$ 1,000.00	$ 157.17	$ 842.83	$ 39,157.17	$ 1,200.00	$ 200.00	$ 39,157.17

Commencement:

Account Name		Debit	Credit
Record lease at commencement			
DR	ROU Asset	40,000	
CR	Lease Liability		40,000

Month one:

Account Name		Debit	Credit
Monthly cash payment to record lease payment			
DR	Lease Expense	1,200	
DR	Lease Liability	842	
CR	Cash		1,000
CR	ROU asset		1,042

Leases – Operating Lease Journal Entries Summary

	Initial	Year 1	Year 2	Year 3
Cash lease payments		$ 12,000	$ 14,400	$ 16,800
Lease expense recognized:				
Periodic lease expense		14,400	14,400	14,400
Statement of Financial Position				
ROU Asset	40,000	27,265	13,979	-
Lease Liability	(40,000)	(29,665)	16,379	-

Leases – Finance Lease Example

- Same facts as previous example except it was determined to be a finance lease.
- Commencement journal entry

Account Name		Debit	Credit
To record lease at commencement			
DR	Right-of-use asset	40,000	
CR	Lease Liability		40,000

Leases – Finance Lease Monthly Schedule

Implied Interest Rate 4.7152%

		Payment	Interest	Lease Liability	Amortization	ROU Asset Bal.
	Initial	$ -	$ -	$ 40,000.00	$ -	$ 40,000.00
	1	$ 1,000.00	$ 157.17	$ 39,157.17	$ 1,111.11	$ 38,888.89
	2	$ 1,000.00	$ 153.86	$ 38,311.03	$ 1,111.11	$ 37,777.78
	3	$ 1,000.00	$ 150.54	$ 37,461.57	$ 1,111.11	$ 36,666.67
	4	$ 1,000.00	$ 147.20	$ 36,608.77	$ 1,111.11	$ 35,555.56
	5	$ 1,000.00	$ 143.85	$ 35,752.62	$ 1,111.11	$ 34,444.44
	6	$ 1,000.00	$ 140.48	$ 34,893.10	$ 1,111.11	$ 33,333.33
	7	$ 1,000.00	$ 137.11	$ 34,030.21	$ 1,111.11	$ 32,222.22
	8	$ 1,000.00	$ 133.72	$ 33,163.92	$ 1,111.11	$ 31,111.11
	9	$ 1,000.00	$ 130.31	$ 32,294.24	$ 1,111.11	$ 30,000.00
	10	$ 1,000.00	$ 126.89	$ 31,421.13	$ 1,111.11	$ 28,888.89
	11	$ 1,000.00	$ 123.46	$ 30,544.59	$ 1,111.11	$ 27,777.78
Y1	**12**	**$ 1,000.00**	**$ 120.02**	**$ 29,664.61**	**$ 1,111.11**	**$ 26,666.67**
	13	$ 1,200.00	$ 116.56	$ 28,581.18	$ 1,111.11	$ 25,555.56
	14	$ 1,200.00	$ 112.30	$ 27,493.48	$ 1,111.11	$ 24,444.44
	15	$ 1,200.00	$ 108.03	$ 26,401.51	$ 1,111.11	$ 23,333.33

Leases – Finance Lease Example Month One Journal Entries

	Payment	Interest	Lease Liability	Amortization	ROU Asset Bal.
Initial	$ -	$ -	$ 40,000.00	$ -	$ 40,000.00
1	$ 1,000.00	$ 157.17	$ 39,157.17	$ 1,111.11	$ 38,888.89

Account Name		Debit	Credit
1. To record amortization on ROU asset ($40,000/36 months)			
DR	Amortization Expense	1,111	
CR	ROU Asset		1,111
2. Monthly cash payment to record lease payment			
DR	Lease Liability	1,000	
CR	Cash		1,000
3. To record interest expense ($40,000 x 4.7152% / 12)			
DR	Interest Expense	157	
CR	Lease Liability		157

Leases – Finance Lease Journal Entries Summary

	Initial	Year 1	Year 2	Year 3
Cash lease payments		$ 12,000	$ 14,400	$ 16,800
Lease expense recognized:				
Interest expense		1,665	1,114	421
Amortization expense		13,333	13,333	13,333
Total expense		14,998	14,447	13,754
Statement of Financial Position				
ROU Asset	40,000	26,667	13,333	-
Lease Liability	(40,000)	(29,665)	16,379	-

Leases – What's The Difference Between The Two?

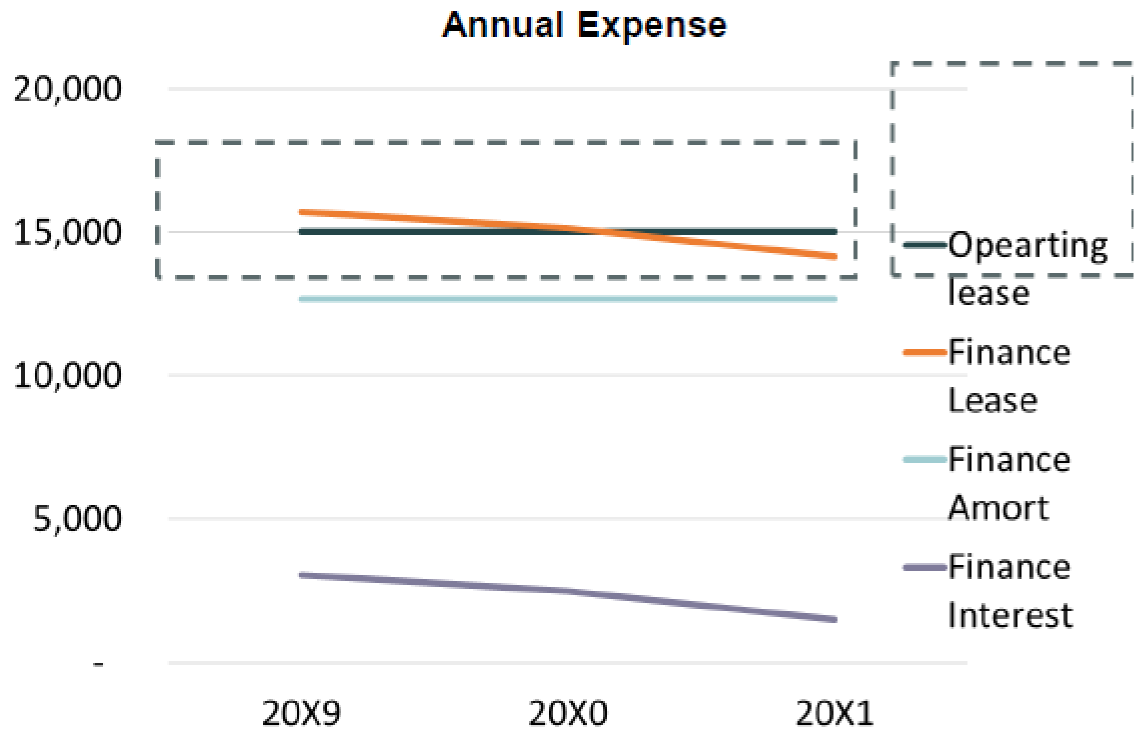
	ROU Asset		Lease Liability		Expense		
	Finance	Operating	Finance	Operating	Finance	Operating	Diff.
Initial	$ 40,000	$ 40,000	$ 40,000	$ 40,000	-	-	-
Year 1	$ 26,667	$ 27,265	$ 29,665	$ 29,665	$ 14,998	$ 14,400	$ 598
Year 2	$ 13,333	$ 13,979	$ 16,379	$ 16,379	$ 14,447	$ 14,400	$ 47
Year 3	-	-	-	-	$ 13,755	$ 14,400	$ (645)
Total					$ 43,200	$ 43,200	-

Leases – What's The Difference Between The Two?

- Operating Lease expense:
  - Recognized on a straight-line basis

- Finance Lease expense:
  - Amortization expense for right-of-use asset
  - Interest expense on the finance lease liability

- Finance Lease expense is higher in earlier years, lower in later years



Leases – Disclosures

Qualitative	Quantitative	
▪ Nature of leases ▪ Leases that have not yet commenced but that create significant rights and obligations for the lessee ▪ Significant assumptions and judgments made in application ▪ Main terms and conditions of any sale and leaseback transactions ▪ Whether an accounting policy election was made for the short-term lease exemption	• Finance lease expense, segregated between amortization and interest • Operating lease cost • Short-term lease cost • Variable lease cost • Sublease income • Gains and losses arising from sale and leaseback transactions • Lease payments maturity analysis (similar to that in Topic 840 disclosures)	▪ Separately for Finance and Operating leases: - Cash paid for amounts included in lease liabilities, segregated between operating and financing - Lease liabilities arising from obtaining ROU assets - Weighted-average remaining lease term - Weighted-average discount rate for leases

Leases – Disclosures – Significant Accounting Policy

The Organization determines if a contract contains a lease at its inception based on whether or not the Organization has the right to control the asset during the contract period and other facts and circumstances. At commencement, contracts containing a lease are further evaluated for classification as an operating or finance lease. The Organization has both operating and finance leases. The Organization is the lessee in a lease contract when it obtains the right to control the asset. Right-of-use ("ROU") assets represent the Organization's right to use an underlying asset for the lease term and are included in right-of-use assets on the statement of financial position. Lease liabilities represent the Organization's obligation to make lease payments arising from the lease and are included in lease liability on the statement of financial position. ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date.

Leases with a lease term of 12 months or less at inception are not recorded on the statement of financial position and are expensed on a straight-line basis over the lease term in the statement of activities. When determining the lease term, the Organization includes renewal or termination options that it is reasonably certain to exercise. Lease expense is recognized on a straight-line basis over the expected lease term for operating leases. Amortization expense of the right-of-use asset for finance leases is recognized on a straight-line basis over the lease term and interest expense is recognized based on the risk-free rate of return. As most of the Organization's leases do not provide an implicit interest rate, it uses the risk-free rate based on US Treasury Rates for the time period that approximates the lease term. When contracts contain lease and non-lease components, the Organization accounts for both components as a single lease component.

Leases – Disclosures – Footnote

The Organization primarily leases office space and other equipment. Leases have remaining lease terms of up to three years, some of which include escalation clauses, renewal options for up to twelve years or termination options within one year. The Organization's leases have remaining lease terms of 1 to 10 years, inclusive of renewal or termination options that the Organization is reasonably certain to exercise. Short-term lease costs were $xxxx for the year ended December 31, 2021.

Statement of financial position information related to leases is as follows:

Operating lease ROU assets	$	10,000
Finance lease ROU assets		5,000
Total ROU assets	$	15,000
Operating lease liabilities	$	10,000
Finance lease liabilities		5,000
Total lease liabilties	$	15,000

Leases – Disclosures – Footnote

	Payment	Interest	Reduction to Lease Liability	Lease Liability	Rent Expense	Deferred Rent	ROU Asset Bal.
Initial	$ -	$ -		$ 40,000.00			$ 40,000.00
1	$ 1,000.00	$ 157.17	$ 842.83	$ 39,157.17	$ 1,200.00	$ 200.00	$ 39,157.17

Costs of leases are as follows:

Operating lease costs	$ 1,200
Finance lease costs	
Amortization of ROU assets	$ 1,111
Interest on lease liabilities	157
Total finance lease costs	$ 1,268

Cash paid for amounts included in the measurement of lease liabilities are as follows:

Operating cash outflows for operating leases	$ 1,000
Operating cash outflows for finance leases	157
Financing cash outflows for finance leases	843
Total cash paid	$ 2,000

	Payment	Interest	Lease Liability	Amortization	ROU Asset Bal.
Initial	$ -	$ -	$ 40,000.00	$ -	$ 40,000.00
1	$ 1,000.00	$ 157.17	$ 39,157.17	$ 1,111.11	$ 38,888.89

Leases – Disclosures – Footnote

Information associated with the measurement of lease obligations as of December 31, 2022 is as follows:

Weighted-average remaining lease term

Operating leases	5 years
Finance leases	5 years

Weighted-average discount rate

Operating leases	3.00%
Finance leases	3.00%

Leases – Disclosures – Footnote

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1			Start date		Term months		Remaining years		Lease liability		G*I		K/I	
2	Lease 1		1/1/2022		20		0.66		6,942		4,582			
3	Lease 2		1/1/2022		24		1		10,836		10,836			
4	Lease 3		1/1/2022		36		2		22,105		44,210			
5														
6									39,883		59,628		1.50	Weighted average lease term
7														

	A	B	C	D	E	F	G	H	I	J	K	L	M
1			Payments		Discount rate		C*E		G/C				
2	Lease 1		8,000		2.5		20,000						
3	Lease 2		12,000		3		36,000						
4	Lease 3		24,000		4		96,000						
5													
6			44,000				152,000		3.45	Weighted average discount rate			
7													

Leases – Disclosures – Footnote

Maturities of lease liabilities for years ending December 31 area as follows:

	Operating	Finance
2022	$ 1,000	$ 1,000
2023	1,000	1,000
2024	1,000	1,000
2025	1,000	1,000
2026	1,000	1,000
Thereafter	10,000	10,000
Total lease payments	15,000	15,000
Less imputed interest	1,000	1,000
Total lease liabilities	$ 14,000	$ 14,000

Lease Modifications

Renegotiation resulting in change to

- **Scope of the lease** - adding or removing a ROU asset
- **Consideration of a lease** - increasing or decreasing the payment
- **Lease term** - extending or shortening the term

When a <u>contract is modified</u>, an entity must reassess whether the contract still contains a lease, and if so, whether the modified contract should be accounted for as a separate contract

Is the Modification a Separate Contract?

A lease modification is accounted for as a separate contract if **BOTH** criteria are met:

- Grants additional rights to use one or more underlying assets (e.g., adding more square footage in the building)
- Increase in payments is equivalent to the stand-alone price

Lease modifications that do not meet the criteria for a separate contract may include:

- Extending or reducing the term of an existing lease (e.g., changes the lease term from 3 to 5 years or vice versa)
- Fully or partially terminating a lease
- Changes to contract price only
- Granting additional ROU assets not included in the original contract and the increase in payments is NOT commensurate to a stand-alone price

Lessee Reassessment

Original contract

No changes

Expected outcome

Change in or reassessment

At each reporting period the lessee is required to assess the lease term and purchase options for significant changes, including residual value guarantees

If there is a reassessment, account for it by

+ Remeasuring the lease liability using the revised inputs
+ Adjusting the ROU asset at the reassessment date

Leases – Lessor

- Operating Leases
  - No balance sheet impact, continue to recognize the underlying assets and liabilities
  - Rental income continues to be recognized straight-line over the term of the lease

Leases – Do I Need to Adopt the Lease Standard?

- Wisconsin Department of Financial Institutions require GAAP financial statements.
- Most granting agencies imposing audit requirements require GAAP financial statements.
- Some nonprofits that have no external audit/review requirements may be able to issue financial statements using old lease accounting.
  - If the leases are material, auditor or review reports would most likely show a GAAP departure.
  - There would still be some additional costs to determine the effect of not applying the lease standard.
- If leases are not material a passed entry may be considered.
- Some nonprofits that are only filing a 990 may choose not to adopt the lease standard.

Covid-19 Funding and Compliance Update

Economic Injury Disaster Loans (EIDL)

- Forgivable advances of $10,000
- Loans are interest deferred for 24 months
- Advances are <u>not</u> subject to single audit
- **Loans <u>are</u> subject to single audit**
- Many EIDLs began to require payments in 2022

Employee Retention Credits (ERC)

- Refundable tax credit designed to encourage employers to keep employees on their payroll.
- Watch out for double dipping on other governmental funding
- Not a loan like PPP; ERC is considered a form of government grant
- ERC funds are <u>not</u> subject to single audit
- **941-X returns can be filed through April 15, 2024-2025 for 2020 and 2021 claims**
- **Beware companies guaranteeing large refunds and charging contingent fees.**

Provider Relief Funds (PRF)

- Generally considered conditional grants where revenue is recognized to extent that health care related expenses or lost revenues have been incurred and not reimbursed from other sources.
- Challenges dealing with various delays and revisions to the HHS guidelines, including calculation of lost revenue
- Confusion over GAAP reporting versus SEFA reporting
- **PRF <u>are</u> subject to single audit**

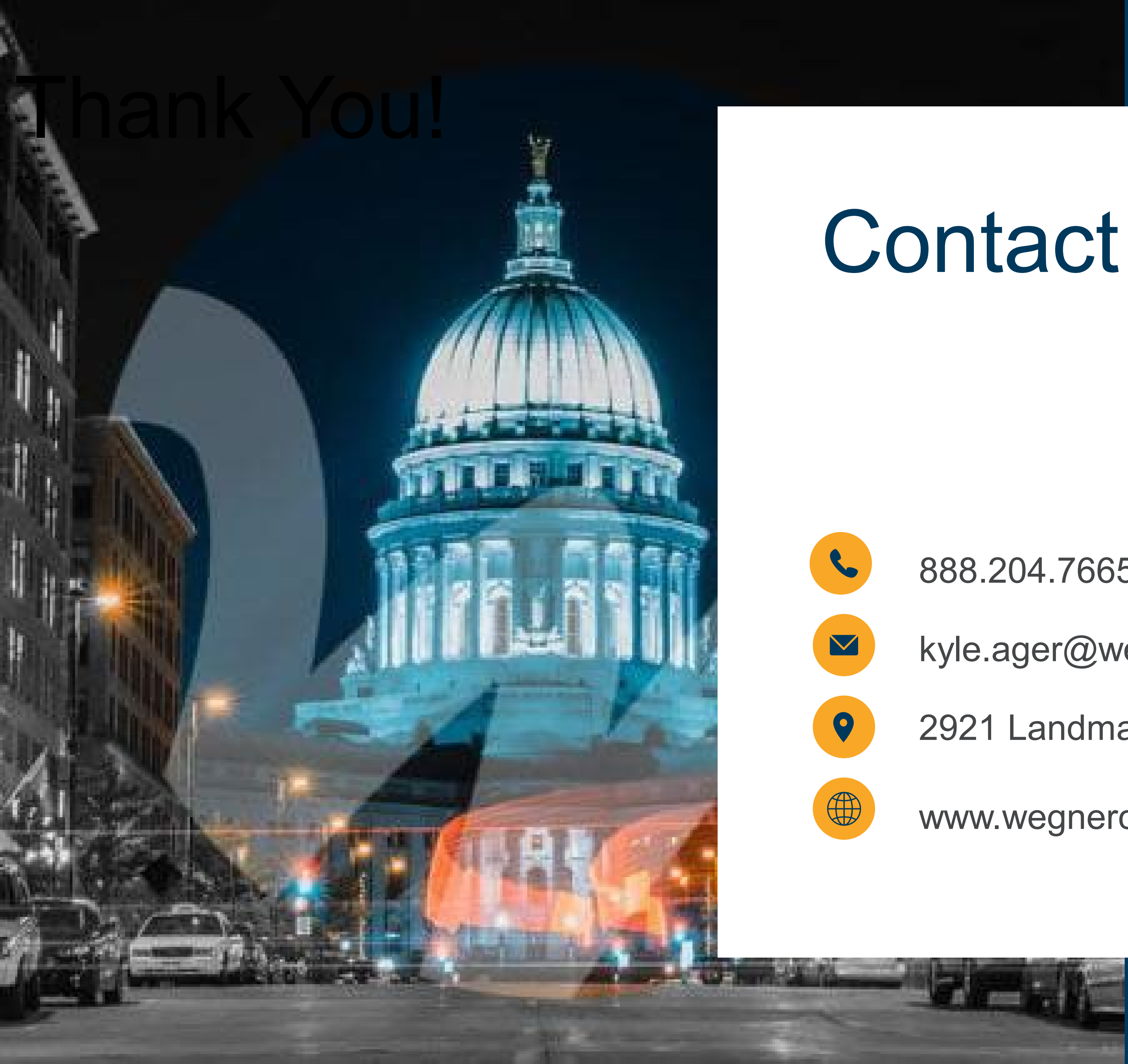
Provider Relief Funds: SEFA Reporting

Year End	What's included on the SEFA
Before 6/30/2021	No PRF reporting
6/30/2021 – 12/30/2021	Total expenditures and lost revenues from the **Period 1** report submission to the PRF Reporting Portal
12/31/2021 – 6/29/2022	Total expenditures and lost revenues from *BOTH* **Period 1** and **Period 2** report submission to the PRF Reporting Portal
6/30/2022 – 12/30/2022	Total expenditures and lost revenues from the **Period 2** and **Period 3** report submission to the PRF Reporting Portal
12/31/2022 – 6/29/2023	Total expenditures and lost revenues from *BOTH* **Period 3** and **Period 4** report submission to the PRF Reporting Portal
6/30/2023 or after	SEFA reporting guidance to be provided at a later date in 2023 Compliance Supplement

Provider Relief Funds: HHS Reporting

Reporting Portal Period	Payment Received Period (Payments Exceeding $10,000 in Aggregate Received)	Period of Availability	Deadline to Use Funds	PRF Portal Reporting Time Period
Period 1	April 10, 2020 to June 30, 2020	January 1, 2020 to June 30, 2021	June 30, 2021	July 1, 2021 to September 30, 2021*
Period 2	July 1, 2020 to December 31, 2020	January 1, 2020 to December 31, 2021	December 31, 2021	January 1, 2022 to March 31, 2022
Period 3	January 1, 2021 to June 30, 2021	January 1, 2020 to June 30, 2022	June 30, 2022	July 1, 2022 to September 30, 2022
Period 4	July 1, 2021 to December 31, 2021	January 1, 2020 to December 31, 2022	December 31, 2022	January 1, 2023 to March 31, 2023
Period 5	January 1, 2022 to June 30, 2022	January 1, 2020 to June 30, 2023	June 30, 2023	July 1, 2023 to September 30, 2023

Thank You!



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THANK YOU

Wegner CPAs