



Accounting & Audit Update

December 2023 | Presented by Kyle Ager, CPA



Kyle Ager, CPA

Senior Manager



Kyle Ager has spent his entire career at Wegner CPAs in the Assurance Department. Kyle is a senior manager devoted to serving nonprofit clients with their audits and reviews, and 990s. Internally at Wegner CPAs, Kyle serves as the chair of the nonprofit niche.



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AIU	1,822	HJI	20,369	WWE	890	PLD	6,350	EER	10,985	ORT	665
	(-35)		(+580)		(-20)		(-200)		(+580)		(-15)
MBC	3,405	LJH	9,542	MJB	2,609	PON	7,654	NFR	4,522	UGH	1,632
	(+210)		(-128)		(+35)		(+189)		(+122)		(-58)
YBV	3,204	QMN	5,211	MMJ	7,100	BT	7,150	KLM	782	CCX	1,901
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MBB	3,320	WFF	712	HJM	134	DL	2,022	SDH	631		4,287
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What's Up in the Nonprofit Sector?



Budgeting

- COVID funding ended, organizations are having to replace that income
- Strong investment return for 2023 so far. Major indices earning on average 16%
- Many organizations are generating a net income through investment earnings, but have losses from operations
- Rising interest rates and inflation (SSA COLA adjustments of 8.7% in 2023)
- Expecting interest rates to drop through 2024 and 2025



Budgeting cont.

REVENUE

Contributions	\$ 4,527,899
Program revenue	2,487,613
Investment return, net	<u>2,185,282</u>

Total revenue 9,200,794

EXPENSES

Program services	5,865,231
Supporting activities	
Management and general	1,568,459
Fundraising	<u>591,890</u>

Total expenses 8,025,580

Change in net assets 1,175,214

Loss from operations (1,010,068)

Giving Trends

- Contributions in 2022 down by 3.4% compared to 2021 – Giving USA
- Three highest categories of giving are:
 - Religion
 - Human services
 - Education
- Foundation giving down 4.17% compared to 2021- NACUBO









Cash Management

- Consider your cash reserve policy
- Many organizations strive to have cash reserves of at least three months
- Interest rates have risen significantly and many low-risk investments are earning 5%+
- Organizations with idle cash are losing buying power during periods of high inflation
- Average checking accounts earning only .07%

Best CD Rates for November 2023 (Up to 5.67%)

Consider:

- CDs
- Money markets
- Treasury bills
- Sweep accounts

Bank/institution	NerdWallet rating [?]	Minimum deposit	APY
 Barclays Online CD	★ 5.0 /5 Best for CD Rates	\$0 Member FDIC	1-year APY 5.50% [?] 3-year APY 4.50% [?] 5-year APY 4.50% [?]
 Bread Savings™ CD	★ 5.0 /5 Best for CD Rates	\$1,500 Member FDIC	1-year APY 5.60% [?] 3-year APY 4.95% [?] 5-year APY 4.75% [?]
 LendingClub CD	★ 4.0 /5 Best for CD Rates	\$2,500 Member FDIC	1-year APY 5.55% 3-year APY 4.30% 5-year APY 4.00%
 Alliant Credit Union Certificate	★ 5.0 /5 Best for CD Rates	\$1,000 Federally insured by NCUA	1-year APY 5.25% 3-year APY 4.45% 5-year APY 4.35%





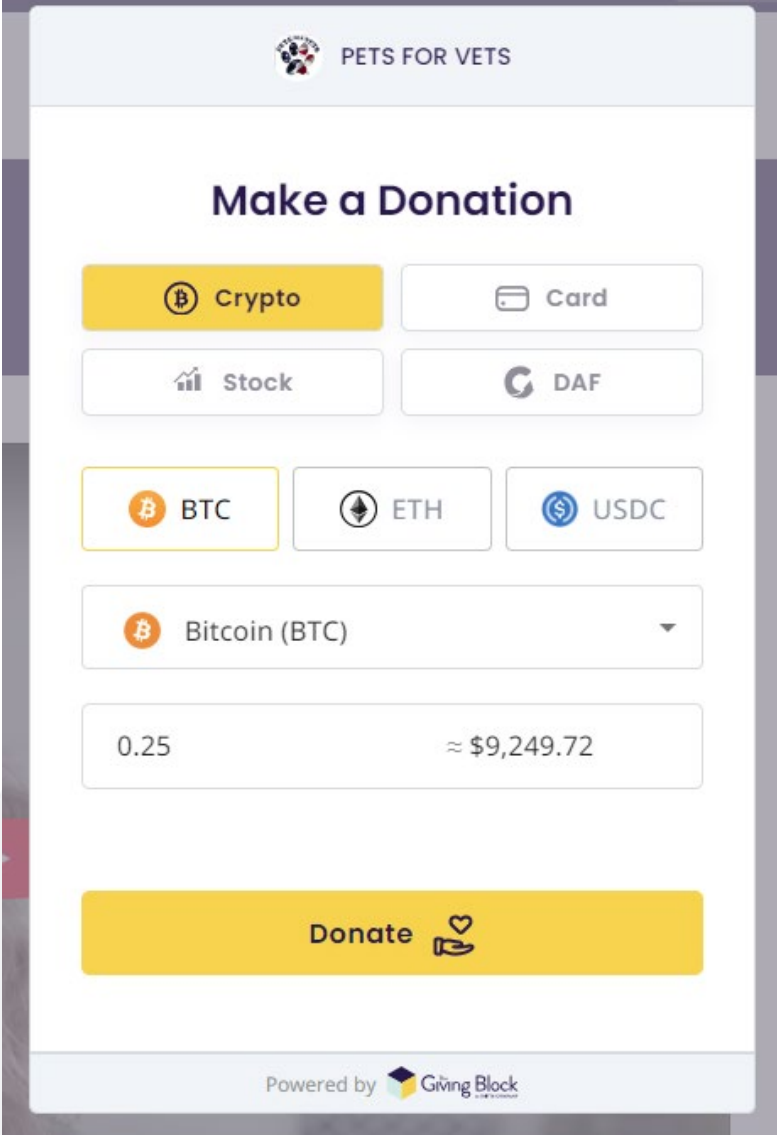
Other Topics

1. Mergers
2. Social Media Fundraising
3. AI Fundraising



Cryptocurrency

- Accepting cryptocurrency
 - Intermediary 501(c)(3)
 - Donation processor
 - Embed into website
- Tax implications
 - Treated as a noncash gift
 - 8283 for donations over \$5,000
 - Donating crypto is a nontaxable event for the donor



The screenshot shows a mobile application interface for 'PETS FOR VETS'. At the top, there is a logo and the text 'PETS FOR VETS'. Below that, the heading 'Make a Donation' is centered. The interface offers several donation methods: 'Crypto' (highlighted in yellow), 'Card', 'Stock', and 'DAF'. Under the 'Crypto' section, there are three options: 'BTC' (highlighted in yellow), 'ETH', and 'USDC'. A dropdown menu is set to 'Bitcoin (BTC)'. Below the dropdown, a text input field contains '0.25' and a corresponding value of '≈ \$9,249.72'. At the bottom of the form is a large yellow 'Donate' button with a heart icon. The footer of the interface says 'Powered by Giving Block'.

Promises to Give

- Rising interest rates may cause organizations to consider the discount rate used for discounting new long-term promises to give to net present value.
- Unless you're following the fair value method, the discount rate is not changed after the initial discount is set.

Discount Rate Tool

Select type of Interest Rate Data

Daily Treasury Par Yield Curve Rates

Select Time Period

2023

Apply

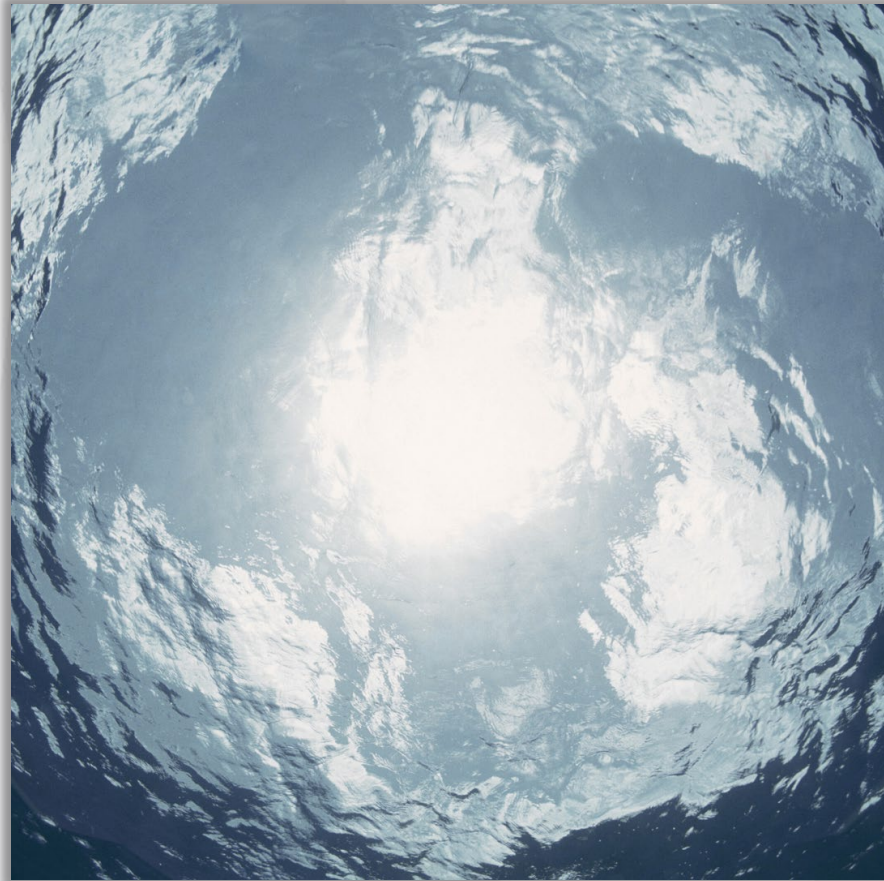
Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/03/2023	4.17	4.42	4.53	4.70	4.77	4.72	4.40	4.18	3.94	3.89	3.79	4.06	3.88
01/04/2023	4.20	4.42	4.55	4.69	4.77	4.71	4.36	4.11	3.85	3.79	3.69	3.97	3.81
01/05/2023	4.30	4.55	4.66	4.75	4.81	4.78	4.45	4.18	3.90	3.82	3.71	3.96	3.78
01/06/2023	4.32	4.55	4.67	4.74	4.79	4.71	4.24	3.96	3.69	3.63	3.55	3.84	3.67
01/09/2023	4.37	4.58	4.70	4.74	4.83	4.69	4.19	3.93	3.66	3.60	3.53	3.83	3.66
01/10/2023	4.41	4.62	4.73	4.77	4.85	4.74	4.24	3.94	3.72	3.67	3.61	3.91	3.74
01/11/2023	4.42	4.62	4.72	4.82	4.84	4.73	4.20	3.90	3.66	3.61	3.54	3.84	3.67
01/12/2023	4.57	4.59	4.66	4.74	4.76	4.66	4.12	3.79	3.53	3.48	3.43	3.73	3.56
01/13/2023	4.58	4.59	4.67	4.73	4.77	4.69	4.22	3.88	3.60	3.55	3.49	3.79	3.61
01/17/2023	4.60	4.63	4.71	4.74	4.82	4.67	4.18	3.86	3.60	3.57	3.53	3.81	3.64
01/18/2023	4.59	4.62	4.69	4.74	4.79	4.63	4.06	3.72	3.43	3.40	3.37	3.65	3.54
01/19/2023	4.69	4.66	4.71	4.74	4.79	4.65	4.09	3.76	3.48	3.43	3.39	3.69	3.57

Via Treasury website

<https://home.treasury.gov>



Underwater Endowments



- Due to market fluctuations in the past years, some endowments may be “underwater”
- Underwater endowment = fair value of the endowment is less than the original donor restricted contribution
- Need to disclose the fair value, original gift amount, and amount the fund is underwater

Compliance

- Exposure draft on Yellow Book – Government Auditing Standards
 - Emphasis on quality management of audits
 - Promotes scalability of the standards by audit organizations differing in size and complexity
- Revisions to the Uniform Guidance – proposals include:
 - Increasing single audit threshold from \$750,000 to \$1,000,000
 - Increasing threshold from \$5,000 to \$10,000 for determining items that considered to be equipment
 - Raising the de minimis rate from 10% to 15% for indirect costs



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New Auditing Standards & What they Mean for You



SAS 143, *Auditing Accounting Estimates and Related Disclosures*

What's new?	<ul style="list-style-type: none">• Supersedes AU-C Section 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures</i>• Amends several other sections
Key aspects include	<ul style="list-style-type: none">• Addresses the increasingly complex business environment and complexity in financial reporting frameworks• Includes risk assessment requirements specific to estimates• Requires a separate assessment of inherent risk and control risk• Provides information about scalability of the SAS for all types of accounting estimates

SAS 143: Auditing Accounting Estimates and Related Disclosures - Background

- Effective for audits of financial statements for periods ending on or after December 15, 2023. (i.e., December 31, 2023 year ends)
- Addresses the auditor's responsibilities relating to accounting estimates and related disclosures
- Accounting estimates vary widely in nature and are required to be made by management when the monetary amounts cannot be directly observed.
- The degree to which an accounting estimate is subject to estimation uncertainty will vary substantially. Audit procedures will vary in relation to the estimation uncertainty and risk of material misstatement.
 - For certain accounting estimates, estimation uncertainty may be very low, and the complexity and subjectivity involved in making them may also be very low. For such accounting estimates, the audit procedures would not be expected to be extensive.
 - When estimation uncertainty, complexity, or subjectivity are very high, such procedures would be expected to be much more extensive.

SAS 143: Auditing Accounting Estimates and Related Disclosures – Expected Changes

- Additional audit procedures to obtain an understanding of the entity and its internal controls to identify and assess the risk of material misstatement related to estimates.
- If management utilizes a specialist to develop estimates, the new standard will require an increased collaboration between the auditor and the specialist.
- Procedures will be dependent on the complexity of significant accounting estimates.

SAS 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

What's new?	<ul style="list-style-type: none">• Supersedes AU-C Section 315• Amends various other sections
Key aspects include	<ul style="list-style-type: none">• New and revised risk assessment terminology, including revised definition of significant risk• Clarified work effort related to understanding each of the components of internal control, including enhanced guidance on information technology (IT)• Separately assess inherent risk and control risk• “Maximum” control risk when controls are not tested for operating effectiveness• Risk assessment “stand-back” requirement

SAS 145 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

- Effective for audits of financial statements for periods ending on or after December 15, 2023. (i.e., December 31, 2023 year ends)
- SAS No. 145 does not fundamentally change the key concepts underpinning audit risk. Rather, it clarifies and enhances certain aspects of the identification and assessment of the risks and enhances audit quality.
- SAS 145 includes enhanced guidance on scalability based on the complexity of the entity's activities and environment.
- SAS 145 also includes guidance to help modernize risk assessment for changes in the evolving business environment.

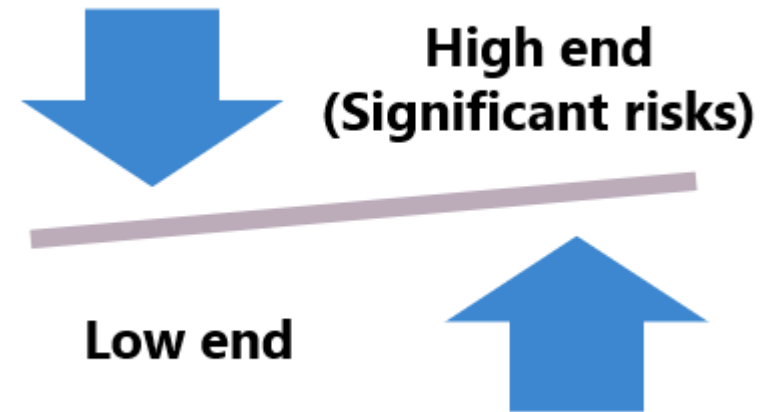
SAS 145 Cont.

Revised definition of a significant risk:

- An identified risk of material misstatement for which the assessment of **inherent risk is close to the upper end of the spectrum of inherent risk** due to the degree to which inherent risk factors affect the combination of the **likelihood** of a misstatement occurring and the **magnitude** of the potential misstatement should that misstatement occur

Or

- that is to be treated as a significant risk in accordance with the requirements of other AU-C sections:
 - Management override of control
 - Revenue recognition
 - Related party transactions that are also significant unusual transactions.



SAS 145 Cont.

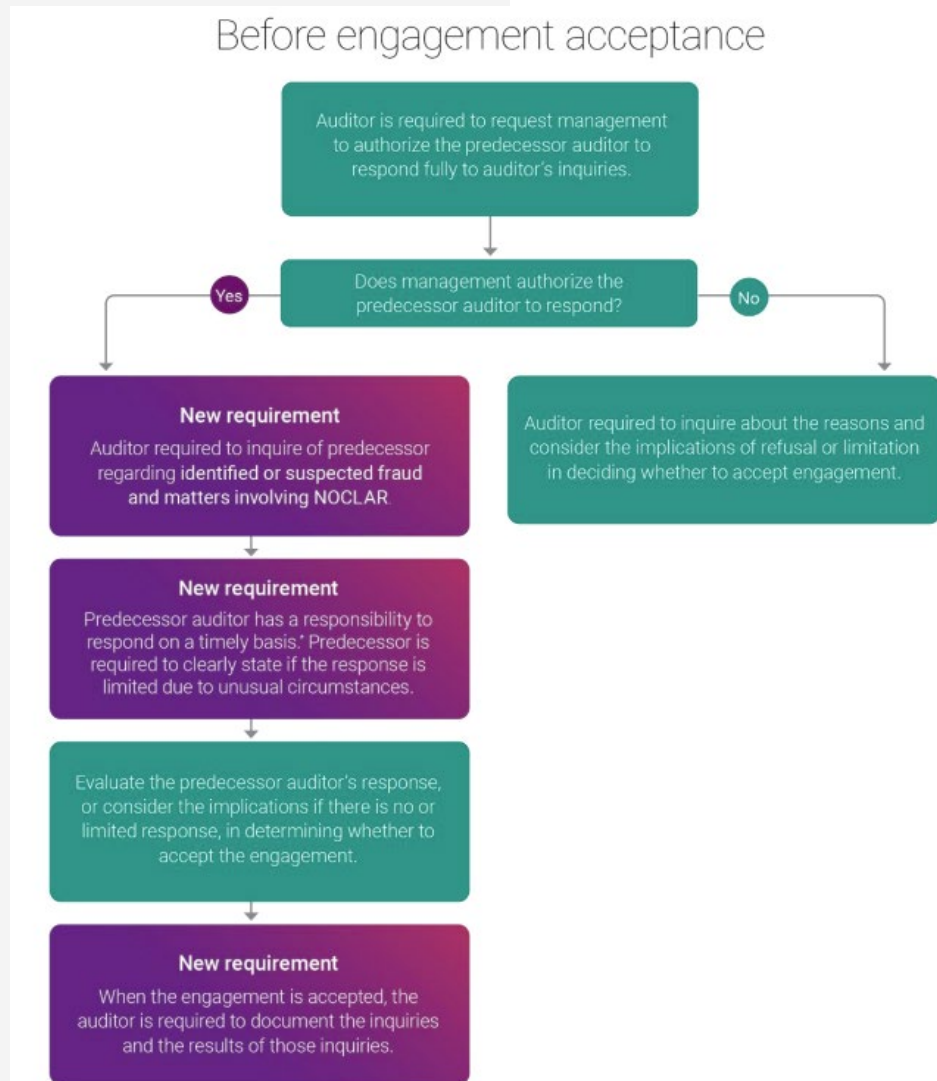
- Revised requirements to evaluate the design of certain controls within the control activities component, including general information technology (IT) controls, and to determine whether such controls have been implemented
- A new requirement to separately assess inherent risk and control risk
- A new “stand-back” requirement intended to drive an evaluation of the completeness of the auditor’s identification of significant classes of transactions, account balances, and disclosures
- New guidance on maintaining professional skepticism

SAS 145: What to Expect

- Management should expect more significance placed on gaining an understanding of the controls in place to address risks (including IT) and audit procedures tailored to those risks
 - May result in a shift in emphasis away from areas that are deemed less risky and towards areas of higher risk



SAS 147 Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations



- Effective for periods beginning on or after June 30, 2023
- SAS No. 147 narrowly revises auditing standards to require an auditor to inquire of the predecessor auditor regarding noncompliance with laws and regulations (NOCLAR)
- SAS No. 147 clarifies requirements and guidance related to the auditor's inquiries of a predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement



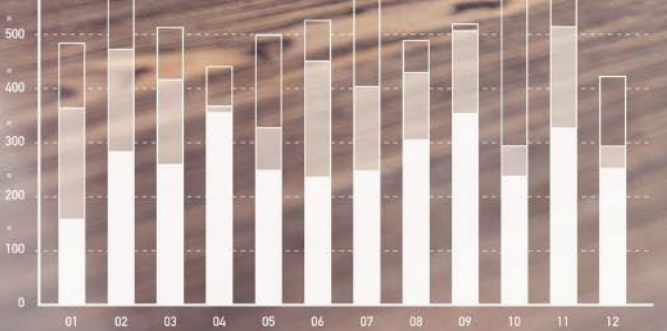
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Pending ASUs



KEE	485	A	8,369,000
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QOP	6,602		102,698,000
TIK	890		24,697,000
WIG	6,280		76,002,000
AHD	2,436		57,610,000



Accounting for and Disclosure of Crypto Assets

- Proposing moving certain crypto assets to fair value from historical cost
- The amendments in this proposed Update would apply to crypto assets that meet all of the following criteria:
 - The crypto asset meets the U.S. GAAP definition of an intangible asset.
 - The holder does not have “enforceable rights to, or claims on, underlying goods, services, or other assets.”
 - The asset resides on **“a distributed ledger based on blockchain technology.”**
 - The asset is **secured by cryptography.**
 - The asset is fungible.
 - The asset is “not created or issued by the reporting entity or its related parties.”



Accounting for and Disclosure of Crypto Assets

- An organization would be required to recognize transaction costs to acquire a crypto asset, such as commissions and other related transaction fees, as an expense as incurred, unless applicable industry-specific guidance requires that the entity capitalize those costs.

Crypto Assets — Presentation

Balance Sheet	Income (Activities) Statement	Statement of Cash Flows
Crypto assets separate from other intangible assets measured using other measurement bases	Gains and losses in net income (changes in net assets) separate from amortization and impairment of other intangible assets	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*

* Contributions for long-term/ capital purposes: financing activities



Improvements to Income Tax Disclosures



Goal to improve transparency and usefulness of income tax disclosures

- Amounts of taxes paid split between federal, state, and foreign
- Disclose the tax jurisdictions and amount paid per jurisdiction that is greater than 5% of the total taxes paid
- Only relevant from a UBI standpoint



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New Accounting Standards





Leases (Topic 842) - Overview/Reminder

Fiscal years beginning after
December 15, 2021 (Calendar year
December 31, 2022).

ASU brings most leases on the
statement of financial position as
assets and liabilities that arise from
leases.

Leases - Update on Highlights and Difficulties

- May affect compliance with contractual agreements and loan covenants
 - No major issues noted with state and county funding sources
 - No major issues with lending institutions, ROU assets and lease liabilities regularly excluded from ratios bankers analyze
- Remeasurements and the process for making remeasurements
 - Discussing in a few slides
- Segregating between lease and non-lease components
 - Most organizations are choosing not to separate lease and non-lease components

Leases - Update on Highlights and Difficulties



Incremental borrowing rate

Most organizations are choosing to use a risk-free discount rate - further discussion in a few slides



Transition and disclosures

Most organizations have adopted and disclosed new lease policies and also have a substantial new lease footnote.



Need for software

Most organizations that we serve are using LeaseCrunch, which has been working very well.

Discount Rate for Leases ASU 2021-09

- This ASU provides flexibility for lessees
- Lessee may elect the risk-free rate by class of underlying asset, rather than at an entity-wide level, as under previous guidance
- Incremental borrowing rates can be lower than risk-free rate
- Organizations may choose to use incremental borrowing rate for larger leases to reduce size of ROU assets and lease liabilities.

Common-Control Lease Arrangements

ASU 2023-01

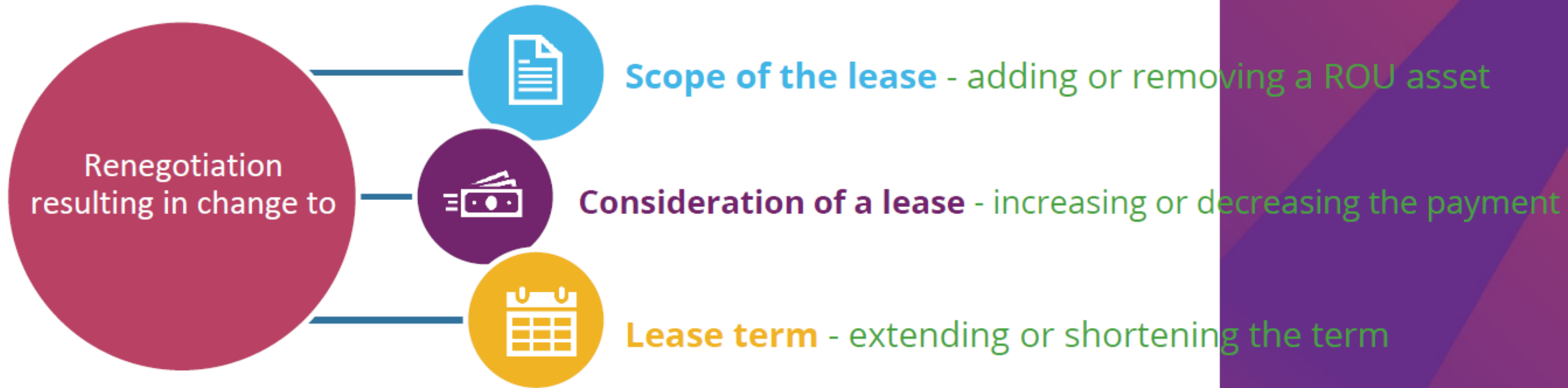
- Nonprofit organizations that are not conduit bond obligors may use the written terms and conditions of a common control arrangement to determine **whether a lease exists** and, if so, the **classification** of and accounting for that lease
 - May be applied on a lease by lease basis
- Complaints that ASC 842 added cost and complexity for financial statement users and preparers
- Organizations may document any existing unwritten leases
- If no written agreement, organizations must follow ASC 842

Common-Control Lease Arrangements Cont.

- Requires leasehold improvements in common-control arrangements to be amortized over the improvement's useful life to the common control group, regardless of the lease term
- If lessee no longer controls the asset it is treated as a transfer between entities as an adjustment to net assets



Lease Modifications



When a contract is modified, 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

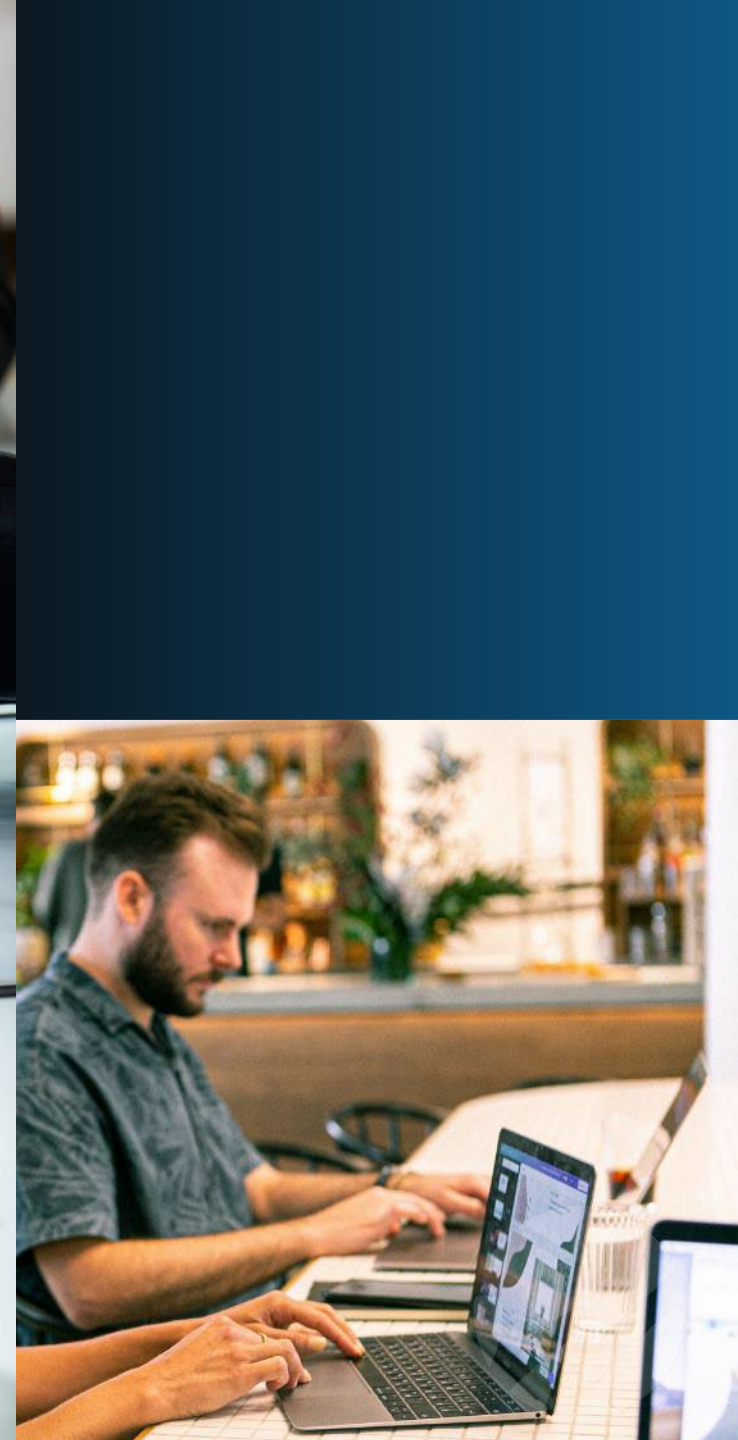
At each reporting period the lessee is required to assess the lease term and purchase options for significant changes, including residual value guarantees

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

Impairment of Asset

Lessee reduces ROU Asset with adjustment recognized in a Gain/Loss Account.



(ASC Topic 326): Measurement of Credit Losses on Financial Instruments, for nonprofit organizations. CECL

- Effective date January 1, 2023
- Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays recognition until it is **probable** a loss has been incurred.
- New guidance requires organizations to measure all **expected** credit losses for financial instruments based on historical experience, current conditions, and reasonable and supportable forecasts.
 - Eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an organization’s current estimate of all expected credit losses over the contractual term of its financial assets
 - Broadens the information that an entity can consider when measuring credit losses to include forward-looking information (forecasts)

(ASC Topic 326) Cont.

- Includes
 - Trade receivables and contract assets
 - Tuition/program revenue
 - Membership dues
 - Merchandise sales
 - Grants receivable under the exchange transaction model
 - Loans and notes receivable (including loans to employees and officers)
- Excludes
 - Promises to give
 - Financial assets measured at fair value
 - Loans and receivables between entities under common control



*(ASC Topic 326):*Cont.

Steps to implement standard:

- Pool receivables with similar risk characteristics
- Adjust historical loss %'s for current conditions and reasonable/supportable forecasts. If required, revert to historical loss %'s for future periods beyond those that can be reasonably forecasted
- Apply revised loss rates to the trade receivable balance to determine the allowance

(ASC Topic 326): Cont.

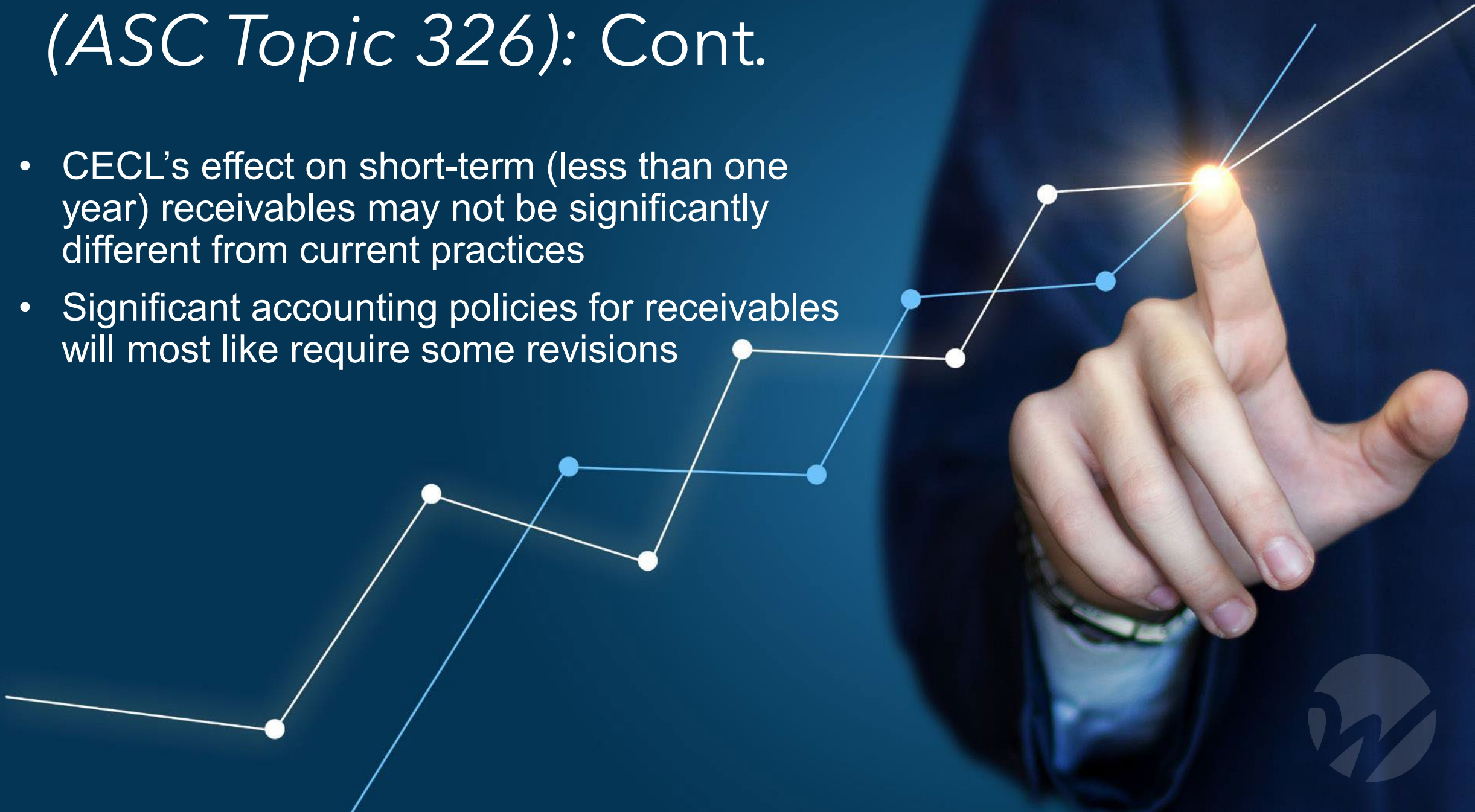


Characteristics that might be indicative of a pool:

- Financial asset type
- Term
- Size
- Geographical location
- Internal or external (third-party) credit score or credit ratings
- Risk ratings or classification
- Collateral type
- Effective interest rate
- Industry of the borrower
- Historical or expected credit loss patterns

(ASC Topic 326): Cont.

- CECL's effect on short-term (less than one year) receivables may not be significantly different from current practices
- Significant accounting policies for receivables will most like require some revisions





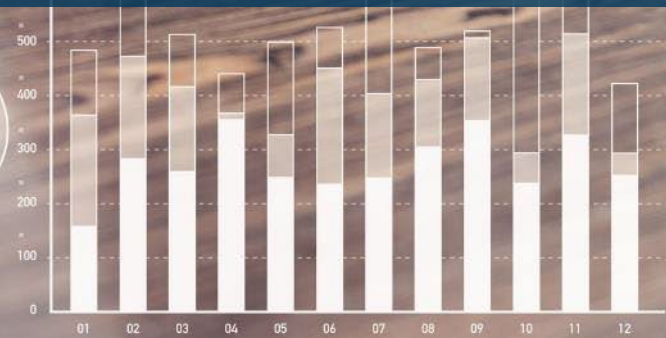
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COVID-19 Funding Update



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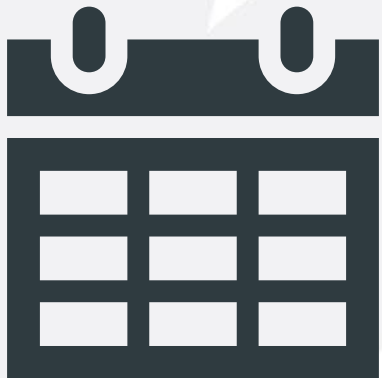


Employee Retention Credits (ERC)

- To protect taxpayers from scams, IRS orders immediate stop to new Employee Retention Credit processing amid surge of questionable claims; concerns from tax pros
- Aggressive marketing to ineligible applicants highlights unacceptable risk to businesses and the tax system
- Moratorium on processing of new claims through year's end will allow IRS to add more safeguards to prevent future abuse, protect businesses from predatory tactics
- IRS working with Justice Department to pursue fraud fueled by aggressive marketing

Provider Relief Funds (PRF)

- **Program Update: June 2023**
- With the passage of the Fiscal Responsibility Act of 2023 and related rescission of program funds, **no further payments will be made** to providers under the Provider Relief Fund or the American Rescue Plan Rural Distribution, including no reconsideration payments.



Key Dates

9/30/2023: Reporting Period 5 Closes

1/1/2024: Reporting Period 6 Begins

Provider Relief Funds: HHS Reporting

Period	Payment Received Period	Period of Availability for Eligible Expenses	Period of Availability for Lost Revenues	Reporting Time Period
1	April 10, 2020, to June 30, 2020	January 1, 2020, to June 30, 2021	January 1, 2020, to June 30, 2021	July 1, 2021, to September 30, 2021
2	July 1, 2020, to December 31, 2020	January 1, 2020, to December 31, 2021	January 1, 2020, to December 31, 2021	January 1, 2022, to March 31, 2022
3	January 1, 2021, to June 30, 2021	January 1, 2020, to June 30, 2022	January 1, 2020, to June 30, 2022	July 1, 2022, to September 30, 2022
4	July 1, 2021, to December 31, 2021	January 1, 2020, to December 31, 2022	January 1, 2020, to December 31, 2022	January 1, 2023, to March 31, 2023
5	January 1, 2022, to June 30, 2022	January 1, 2020, to June 30, 2023	January 1, 2020, to June 30, 2023	July 1, 2023, to September 30, 2023
6	July 1, 2022, to December 31, 2022	January 1, 2020, to December 31, 2023	January 1, 2020, to June 30, 2023	January 1, 2024, to March 31, 2024
7	January 1, 2023, to June 30, 2023	January 1, 2020, to June 30, 2024	January 1, 2020, to June 30, 2023	July 1, 2024, to September 30, 2024
8	July 1, 2023, to December 31, 2023	January 1, 2020, to December 31, 2024	January 1, 2020, to June 30, 2023	January 1, 2025, to March 31, 2025
9	January 1, 2024, to June 30, 2024	January 1, 2020, to June 30, 2025	January 1, 2020, to June 30, 2023	July 1, 2025, to September 30, 2025



THANK YOU



Wegner CPAs