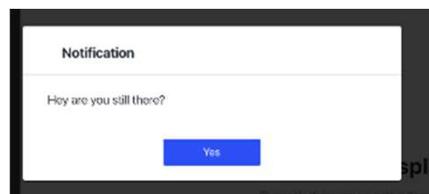


Not-for-Profit Update (NFPU2)



Tips for a Successful Experience

- ❑ **Technical Difficulty?** Try refreshing your page, reconnecting to the class, or rebooting (chat the moderator if you do this, so they can keep track of your presence). Also, logging in under your company's VPN may cause technical difficulty. Turn off your pop up blocker! Tech Support Team 866.265.1561 Option 1 then Option 2
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Unit 1: Industry Update



Topics for Discussion

- Fundraising and donor engagement opportunities
- Programming and services delivery
- Succession planning
- Impact of government reform initiatives
- Cyber threats



Fundraising and donor engagement opportunities

- Individuals, bequests, foundations, and corporations gave an estimated \$471.4 billion to charities in 2020. Total charitable giving grew 5.1% measured in current dollars over the \$448.7 billion contributed in 2019. Adjusted for inflation, total giving increased 3.8%.
- Three of the four sources of charitable giving grew during 2020 (adjusted for inflation), with foundations leading the way:
 - Foundations, \$88.6 billion, up 15.6%;
 - Bequests, \$41.2 billion, up 9%;
 - Individuals, \$324.1 billion, up 1%; and
 - Corporations, \$16.9 billion, down -7.3%



Programming and Services Delivery

- NFPs will need to be proactive with technology rather than reactive. Technology should be part of a NFP's long-term budget planning, both in terms of cost and staffing. Leveraging online tools, such as websites and social media platforms, builds greater support and increases the opportunity to reach and engage new volunteers and donors. Technology can develop unexpected efficiencies and opportunities.
 - For example, Church of God Ministries, a NFP religious organization headquartered in Anderson, Indiana, built a portal to connect its network of pastors, churches and state assemblies to operate as one unit more than ever before.
- The COVID-19 pandemic created a huge demand for certain NFPs as demands soared for health care, food, career counseling, disaster relief, small business loans and many other social services. Fortunately, many NFPs were able to meet that demand with new service and delivery methods.
 - For example, the Ohio District 5 Area Agency on Aging embraced online data capture and backed away from in-person and over-the-phone contact that often resulted in voicemail queues and multiple touchpoints. The move streamlined the intake process to free up frontline staff for other important work.



Succession Planning

Creating a robust organizational succession plan, together with career paths and individual coaching and mentoring can go a long way toward sustaining institutional knowledge and reducing turnover. A robust succession planning process should include the following:

- Identifying key positions or roles in the NFP.
- Identifying high-performing employees.
- Evaluating the employee composition.
- Determining successor candidates' willingness to move to another position.



Question for Discussion

How has the COVID-19 pandemic impacted your NFP clients?



Question for Discussion

If NFPs applied for and received funding thru the SBA PPP program, should the funding be considered?

- A grant
- Additional debt
- Troubled debt restricting
- Indication of going concern basis



Response

- All may be appropriate consideration
- None would apply



Government Oversight and Reform: Payment in Lieu of Taxes

- Governments do not have the legal authority to impose discriminatory taxes or fees
- Many not-for-profits pay little or no property tax but some like colleges, universities, hospitals, etc., do
- Governments use PILOT as a vehicle for boosting taxes
- Some entities believe it is the right thing to do so they volunteer to pay
- Studies show that the positive impact many not-for-profits have on a community offsets the cost to the government for certain services
- Not-for-profits should be prepared to be asked for these fees



Government Oversight and Reform: HIPAA Compliance for Not-For-Profits

- An NFP compliance to HIPAA is required if the NFP interacts with health information in any way.
- NFPs must implement and maintain compliance with HIPAA requirements. This not only includes protection of health information in physical form but also includes the network and processes over which health information is handled.
- HIPAA violations are categorized in four tiers by the Department of Health and Human Services based on the violators' level of culpability for the violation.
- State attorneys general also have the authority under the HITECH Act to hold NFPs accountable for the exposure of the protected health information of state residents and can file civil actions with the federal district courts.



Cyber Threats

- Challenges and opportunities
- Threats
- Risk assessments
- Cybersecurity insurance
- Insurance
- Incident response plan
- Anti-virus software and other protections



Question for Discussion

- What precautions have your not-for-profits taken in the area of cybersecurity?

Unit 2: FASB Update



Learning Objective

- Apply recently issued Accounting Standard Updates (ASUs)

FASB's Technical Agenda



FASB's Technical Agenda

1. Framework Projects
2. Recognition and Measurement: Broad Projects
3. Recognition and Measurement: Narrow Projects
4. Presentation and Disclosure Projects
5. Research Projects

FASB Update— 2022

KAPLAN

ASU 2016-02 *LEASES* (Topic 842)

KAPLAN



ASU 2016-02 (Topic 842)

Objective

- The FASB issued ASU 2016-02, *Leases*, as amended (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements



ASU 2016-02 (Topic 842)

Core Principal

- The core principle of Topic 842 is that a reporting entity should recognize assets and liabilities arising from a lease. A lessee will recognize a liability to make lease payments and a right-of-use (RoU) asset representing its right to use the leased asset for the lease term
- Our focus in this sub-section is leasing from the lessee's perspective



ASU 2016-02 (Topic 842)

Scope

According to Topic 842, a lease conveys the right to control the use of an identified property, plant, and equipment (an identified asset) for a period of time in exchange for consideration - A reporting entity should apply Topic 842 to all leases, including subleases

Topic 842 does not apply to the following:

- Leases of intangible assets
- Leases to explore for or use minerals, oil, natural gas, and similar assets
- Leases of biological assets, including timber
- Leases of inventory
- Leases of assets under construction



ASU 2016-02 (Topic 842)

Scope (cont'd)

- A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to extend the lease term or purchase the underlying asset that the lessee is reasonably certain to exercise
- NOTE: "Reasonably certain" is defined as a high degree of confidence (for example, 85% to 90%) that an event will take place



ASU 2016-02 (Topic 842)

Lease Definition-Contract

A lease is a contract or part of a contract that conveys the right to control the use of an identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration

A contract is (or contains) a lease when the following two criteria are met:

1. The contract explicitly or implicitly specifies the use of an identifiable asset
2. The lessee (customer) controls the use of the asset for that period of use



ASU 2016-02 (Topic 842)

Lease Classification

- Finance Lease
- Operating Lease



ASU 2016-02 (Topic 842)

Lease Classification – Finance Lease

- Transfer of ownership
- Option to purchase the underlying asset (probable)
- Major part
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments, equals or exceeds substantially all of the fair value (legacy GAAP 90%) of the underlying asset
- Specialized nature



ASU 2016-02 (Topic 842)

Lessee Initial Measurement

At the lease commencement date, a lessee should recognize in the statement of financial position both of the following:

- A lease payment liability based on the present value of the lease payments, discounted using the discount rate for the lease, and
- A right-of-use (RoU) asset representing the lessee's right to use the underlying asset for the lease term.



ASU 2016-02 (Topic 842)

Lessee Initial Measurement (cont'd)

DB: Right of Use Asset

CR: Lease Payment Liability



ASU 2016-02 (Topic 842)

Lease Payment Liability

- Fixed payments
- Variable lease payments
- Exercise price of an option
- Payments for penalties for terminating the lease
- Fees paid by the lessee to the owners of a special-purpose entity for structuring the transaction
- Residual value guarantees



ASU 2016-02 (Topic 842)

Lease Classification

Example



ASU 2016-02 (Topic 842)

Subsequent Measurement

- Finance Lease - Example
- Operating Lease - Example



ASU 2016-02 (Topic 842)

Lessee Disclosures

1. Information about the nature of the entity's leases
2. Information about leases that have not yet commenced but that create significant rights and obligations for the lessee
3. Information about significant assumptions and judgments
4. lessee's total lease cost
5. Maturity analysis
6. Other lessee disclosures



ASU 2016-02 (Topic 842)

Lessee Disclosures (cont'd)

- Example
- AT&T
- Apple

ASU 2021-05 Lessors – Certain Leases with Variable Lease Payments (Topic 842)



ASU 2021-05 (Topic 842)

Objective

ASU 2021-05 is part of FASB's post-implementation review of Topic 842, *Leases* - Including ASU 2021-05, FASB has issued the following seven ASU amendments on leases:

- [ASU 2018-01](#)—Leases (Topic 842): *Land Easement Practical Expedient for Transition to Topic 842*
- [ASU 2018-10](#)—*Codification Improvements to Topic 842, Leases*
- [ASU 2018-11](#)—Leases (Topic 842): *Targeted Improvements*
- [ASU 2018-20](#)—Leases (Topic 842): *Narrow-Scope Improvements for Lessors*
- [ASU 2019-01](#)—Leases (Topic 842): *Codification Improvements*
- [ASU 2021-05](#)—Leases (Topic 842): *Lessors—Certain Leases with Variable Lease Payments*
- [ASU 2021-09](#)—Leases (Topic 842): *Discount Rate for Lessees that are not Public Business Entities*



ASU 2021-05 (Topic 842)

Provisions

To minimize the potential impact of a lessor having to recognize a day one loss in the circumstances above, ASU 2021-05 requires lessors to classify and account for a lease with variable lease payments that do not depend on a reference index or rate as an operating lease if both of the following criteria are met:

- The lease would have been classified as a sales-type lease or a direct financing lease in accordance with Topic 842
- The lessor would have otherwise recognized a day one loss



ASU 2021-05 (Topic 842)

Provisions (cont'd)

- Following operating lease guidance, the lessor does not derecognize the underlying asset in the lease but continues to recognize the measurement and impairment guidance found in Topic 360, *Property, Plant & Equipment*

ASU 2021-09 *Discount Rate for Lessees That Are Not Public Business Entities (Topic 842)*



ASU 2021-09 (Topic 842)

Objective

- To provide lessees that are not public business entities with more flexibility in how they determine the discount rate for their leases and make the risk-free rate election to reduce their initial adoption and ongoing implementation costs associated with Topic 842, *Leases*



ASU 2021-09 (Topic 842)

Background

- A practical expedient exists in Topic 842 applying only to non-public business entities
 - A non-public business entity can elect to use a risk-free rate (e.g., U.S. Treasury bill rate) to discount the lease payments for all leases and avoid the more complicated risk-adjusted discount rate, its incremental borrowing rate. This results in the reporting entity recording a larger asset and liability on its balance sheet
- During FASB's post implementation review of Topic 842, it was noted that many private companies were reluctant to use the risk-free rate election because it caused the recording of RoU assets and lease payment liabilities to be larger than what they would be if the rate implicit in the lease or the incremental borrowing rate was used



ASU 2021-09 (Topic 842)

Provisions

- ASU 2021-09 permits non-public business entities that are lessees to make the risk-free election by class of underlying assets (not all leases)
- A reporting entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply the risk-free rate
- Additionally, ASU 2021-09 requires that when the rate implicit in the lease is readily determinable for any individual lease, the lessee must use that rate rather than a risk-free rate or an incremental borrowing rate, regardless of whether it has made the risk-free rate election for other leases

ASU 2020-04 ASU 2021-01 *REFERENCE RATE REFORM (Topic 848)*



ASU 2020-04/2021-01 (Topic 848)

Objective

- To provide temporary optional guidance to ease the potential burden in accounting for reference rate reform



ASU 2020-04/2021-01 (Topic 848)

Provisions – ASU 2020-04

- ASU 2020-04 provides optional guidance for a limited period of time (for contract modifications made through December 31, 2022) to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting
- ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria that reference LIBOR or another rate that is expected to be discontinued. If a debt agreement or lease agreement has to be changed to use a new interest rate, the modification would be accounted for as a continuation of the contract rather than the establishment of a new contract



ASU 2020-04/2021-01 (Topic 848)

Provisions – ASU 2021-01

- ASU 2021-01 clarifies the scope of Topic 848 to explain that derivatives affected by the discounted transition are explicitly eligible for certain optional expedients and exceptions established in Topic 848
- Further, FASB clarified that a receive-variable-rate, pay-variable-rate cross currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform

ASU 2021-02 FRANCHISORS – REVENUE FROM CONTRACTS WITH CUSTOMERS (Subtopic 952-606)



ASU 2021-02 (Subtopic 952-606)

Objective

- FASB decided to issue this ASU to address the issues raised by stakeholders who expressed concerns about the level of effort required to account for pre-opening services provided by private company franchisors
- The specific issue is the cost and complexity of applying Topic 606, *Revenue from Contracts with Customers*, to determine the amount and timing of revenue recognition for initial franchise fees



ASU 2021-02 (Subtopic 952-606)

Provisions

- ASU 2021-02 includes amendments that introduce a practical expedient for franchisors that are not public business entities allowing them to account for pre-opening services provided to a franchisee as distinct from the franchise license if the services are consistent with those included in a predefined list within the guidance
- Additionally, an accounting policy election can be made to recognize the pre-opening services as a single performance obligation
- Franchisors that elect the practical expedient will be required to determine whether the pre-opening services are distinct from one another unless it makes the accounting policy election to account for the services as a single performance obligation

ASU 2021-03 *INTANGIBLES – GOODWILL AND OTHER* (Topic 350)



ASU 2021-03 (Topic 350)

Objective

- FASB decided to issue ASU 2021-03 in response to stakeholders' concerns about the cost and complexity of performing a goodwill triggering event evaluation during the reporting period (at an interim date), rather than completing the analysis as of the end of the reporting period (year-end), and the relevance of the triggering event evaluation (in 2021 due to the coronavirus, for example) with the financial information reported to and used by stakeholders (users)



ASU 2021-03 (Topic 350)

Provisions

- The amendments in ASU 2021-03 provide private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period
- A reporting entity that does not elect the accounting alternative for amortizing goodwill and that performs its annual impairment test as of a date other than the annual reporting date should perform a triggering event evaluation only as of the end of the reporting period
- The amendments in ASU 2021-03 do not require incremental disclosures beyond the existing requirements in Topic 235, *Notes to Financial Statements*, and Subtopic 350-20

**ASU 2021-04
ISSUER'S ACCOUNTING FOR
CERTAIN MODIFICATIONS OR
EXCHANGES OF
FREESTANDING EQUITY-
CLASSIFIED WRITTEN CALL
OPTIONS (SUBTOPIC 815-40)**



ASU 2021-04 (Subtopic 815-40)

Objective

- Clarify and reduce diversity in an issuer's accounting for modification or exchanges of freestanding equity-classified written call options (warrants) that remain equity classified after the modification or exchange
- According to the ASU, stakeholders requested that FASB provide guidance that will clarify whether an issuer should account for a modification or an exchange of a freestanding equity classified written call option that remains equity classified after modification or exchange as:
 1. An adjustment to equity and, if so, the related earnings per share (EPS) effects, if any or
 2. An expense and, if so, the manner and pattern of recognition



ASU 2021-04 (Subtopic 815-40)

Provisions

- The ASU requires that due to a modification or exchange of an equity classified freestanding written call option with a resulting change in fair value, the following guidance applies to a call option that is not within the scope of another Topic
 - A reporting entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after the modification or exchange as an exchange of the original instrument for a new instrument

ASU 2021-06 AMENDMENTS TO SEC PARAGRAPHS (TOPICS 205, 942, AND 946)



ASU 2021-06 (TOPICS 205, 942, AND 946)

Objective

- This ASU amends various SEC paragraphs in the FASB Codification pursuant to the issuance of SEC Release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses* and SEC Release No. 33-10835, *Update of Statistical Disclosures for Bank and Savings and Loans Registrants*



ASU 2021-06 (TOPICS 205, 942, AND 946)

Provisions

- SEC Release No. 33-10786
- SEC Release No. 33-10835

**ASU 2021-07
DETERMINING THE
CURRENT PRICE OF AN
UNDERLYING SHARE FOR
EQUITY-CLASSIFIED SHARE-
BASED AWARDS (TOPIC
718)**



ASU 2021-07 (TOPIC 718)

Objective

- Simplify the calculation of fair value for private companies when private companies issue share option awards or upon the modification of existing awards for its employees or non-employees



ASU 2021-07 (TOPIC 718)

Provisions

- The primary provision of ASU 2021-07 is permitting the use of a practical expedient for private companies (non-public) to determine the current price input for equity-classified share-based awards issued to both employees and non-employees using the reasonable application of a reasonable valuation method
 - The characteristics of this method are the same as the characteristics used in Section 409A of the U.S. Internal Revenue Code to describe the reasonable application of a reasonable valuation method for income tax purposes



ASU 2021-07 (TOPIC 718)

Provisions (cont'd)

- The share value calculated using the practical expedient may be used for a period of 12 months from the measurement date, unless information that may materially affect the value of the non-public entity (for example, the resolution of material litigation, the issuance of a patent) becomes available
 - Reporting entities that elect to apply the practical expedient must disclose that fact
- The practical expedient is not available for liability-classified awards
- ASU 2021-07 describes the characteristics of the reasonable application of a reasonable valuation method

**ASU 2021-08
ACCOUNTING FOR
CONTRACT ASSETS AND
CONTRACT LIABILITIES
FROM CONTRACTS WITH
CUSTOMERS (TOPIC 805)**



ASU 2021-08 (TOPIC 805)

Objective

To improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the following:

- Recognition of an acquired contract liability
- Payment terms and their effect on subsequent revenue recognized by the acquirer



ASU 2021-08 (TOPIC 805)

Provisions

- To address the conflicting guidance in Topic 805 and Topic 606, ASU 2021-08 requires reporting entities (acquirers) to apply Topic 606 to measure contract assets and contract liabilities in a business combination
- This adds an exception to the fair value guidance in Topic 805

ASU 2021-10 DISCLOSURES BY BUSINESS ENTITIES ABOUT GOVERNMENT ASSISTANCE (TOPIC 832)



ASU 2021-10 (TOPIC 832)

Objective

- To increase the transparency of government assistance including the disclosure of the types of assistance, a reporting entity's accounting for the assistance and the effect of the assistance on a reporting entity's financial statements



ASU 2021-10 (TOPIC 832)

Provisions

ASU 2021-10 requires the following annual disclosures by business entities about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy:

- Information about the nature of the transactions and the related accounting policy used to account for the transactions
- The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item
- Significant terms and conditions of the transactions, including commitments and contingencies

**FASB Staff Educational
Paper**
*Intersection of
Environmental, Social,
and Governance
Matters with Financial
Accounting Standards*

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- Post event evaluation:** Please complete the course evaluation that will be pushed out to you as a pop up link on your screen. We welcome your feedback!

