

The background of the slide is a dense field of 3D-rendered numbers in various shades of blue and white. The numbers are of different sizes and are scattered across the entire frame, creating a sense of depth and movement. Some numbers are in the foreground, appearing larger and more detailed, while others are in the background, appearing smaller and more faded. The overall effect is a vibrant, abstract representation of data and finance.

Accounting & Auditing Update, Nonprofit Focus

UTA CPE Day August 12, 2021

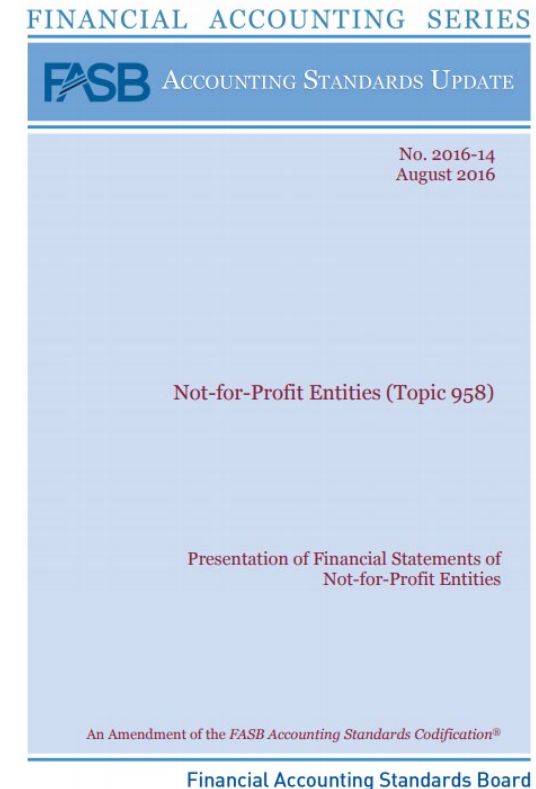
Presenter Stephanie Buduhan, CPA

PSK, LLP

Accounting & Auditing Update, Nonprofit Focus

Learning Objectives

- Review of recent accounting updates that are already effective
- Review of upcoming accounting updates that will be effective soon
- Review of upcoming auditing updates that will be effective soon



Accounting & Auditing Update, Nonprofit Focus

Nonprofit Focus

- Some of the updates included here are **specific to nonprofits**
- Others are **not specific to nonprofits**, but are significant in the accounting/auditing world and **could impact nonprofits**
- Effective dates included here are for **nonpublic nonprofits** (effective dates are different for other entity types)



Recent Accounting Updates

1. Presentation of Financial Statements of Not-For-Profit Entities (ASU 2016-14), effective for years beginning after 12/15/2017
2. Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08), effective for years beginning after 12/15/2018 for resource recipients, effective for years beginning after 12/15/2019 for resource providers
3. Revenue from Contracts with Customers ASC 606 (ASU 2014-09), effective for years beginning after 12/15/2019 (or years beginning after 12/15/2018 if those financials had already been issued as of 6/3/2020)
4. Statement of Cash Flows ASC 230: Restricted Cash (ASU 2016-18), effective for years beginning after 12/15/2018
5. Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-For-Profit Entities (ASU 2019-06), open-ended effective date after May 2019

Recent Accounting Updates

Presentation of Financial Statements of Not-For-Profit Entities (ASU 2016-14)

- little to no change in accounting; big impact on FS presentation
- functional allocation of expenses can be challenging
 - not sufficiently allocating costs to programs (too much allocated to G&A)
 - trouble arriving at appropriate natural classifications (number and type)

Recent Accounting Updates

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)

- makes the recognition of contribution revenue conceptually consistent with the recognition of contract revenue (ASC 606)
- for many nonprofits, no change in accounting, no impact on FS presentation
- distinguishing between a conditional contribution and an unconditional contribution with a donor restriction can be challenging
 - conditional contribution has a barrier and a right of return/release
 - unconditional contribution with donor restriction does NOT have both a barrier and right of return/release, but does have either a limited purpose restriction or a timing restriction)

Recent Accounting Updates

Revenue from Contracts with Customers ASC 606 (ASU 2014-09)

- contributions are nonreciprocal transfers, so they don't fall under ASC 606
- for many nonprofits, no change in accounting and no major impact on FS presentation

Recent Accounting Updates

Statement of Cash Flows ASC 230: Restricted Cash (ASU 2016-18)

- no change in accounting
- only impacts FS presentation
- only affects nonprofits with restricted cash

Recent Accounting Updates

Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-For-Profit Entities (ASU 2019-06)

- makes the private company accounting alternatives for goodwill/intangibles available to nonprofits
- FASB has a current project to review this topic, so more changes could be coming

Upcoming Accounting Updates

1. Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07), effective for years beginning after 6/15/2021, early adoption permitted
2. Leases ASC 842 (ASU 2016-02), effective for years beginning after 12/15/2021, early adoption permitted

Upcoming Accounting Updates

Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)

- this update clarifies presentation and disclosure requirements for contributed nonfinancial assets
- this update does NOT change existing recognition and measurement requirements for contributed nonfinancial assets (ASC 958-605)
- contributed nonfinancial assets are also known as gifts-in-kind or noncash contributions

Upcoming Accounting Updates

Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)

- contributed nonfinancial assets can include:
 - fixed assets, such as land, buildings, and equipment
 - the use of fixed assets or utilities
 - materials and supplies, such as food/clothing/pharmaceuticals
 - intangible assets
 - services, if they meet the criteria for recognition

Upcoming Accounting Updates

Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)

- contributed nonfinancial assets must be separately stated in the statement of activities, distinct from contributions of cash or other financial assets

Upcoming Accounting Updates

Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)

- disclosures for contributed nonfinancial assets must include:
 - a disaggregation of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial asset
 - for each category of contributed nonfinancial asset, disclose the following:
 - qualitative information about whether the contributed nonfinancial assets were monetized or utilized during the reporting period; if utilized, a description of the programs or other activities in which the assets were used

Upcoming Accounting Updates

Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)

(continued)

- for each category of contributed nonfinancial asset, disclose the following:
 - the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets
 - a description of any donor-imposed restrictions associated with the contributed nonfinancial assets
 - a description of the valuation techniques and inputs used to arrive at fair value for the contributed nonfinancial assets

Upcoming Accounting Updates

Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)

(continued)

- for each category of contributed nonfinancial asset, disclose the following:
 - the principal or most advantageous market used to arrive at fair value for the contributed nonfinancial assets, if it is a market in which the entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets

Upcoming Accounting Updates

Leases ASC 842 (ASU 2016-02)

- this update significantly changes the accounting for operating leases
- accounting for capital leases is not changed, but capital leases are now called finance leases

Upcoming Accounting Updates

Leases ASC 842 (ASU 2016-02)

- a lease is defined as a contract that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration
- control exists if the customer has:
 - the right to obtain substantially all of the economic benefits from the use of the asset
 - the right to direct the use of the asset

Upcoming Accounting Updates

Leases ASC 842 (ASU 2016-02)

- for leases with a term of 12 months or less, that do not include a purchase option, a lessee can pass on following the operating or finance lease rules and simply recognize lease expense on a straight-line basis over the lease term

Upcoming Accounting Updates

Leases ASC 842 (ASU 2016-02)

- a lease is a finance lease if it meets any one of the following criteria:
 - ownership of the asset transfers by the end of the lease term
 - there is a purchase option that is reasonably certain to be exercised
 - the lease term is for the major part of the remaining economic life of the asset
 - the present value of the sum of the lease payments equals or exceeds substantially all of the fair value of the asset
 - the asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term

Upcoming Accounting Updates

Leases ASC 842 (ASU 2016-02)

- a lease is an operating lease if it does not meet the criteria to be considered a finance lease

Upcoming Accounting Updates

Leases ASC 842 (ASU 2016-02)

- for finance leases, a lessee is required to do the following
 - recognize a right-of-use asset (fixed asset) and a lease liability at the present value of the lease payments, on the statement of financial position
 - recognize interest expense on the lease, separately from amortization of the right-of-use asset, in the statement of activities
 - in the statement of cash flows, classify payments of the lease liability as financing activities and payments of interest expense as operating activities

Upcoming Accounting Updates

Leases ASC 842 (ASU 2016-02)

- for operating leases, a lessee is required to do the following
 - recognize a right-of-use asset (fixed asset) and a lease liability at the present value of the lease payments, on the statement of financial position
 - recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis
 - in the statement of cash flows, classify payments as operating activities

Upcoming Auditing Updates

1. Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements (SAS No. 134)
2. Omnibus Statement on Auditing Standards-2019 (SAS No. 135)
3. Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA (SAS No. 136)
4. The Auditor's Responsibilities Relating to Other Information Included in Annual Reports (SAS No. 137)
5. Amendments to the Description of the Concept of Materiality (SAS No. 138)
6. Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134 (SAS No. 139)
7. Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS No. 134 and 137 (SAS No. 140)

All effective for years ending after 12/15/2021

Upcoming Auditing Updates

There are 38 AU-C sections affected by SASs No. 134 - 140

☑ = Creates or supersedes AU-C section (color-coded by SAS)
✓ = Amends AU-C section (color-coded by SAS)

AU-C section	Short title	SAS 134	SAS 135	SAS 136	SAS 137	SAS 138	SAS 139	SAS 140
700	Forming an opinion	☑			✓	✓		
701	Communicating key audit matters	☑						
703	Reporting on employee benefit plans			☑		✓		✓
705	Modifications to the opinion	☑			✓			
706	Emphasis-of-matter and other-matter paragraphs	☑			✓			✓
720	Other information				☑			
200	Overall objectives	✓		✓		✓		
210	Terms of engagement	✓	✓		✓			
220	Quality control for an engagement	✓		✓				
230	Audit documentation	✓			✓			
240	Consideration of fraud	✓	✓	✓				
260	Communication with TCWG	✓	✓		✓			
265	Communicating internal control deficiencies		✓					
300	Planning an audit	✓						
315	Understanding the entity and its environment	✓	✓					
320	Materiality	✓				✓		
330	Performing audit procedures	✓	✓	✓				
450	Evaluation of misstatements	✓		✓	✓	✓		
501	Audit evidence — Selected items			✓				
510	Initial audit engagements	✓	✓	✓				
540	Auditing accounting estimates	✓		✓				
550	Related parties		✓	✓				
560	Subsequent events		✓	✓				
570	Going concern	✓		✓				
580	Written representations		✓	✓				
600	Audits of group financial statements	✓	✓		✓	✓		
708	Consistency of financial statements			✓				
725	Supplementary information			✓	✓			✓
730	Required supplementary information				✓			✓
800	Special purpose frameworks						✓	
805	Audits of single financial statements						✓	
810	Summary financial statements				✓		✓	
910	F/S — Another country's FRF	✓						✓
920	Letters for underwriters							✓
930	Interim financial information		✓					✓
935	Compliance audits							✓
940	Integrated audit		✓					✓
945	Exempt offering documents				✓			

Upcoming Auditing Updates

Changes to Auditor's Report

- moves “Opinion” section to top of report
- now “Basis for Opinion” section is included in all reports, not just modified reports
- expanded disclosure of auditor's responsibilities
- expanded disclosure of management's and auditor's responsibilities related to going concern issues
- introduces new optional “Key Audit Matters” section
- clarifies relationship between “Emphasis-of-Matter” paragraphs and new “Key Audit Matters”
- aligns new reporting standards for modified reports, special framework reports, specific elements reports, and summary financial statement reports

Upcoming Auditing Updates

Other Changes

- specifies that auditor's communication with those charged with governance must now include communication about significant risks identified by the auditor
- focuses auditor attention on disclosures, including new requirements related to a) understanding the entity and its environment, b) assessing the risks of material misstatements, and c) performing audit procedures in response to assessed risks
- provides transparency with respect to auditor's responsibilities for other information included in an annual report
- clarifies the definition of "materiality"
- aligns previous standards with new standards