

2024 Nonprofit Accounting & Auditing Update

54TH ANNUAL VIRGINIA ACCOUNTING & AUDITING CONFERENCE


SEPTEMBER 24, 2024


BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.





1


Agenda

Overview of Current Trends

FASB's Current Agenda and Recent ASUs and Implementation Reminders

Select Technical Agenda Projects

2024 Compliance Supplement and Revised UG

Q&A

2

With You Today



LEE KLUMPP

National Nonprofit, Healthcare and
Government
Professional Practice Principal

410-423-4591

klumpp@bdo.com

3

2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

3

Industry Trends

4

2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

BDO

4

Nonprofit & Education Market Trends: What Our Clients are Talking About

- ▶ Digital Transformation, AI and Cybersecurity
- ▶ Economic and geo-political uncertainty
- ▶ Heightened attention on transparency
- ▶ Human Capital (recruitment and retention, alternative staffing options, flexible work options, etc.)
- ▶ Diversified Funding
- ▶ Donor Retention
- ▶ Board Roles & Responsibilities
- ▶ ESG for Nonprofits
- ▶ Organizational Strategy
- ▶ Enterprise Transformation
- ▶ Financial Strategy and Enablement
- ▶ Technology Enablement
- ▶ Risk and Compliance

GRANTMAKERS: Conversation Starters

CONVERSATION STARTERS	KEY WORDS TO LISTEN FOR
<i>How do you ensure that your grantees have the capacity to remain financially resilient as well as comply with your grant stipulations?</i>	<i>Grantee financial health Grant compliance</i>
<i>How do you assess financial health during your due diligence process? Do you sometimes wonder if there is a more efficient way to go about this?</i>	<i>Financial due diligence Nonprofit financial health metrics</i>
<i>Do you have an indirect cost policy for your grantees? When was the last time you revisited it?</i>	<i>True cost, Indirect Cost Rates</i>
<i>Have any of the projects you fund indicated that they are looking to spin off from their sponsor and become an independent organization? Do you know if they have a plan for success with minimal program interruption?</i>	<i>Fiscal Sponsor Spinoffs</i>

HHS Organizations: Conversation Starters

CONVERSATION STARTERS	KEY WORDS TO LISTEN FOR
<i>How manual are processes for financial reporting and budgeting in your Organization?</i>	Automation Enterprise Risk Listen to what GL system is employed
<i>Have you experienced an increase in operating reserves and if so, how are you leveraging financial health?</i>	Liquidity Technology Investment in new programs
<i>What types of revenue diversification is your organization pursuing?</i>	Investment in new programs New donors Corporate giving

7 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

7

HIGHER EDUCATION INSTITUTIONS: Conversation Starters

CONVERSATION STARTERS	KEY WORDS TO LISTEN FOR
<p><i>Higher Education Conversation Starters:</i></p> <p><i>1. What are your strategic goals/what is your strategic plan? Where do you currently stand with respect to progress? Are there any areas where you think more focus is necessary to move the needle?</i></p>	<ul style="list-style-type: none"> ▶ Enrollment ▶ Investments in systems/ programs/ student experience/ infrastructure ▶ Tuition increases/decreases ▶ Development/fundraising ▶ Investments/Endowment management
<p><i>2. What do you see as your key risks, and how are you addressing them?</i></p>	<ul style="list-style-type: none"> ▶ Increasing competition for students/enrollment ▶ Cybersecurity/data privacy/Graham Leach Bliley Act (GLBA) ▶ Operational costs/ Budgeting ▶ Economic uncertainty ▶ Regulatory scrutiny ▶ Understanding AI
<p><i>3. What is your current discount rate? Is your rate in line with your peer institutions? Is it on target, or are you driving to lower your rate?</i></p>	<ul style="list-style-type: none"> ▶ Institutional aid ▶ Tuition increases/decreases ▶ Use of restricted funds/ funds with donor restrictions

8 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

8

INGOs: Conversation Starters

CONVERSATION STARTERS	KEY WORDS TO LISTEN FOR
1. How are you navigating shifts in revenue considerations in proportion to demand for services? Are there plans to diversify these sources?	<ul style="list-style-type: none"> ▶ Revenue diversification ▶ Government funding ▶ Indirect rate
2. How is your team anticipating needed changes to structure, programs, etc. due to the localization agenda?	<ul style="list-style-type: none"> ▶ Organizational relevance in light of localization ▶ New grantmaking processes for in country partners ▶ Organizational restructure
3. How is your organization thinking about strategic partnerships and/or merger/acquisitions?	<ul style="list-style-type: none"> ▶ Competition for funding ▶ Localization shifting UGS funds to local organizations
4. How is your organization considering integration of AI into operations and programs?	<ul style="list-style-type: none"> ▶ Enhanced client experience ▶ Automation
5. How is your organization considering cost savings of your finance function?	<ul style="list-style-type: none"> ▶ Cost savings ▶ Rightsizing
6. How are you factoring ESG/sustainability into your overall strategy? What are your stakeholders saying about ESG/sustainability?	<ul style="list-style-type: none"> ▶ ESG/Sustainability ▶ Transparency ▶ Regulatory compliance

9 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

9

PUBLIC CHARITIES/ASSOCIATIONS: Conversation Starters

CONVERSATION STARTERS	KEY WORDS TO LISTEN FOR
<p>AI</p> <ul style="list-style-type: none"> • Who owns the data? How is data managed? This is the Foundation of AI • Invest in training and education (with experts) • Change is hard and scary but embrace this change. Celebrate small wins. • Put the right guiderails - do you have an AI policy? Update every year (not one and done) • Invest in focus workgroups and talk to like-minded organizations (AI roundtables) • Budgets are tight - • See how they can raise money for this - talk about MS investment (get with BDO digital to get more details). Some donors are interested to support this as well. 	<p>EXAMPLE:</p> <ul style="list-style-type: none"> ▶ Data ownership/governance - this takes time. Start here! ▶ Board education ▶ Internal training/education ▶ Focus groups ▶ Meeting with like sized organizations - we should orchestrate

10 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

10

Overview of the FASB's



BDO

11 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

11

Key Developments



Overall

- ▶ A period of **relative calm** for NFPs, in terms of major new standards and current projects



2021 Agenda Consultation

- ▶ Additions, modifications, and removals to the technical and research agendas
- ▶ Some projects are completed; ASUs issued



Continued FASB Monitoring

- ▶ Implementation of new standards (especially **credit losses**)
- ▶ Current financial reporting environment



2024 Agenda Consultation

- ▶ Follow-up agenda consultation to be done beginning later this year

12 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

12

Overview of the FASB's Current Agenda



BDO

13 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

13

Overview of FASB's Current Agenda

- ✓ Technical Agenda - 11 projects
- ✓ Research - 7 projects
- ✓ EITF - 1 project
- ✓ Conceptual Framework - 1 project
- ✓ Post-Implementation Review - 3 projects

* As of May 28, 2024

14 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

14

TECHNICAL AGENDA

Recognition and Measurement

PROJECT	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Board deliberations	Ongoing
Accounting for Environmental Credit Programs	Board deliberations	Ongoing
Accounting for Government Grants (Business Entities)	Board deliberations	Ongoing
Codification Improvements (next phase)	Board deliberations	Ongoing
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Induced Conversions of Convertible Debt Instruments	Exposure Draft	3Q 2024
Topic 815—Derivatives Scope Refinements	Board deliberations	Ongoing
Topic 815—Hedge Accounting Improvements	Board deliberations	Ongoing

* As of May 28, 2024

15 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

15

TECHNICAL AGENDA

Presentation and Disclosure

PROJECT	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Board deliberations	Ongoing
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	3Q 2024
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing

* As of May 28, 2024

16 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

16

Research Agenda



Accounting for and Disclosure of Intangibles
Consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and research and development



Accounting for Commodities
Explore the accounting for and disclosure of commodities



Consolidation for Business Entities
Explore whether a single consolidation model could be developed for business entities



Agenda Consultation
Solicit broad stakeholder feedback about the future standard-setting agenda of the FASB



Financial Key Performance Indicators for Business Entities
Explore standardizing the definitions of financial key performance indicators



Definition of a Derivative
Consider potential refinements to the scope of Topic 815, Derivatives and Hedging



Statement of Cash Flows
Explore improvements to the statement of cash flows to provide additional decision-useful information

* As of May 28, 2024

17 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

17

Changes to the Emerging Issues Task Force (EITF)

As part of its new operating procedures, the EITF will have the ability to manage its own agenda and accept potential agenda requests directly from external stakeholders. By majority vote of its members, the EITF will provide recommendations to the FASB to:

- 1) add projects to the FASB's technical agenda
 - 2) offer recommended solutions for the Board's consideration
- Initial issue under consideration: Determining the Accounting Acquirer

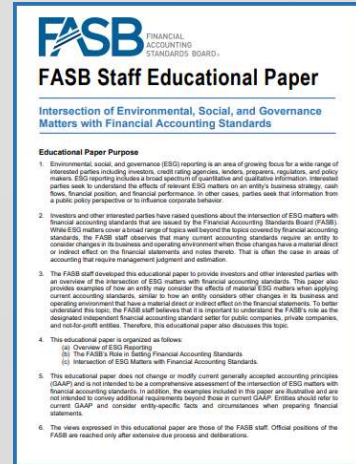


18 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

18

Intersection of ESG Matters with Financial Accounting Standards

- ▶ FASB does not have a broad remit on environmental, social, and governance (ESG)/ sustainability matters
- ▶ ESG-related projects on FASB's technical and research agendas address specific issues that affect financial accounting and reporting
- ▶ Many current accounting standards already require an entity to consider changes in business and operating environment



FASB STAFF EDUCATIONAL PAPER (MARCH 2021) ▶

19 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

19

Conceptual Framework Progress

Chapter	Title	Status
1	The Objective of General Purpose Financial Reporting	Completed: Issued 09/2010
2	The Reporting Entity	Completed: Issued 06/2023
3	Qualitative Characteristics of Useful Financial Information	Completed: Issued 09/2010
4	Elements of Financial Statements	Completed: Issued 12/2021
5	Recognition and Derecognition	Completed: Issued 08/2023
6	Measurement	Exposure Draft issued in December 2023; Final Concept Statement expected to be issued Summer 2024
7	Presentation	Completed: Issued 12/2021
8	Notes to Financial Statements	Completed: Issued 08/2018

Fundamental concepts that guide the Board in developing financial accounting and reporting standards

Gives the Board direction and concepts as tools for solving problems

Nonauthoritative
The Framework is not intended to be a reconciliation to GAAP

20 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

20

Post-Implementation Review

A standard that is the result of a comprehensive or major standard-setting project is normally subject to a PIR.

Objectives

- ▶ Determine whether a standard is **accomplishing its stated purpose**
- ▶ Evaluate the selected standard's implementation and continuing compliance costs and related benefits
- ▶ Provide **feedback to improve** the standard-setting process

Stages

- ▶ **Stage 1:** Post-issuance date implementation monitoring
- ▶ **Stage 2:** Post-effective date evaluation of costs and benefits
- ▶ **Stage 3:** Summary of research and reporting

PIRs in Process

- ▶ Topic **606** (Revenue from Contracts with Customers)
- ▶ Topic **842** (Leases)
- ▶ Topic **326** (Financial Instruments-Credit Losses)

PIR Oversight

- ▶ PIR process is **subject to FAF Board of Trustees' oversight**
- ▶ FASB reports on the progress of PIR projects during its public meetings and reports **regularly to the FAF Board of Trustees**
- ▶ Final PIR report is published on the **FAF website**

Although not subject to the formal PIR process, implementation of **ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities***, and **ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made***, has also been discussed with the NAC.

21 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

21

REVENUE (TOPIC 606)

Feedback from NAC, Other NFP Stakeholders

* Implementation of Topic 606 was a standing agenda item for the NAC as the standard was being implemented.



Amount of revenue recognized under Topic 606 did not significantly change



Implementation costs manageable; costs incurred were largely one-time implementation costs



Notable areas of ongoing judgment include principal vs. agent, variable consideration, licensing







Disclosure exemptions offered to nonpublic entities were widely used


22 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

22

LEASES (TOPIC 842) Recent Feedback from the NAC

* Implementation of Topic 842 was a standing agenda item for the NAC as the standard was being implemented.


-  Larger NFPs/ ones with many leases generally use lease software; others generally use Excel
-  Efficiencies realized from documenting all leases in a single system; have a better understanding of the terms and conditions of lease agreements
-  Determining discount rate was a significant discussion area
-  Users
 - ▶ Continue to analyze operating leases separately from finance leases
 - ▶ Operating lease liability provides more decision-useful information than the operating lease commitments disclosed under the previous guidance

 Don't forget ASU 2021-09 (risk-free rate election by underlying asset class)!

23 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

23

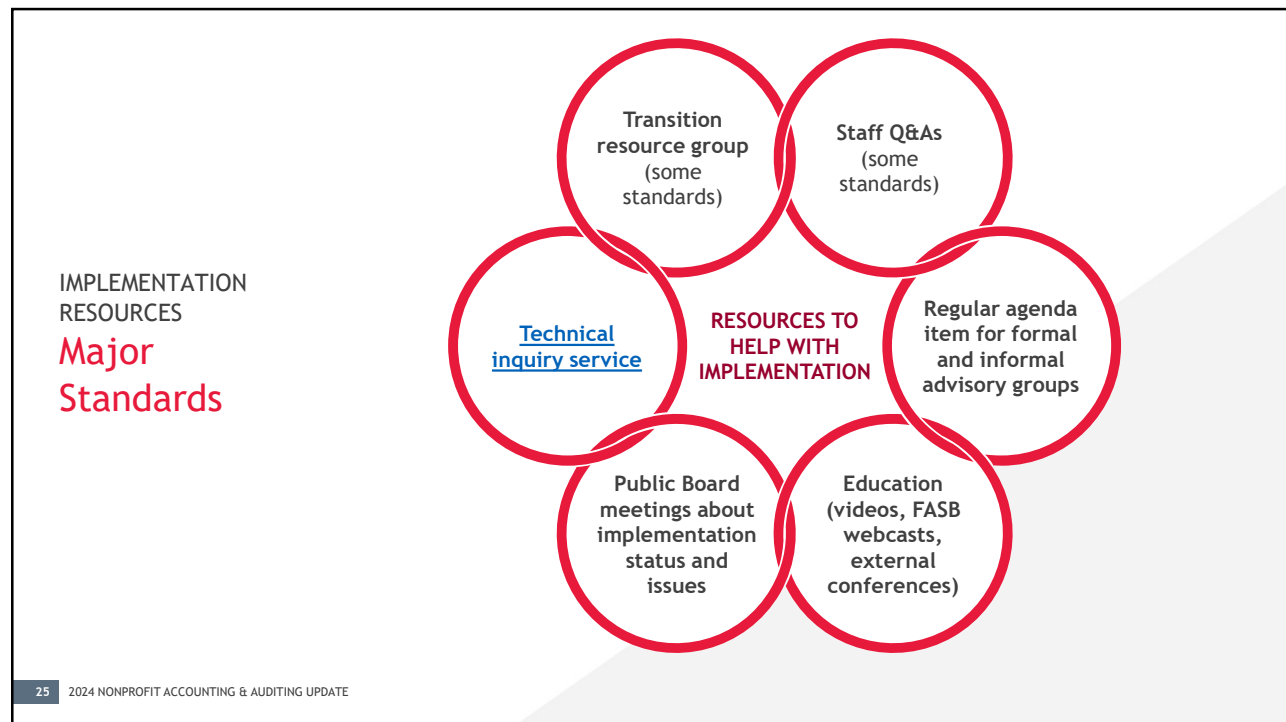
Recent ASUs and Implementation Reminders



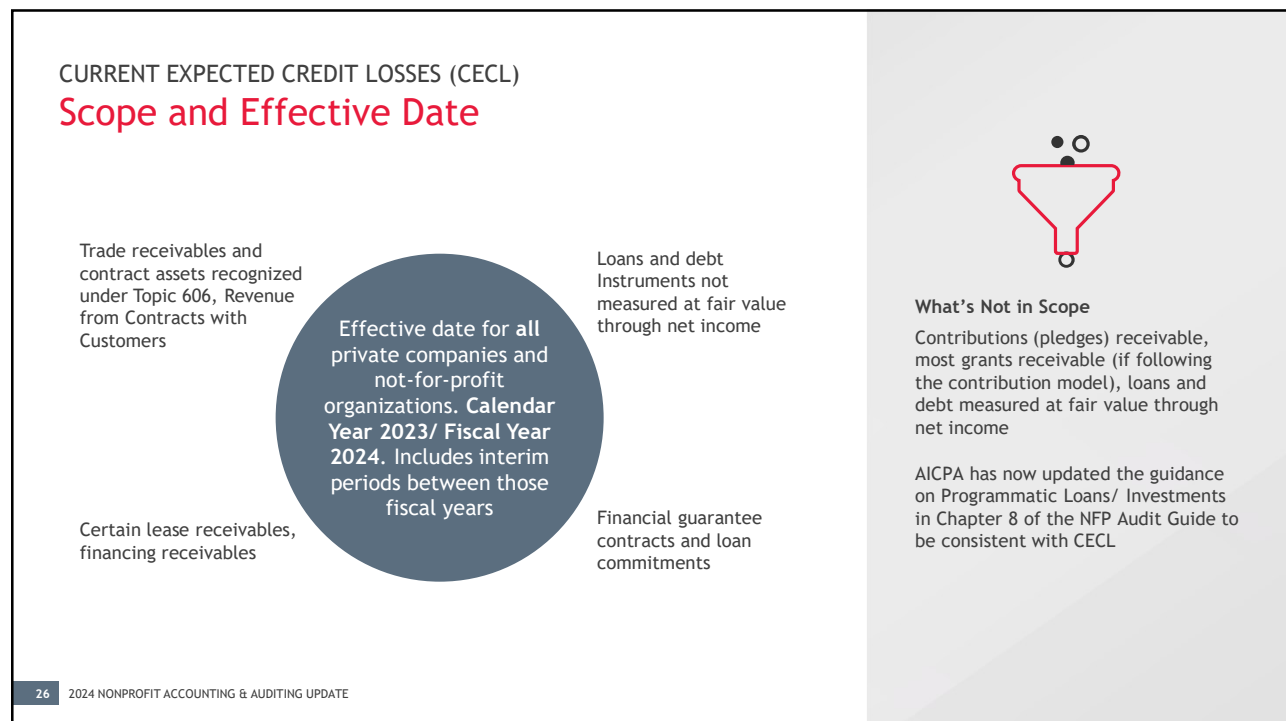
24 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

IBDO

24



25



26

CECL

Effect on Trade Receivables

For Example: Membership, Student, Patient

WHAT MIGHT BE NEW

- ▶ Considering current conditions and (especially) those in the foreseeable future
- ▶ Additional disclosures to help users understand how credit losses are estimated



WHAT MIGHT NOT BE NEW

- ▶ Assessing history of payment
- ▶ Aging of receivables



27 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

27

CECL

Effect on Trade Receivables

Paragraphs 326-20-55-37 through 55-40 provide an example

Estimates are based on

- Historical information, adjusted for
- ▶ Current conditions
 - ▶ Reasonable and supportable forecasts

Pooled basis

Expected credit losses measured for pools of assets with similar risk characteristics, for example

- ▶ Customer credit rating
- ▶ Trade receivable aging category
- ▶ Industry
- ▶ Geographical location of customer
- ▶ Product line

Individual basis

Expected credit loss for an asset that does not have shared risk characteristics is measured individually

Topic 606 requires collectability of contract assets to be assessed in accordance with CECL. Any consideration not expected to be collected would be recognized as a credit loss expense.

28 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

28

CECL

Example Application to Membership Dues Receivable

- ▶ **Example:** Estimating expected credit losses for membership dues receivable using an aging schedule
- ▶ NFP Membership Organization A has tracked historical loss information for its membership dues receivable and compiled the following historical credit loss percentages

Days Past Due				
Current	1-30	31-60	61-90	> 90
.3%	8%	26%	58%	82%

29 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

29

CECL

Example Application to Membership Dues Receivable

- ▶ NFP Membership Organization A believes historical loss information is a **reasonable base**—composition of membership dues receivable at reporting date is consistent with that used in developing historical loss %'s (that is, similar risk characteristics have not changed).
- ▶ NFP Membership Organization A determines that current and reasonable and supportable forecasted **economic conditions have improved** compared to those conditions in the historical loss %'s. NFP Membership Organization A observes **that unemployment has decreased** and is **expected to further decrease** over the next year.
- ▶ To adjust the historical loss rates to reflect the effects of changes in current conditions and forecasted changes, **loss rate is estimated to decrease by approximately 10%** in each age bucket.
- ▶ At the reporting date, NFP Membership Organization A develops the following aging schedule to estimate expected credit losses.

Past-Due Status	Amortized Cost Basis	Credit Loss Rate	Expected Credit Loss Estimate
Current	\$5,984,698	0.27%	\$16,159
1-30 days past due	\$8,272	7.2%	\$596
30-60 days past due	\$2,882	23.4%	\$674
60-90 days past due	\$842	52.2%	\$440
More than 90 days past due	\$1,100	73.8%	\$812
	\$5,997,794		\$18,681

30 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

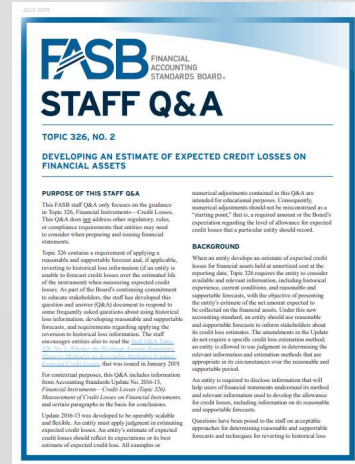
30

CECL

FASB Staff Q&A

July 2019: FASB issued [Staff Q&A](#) on the following

- ▶ Historical Loss Information
- ▶ Developing Reasonable and Supportable Forecasts
- ▶ Reversion to Historical Loss Information



STAFF Q&A ▶

31 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

31

ASUs Issued Since January 1, 2023

Update	Title
Update 2024-02	Codification Improvements (CI)—Amendments to Remove References to the Concepts Statements
Update 2024-01	Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest Awards
Update 2023-09	Income Taxes (Topic 740): Improvements to Income Tax Disclosures
Update 2023-08	Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets
Update 2023-07	Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures
Update 2023-06	Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative
Update 2023-05	Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement
Update 2023-04	SEC Update (related to SEC Staff Accounting Bulletin No. 121)
Update 2023-03	SEC Update (various Topics)
Update 2023-02	Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)
Update 2023-01	Leases (Topic 842): Common Control Arrangements

32 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

32

ASU 2023-01

Leases (Topic 842): Common Control Arrangements

Background

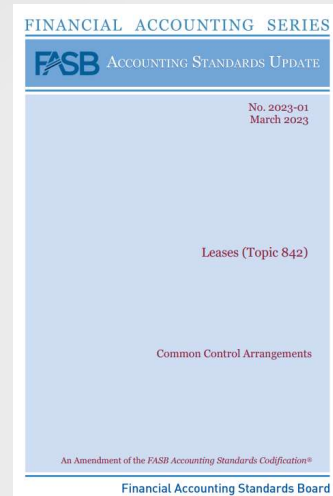
- ▶ Response to issues related to applying Topic 842 to related party arrangements between entities under common control brought to the Board's attention primarily through interactions with private company stakeholders

Issues

- ▶ Terms and Conditions to Be Considered
- ▶ Accounting for Leasehold Improvements

Effective Date

- ▶ The amendments in this Update for both Issue 1 and Issue 2 (next two slides) are effective for fiscal years beginning after December 15, 2023 (CY 2024/ FY 2025), including interim periods within those fiscal years.
- ▶ Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance.



33 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

33

ISSUE 1

Terms and Conditions to be Considered for Applying Topic 842 to Common Control Arrangements

Which NFPs are affected?

- ▶ Non-public NFP lessees (i.e., those that **aren't** obligors for **publicly-traded** conduit or other debt) that are a party to a lease between entities **under common control**

What are the main provisions?

- ▶ May **elect** a **practical expedient** to use **written terms and conditions** of a common control arrangement to determine:
 1. Whether a lease exists and, if so,
 2. The classification and accounting for that lease
- ▶ That practical expedient may be applied on an **arrangement-by-arrangement** basis
- ▶ If no written terms and conditions exist, an entity cannot apply the practical expedient and is required to use the legally enforceable terms and conditions to apply Topic 842
- ▶ An entity is **permitted to document** any **existing unwritten** terms and conditions of a common control arrangement as part of transition

34 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

34

ISSUE 2

Accounting for Leasehold Improvements Associated with Common Control Leases

Which entities are affected?

- ▶ All lessees (public and non-public) that are a party to a lease between entities **under common control** in which the lessee is the owner of leasehold improvements

What are the main provisions?

- ▶ Leasehold improvements associated with common control leases are
 1. Amortized by the lessee over the **useful life** of the leasehold improvements to the common **control group**[†] as long as the lessee controls the use of the underlying asset through a lease.
 2. Accounted for as a **transfer** between entities under common control through an **adjustment to net assets**, if, and when, the lessee **no longer controls** the use of the underlying asset.
 3. Subject to the impairment guidance in paragraph 360-10-40-4.
- ▶ When the useful life of leasehold improvements to the common control group determined exceeds the related lease term, a lessee must **disclose** certain items

[†] If the lessor obtained the right to control the underlying asset through a lease with another entity not within the same common control group, the amortization period may not exceed the lease term associated with the lessor's lease with the other entity.

35 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

35

Transition and Effective Date

Update 2023-01: Transition

ISSUE 1: TERMS AND CONDITIONS

- ▶ Concurrent with Topic 842 adoption - same transition approach
- ▶ Topic 842 already adopted - retrospective or prospective

ISSUE 2: LEASEHOLD IMPROVEMENTS

- ▶ Concurrent with Topic 842 adoption - same transition approach or prospective
- ▶ Topic 842 already adopted - retrospective or prospective

Effective Date for NFPs: Calendar Year 2024/Fiscal Year 2025; early adoption permitted

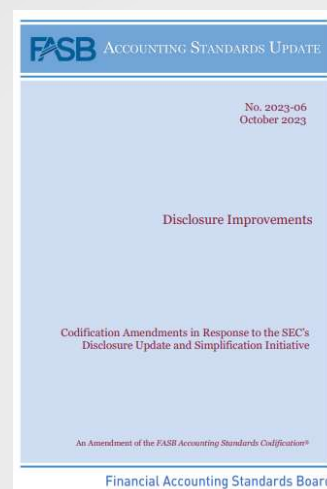
36 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

36

ASU 2023-06

Background

- ▶ **July 2016:** The Securities and Exchange Commission (SEC) proposed amendments to certain of its disclosure requirements that it identified as duplicative, overlapping, or outdated in light of other SEC disclosure requirements.
- ▶ **August 2018:** Upon adopting those amendments as part of the final rule, the SEC **formally referred** certain disclosure requirements to the FASB to be considered for incorporation into GAAP.
- ▶ **March 2023:** The Board completed redeliberations and decided to incorporate **14 of the 27 referred** disclosures into the Codification.
- ▶ **October 2023:** Update 2023-06 was issued.



37 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

37

NFP-Relevant Disclosures Disclosure

Disclosure	Summary Description of Referred Disclosure
Assets Subject to Liens	Disclose assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized.
Unused Commitments and Lines of Credit	Disclose the amount and terms of unused commitments for long-term financing arrangements and the amount and terms of unused lines of credit for short-term financing arrangements.
Derivative Accounting Policies	Disclose where and when derivative instruments and their related gains and losses are reported in the statement of cash flows.

Transition and Effective Date

- ▶ For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for an IPO, the effective date for each amendment will be the date on which the SEC's removal of that disclosure is effective.
- ▶ **For all other entities, the amendments are effective two years later.**
- ▶ For all entities, if by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity.
- ▶ The disclosures will be applied prospectively.

38 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

38


Stakeholder feedback—2021 Agenda Consultation ITC

ASU 2023-08

Crypto Assets: Background



Accounting Does Not Reflect the Economics



Impairment



Restatement Risk



Presentation and Disclosure Issues

39 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE


39

CRYPTO ASSETS

Scope and Measurement

Scope: Crypto assets must meet **all** the following

- ▶ The definition of **intangible asset** as defined in Codification
- ▶ Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
- ▶ Are created or reside on a distributed ledger based on blockchain or similar technology
- ▶ Are secured through cryptography
- ▶ Are fungible
- ▶ Are not created or issued by the reporting entity or its related parties



Measurement

- ▶ Measure at fair value
- ▶ Increases and decreases recognized in net income (changes in net assets)

40 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

40

CRYPTO ASSETS

Presentation and Disclosure

Balance Sheet

- ▶ Crypto assets separate from other intangible assets measured using other measurement bases

Income Statement (or Statement of Activities)

- ▶ Gains and losses in net income separate from amortization and impairment of other intangible assets

Statement of Cash Flows

- ▶ 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 *

Disclosures

- ▶ Significant crypto asset holdings
- ▶ Restrictions on crypto assets held
- ▶ Reconciliation of activity between the beginning and end of the period
- ▶ Historical realized gains and losses

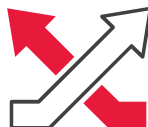
* The Board clarified that an NFP that nearly immediately liquidates crypto assets received with donor-imposed restrictions for long-term or capital use would be required to classify the activity as cash flows from financing activities.

CRYPTO ASSETS

Transition and Effective Date

TRANSITION

- ▶ In year of application, adjust beginning of period retained earnings (or net assets) for transition to fair value



EFFECTIVE DATE

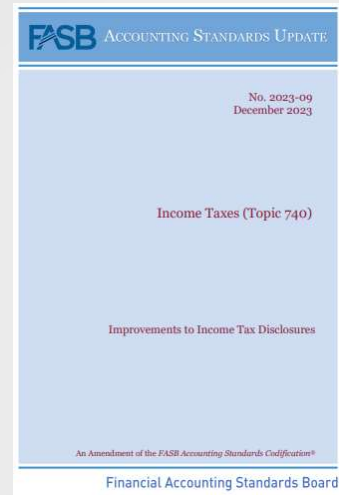
- ▶ Guidance will be effective for all entities for fiscal years beginning after December 15, 2024 (CY 2025/ FY2026), including interim periods within those fiscal years
- ▶ Early adoption is permitted



ASU 2023-09

Improvements to Income Tax Disclosures

- ▶ Amendments address **investor requests** for more transparency about income tax information through improvements to income tax disclosures
- ▶ Amendments primarily relate to
 - Rate reconciliation
 - Income taxes paid
- ▶ Also includes certain other amendments to improve the effectiveness of income tax disclosures
- ▶ Effective date for NFPs: CY 2026/ FY 2027



43 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

43

IMPROVEMENTS TO INCOME TAX DISCLOSURES RATE RECONCILIATION

Entities Other than Public Business Entities

MENDED GUIDANCE

The amended guidance improves the **qualitative** disclosure by requiring **entities other than public business entities** to disclose the nature and effect of specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate; a numerical reconciliation is not required.

ILLUSTRATIVE EXAMPLE

The difference between Entity W's effective tax rate and its statutory tax rate is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W's operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of Entity W's operations in France had an increasing effect on its effective tax rate. Entity W received federal research and development tax credits, which decreased its effective tax rate, while state taxes in California increased its effective tax rate.

Public business entities are required to provide a numerical rate reconciliation.

44 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

44

IMPROVEMENTS TO INCOME TAX DISCLOSURES

Income Taxes Paid: All Entities

Amended Guidance: Disaggregation of income taxes paid on an annual basis.

- ▶ Disaggregated by federal (national), state, and foreign
- ▶ Disaggregated by individual jurisdiction comprising 5% or more of total income taxes paid
- ▶ An example to illustrate the amended guidance is as follows

Year Ended December 31, 2026									
	U.S. Federal	U.S. States				Foreign			Total
		New Jersey	Missouri	Other	Subtotal	Mexico	Other	Subtotal	
Income taxes paid (refunded), net	\$11,000	\$4,000	\$2,000	\$1,000	\$7,000	\$4,000	\$1,000	\$5,000	\$23,000

45 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

45

IMPROVEMENTS TO INCOME TAX DISCLOSURES

Other Required Disclosures, Transition, and Effective Date
**ALL ENTITIES WILL BE
REQUIRED TO DISCLOSE**

- ▶ Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
- ▶ Income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign taxes

**TRANSITION AND
EFFECTIVE DATE**

- ▶ Require prospective transition with a retrospective option
- ▶ **Public business entities:** Annual periods beginning after December 15, 2024
- ▶ **Entities other than public business entities:** Annual periods beginning after December 15, 2025
- ▶ Early adoption is permitted

46 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

46

Select Technical Agenda Projects



BDO

47 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

47

Overview of Software

Software costs are costs that a company incurs to purchase, internally develop, or modify software. Companies utilize software in a wide variety of ways, including



Software that supports the company's operations.



Software that facilitates services the company provides to its clients.



Software that a company provides to its clients or customers to access information.



Software that a company directly sells to its customers, through on-premise licenses or cloud computing arrangements (CCAs).



Software that is integrated into tangible products.

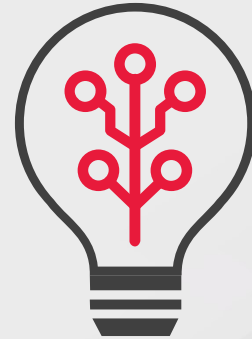
48 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

48

NFP SOFTWARE COSTS

Examples

- ▶ An organization purchases or develops software to process payroll, accounts payable, and accounts receivable.
- ▶ An organization incurs costs to implement an enterprise resource planning (ERP) system.
- ▶ An organization develops website technology to allow its young “scouts” to sell delicious products, raising money for the organization while developing their entrepreneurial skills.
- ▶ A university develops a mobile application for student use. Students can enroll in classes, pay their tuition, and check their grades. The university frequently updates the application to improve student experience.
- ▶ A healthcare system develops a mobile application for patient use. Patients can schedule appointments with the system’s medical providers, see medical test results and provider notes, request authorization for prescription refills, and pay outstanding bills. The healthcare system frequently updates the application to improve patient experience.



49 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

49

SOFTWARE COSTS

Current GAAP

Objectives

- ▶ To modernize the accounting for software costs
- ▶ To enhance the transparency about an entity’s software costs

Software Costs

- ▶ Costs incurred to develop or purchase software that is **solely for entity’s internal use**
- ▶ Costs incurred to develop a **hosting arrangement platform**
- ▶ Costs incurred by a customer to **implement a cloud computing arrangement**

Subtopic 350-40

Intangibles—Goodwill and Other, Internal-Use Software

- ▶ Costs incurred to develop software **to be sold or licensed** to customers
- ▶ Costs incurred to develop software **used in a hosting arrangement** in which the **customer can take possession**

Subtopic 985-20

Software—Costs of Software to Be Sold, Leased, or Marketed

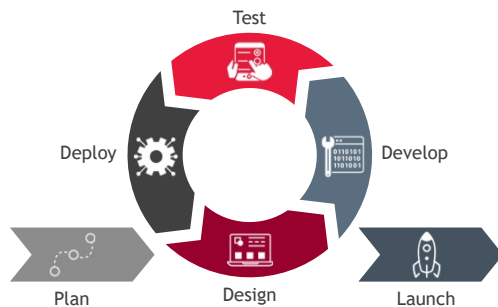
50 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

50

SOFTWARE COSTS

Evolution of Software

- ▶ Companies have historically developed software using the waterfall method, which often is described as a prescriptive, sequential, and formal process
- ▶ The agile method was emerged to overcome challenges with the waterfall method

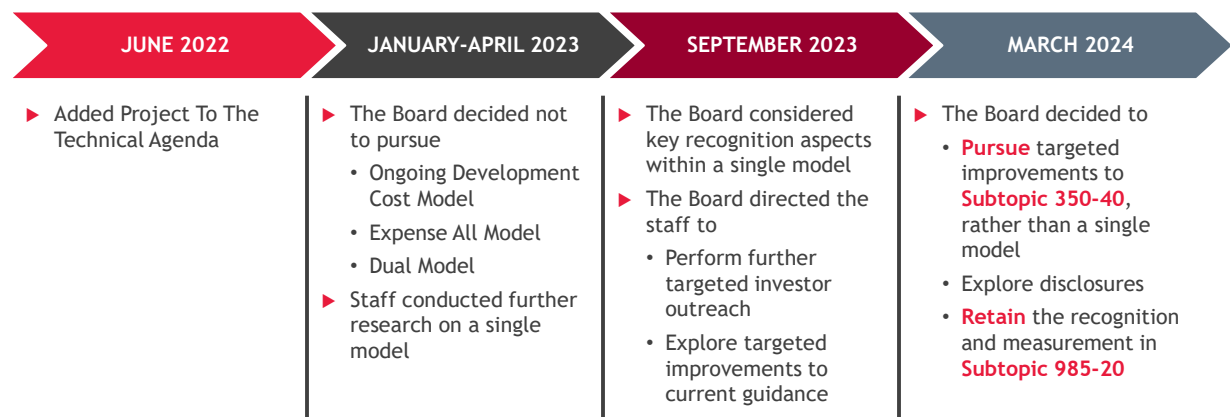


- ▶ The agile method focuses on incremental and iterative development that allows for software projects to adapt and respond to changes in requirements
- ▶ Within the agile method, a software project is broken down into sprints that focus on a specific function or feature within the software project
- ▶ This iterative environment makes the software project more manageable and allows for companies to quickly incorporate changes

51 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

51

Project Timeline and Overview



52 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

52

ACCOUNTING FOR AND DISCLOSURE OF SOFTWARE COSTS

Targeted Improvements to Subtopic 350-40

Tentative Draft Amendments to Recognition and Measurement Guidance

Software with unresolved high-risk development issues

- ▶ The costs of software that have unresolved high-risk development issues (for example, software that has novel, unique, unproven functions and features or technological innovations) would be accounted for as research and development expenses in accordance with Subtopic 730-10, Research and Development—Overall
- ▶ When high-risk development issues have been resolved, future software costs would be subject to Subtopic 350-40

Clarify the starting capitalization threshold for nonlinear software development

- ▶ An entity would no longer be required to evaluate the preliminary project stage and application development stage when determining the starting point for capitalization
- ▶ When it is unclear that it is probable that a project will be completed and the software will be used to perform the function intended, an entity would be required to consider whether there is significant unresolved uncertainty associated with development activities (for example, significant performance requirements have not been selected or significant performance requirements continue to be revised)
 - When there is significant unresolved uncertainty, it is not probable that the project will be completed and the software will be used to perform the function intended until the significant uncertainty has been resolved

53 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

53

ENVIRONMENTAL CREDIT PROGRAMS (ECPs)

Background

Scope - Compliance and voluntary programs that involve environmental credits (ECs) and for the nongovernmental creators of ECs.

The scope of the project intends to address ECs/programs such as

- ▶ Carbon Offsets
- ▶ Renewable Energy Credits (RECs)
- ▶ Renewable Identification Numbers (RINs)
- ▶ Cap-and-Trade programs
- ▶ Baseline and allowance programs.

Examples of items not in scope include transferrable and refundable tax credits



54 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

54

ECPs

Asset and Liability Recognition and Measurement

Asset vs Expense

- ▶ If it is probable that the EC will be used to satisfy an environmental credit obligation (ECO) (1) measure at historical cost (no impairment)
- ▶ If it is probable that the EC will be sold, measure at historical cost less impairment (2)
- ▶ If it is probable that the EC will not be used or sold, expense costs as incurred

- (1) ECOs exclude voluntary commitments.
 (2) Board currently exploring FV as an accounting policy election for such ECs.

Liability (ECOs)

- ▶ Funded Portion - carrying amount of compliance ECs at the B.S. date
- ▶ Unfunded Portion - at FV unless the entity will settle the obligation in cash or has an existing commitment to purchase a fixed quantity of credits at a fixed price
- ▶ For programs solely linked to an entity's existence as a business, recognize a liability on the compliance date and a corresponding asset (amortized over compliance period)
- ▶ ECO Liabilities remeasured each period through earnings (changes in net assets)

DERIVATIVES SCOPE REFINEMENTS (DSR)

Background and Stakeholder Feedback

As part of the June 2021 Invitation to Comment (ITC), *Agenda Consultation*, the Board received the following feedback

The definition of a derivative captures some transactions that should not be accounted for as derivative instruments.

Stakeholders identified the following examples of arrangements that could meet the definition of a derivative:

- ▶ R&D funding arrangements
- ▶ **ESG-linked financial instruments**
- ▶ Litigation funding arrangements
- ▶ Certain provisions in revenue arrangements (**including certain healthcare risk-based arrangements**)

In some cases, derivative scope exceptions do not exist (or may not be directly on point), creating practical application and interpretative challenges that result in diversity in practice.

In December 2023, the Board added a project to its technical agenda to refine the scope of Topic 815, Derivatives and Hedging.

DERIVATIVES

Current Guidance

Companies must evaluate whether an arrangement as a whole meets the definition of a derivative (or has an embedded feature that meets the definition of a derivative).

If it does, companies must evaluate whether the arrangement (or embedded feature) qualifies for any of the derivative scope exceptions.

Derivative definition criteria

1. It has (a) underlying and (b) notional or payment provisions
2. It requires no (or small) initial net investment
3. It can be net settled through contract terms, through a market mechanism or it provides an asset that is readily convertible to cash

Paragraph 815-10-15-59 contains various scope exceptions for contracts that are not exchange-traded. Such contracts are not subject to the requirements of Subtopic 815-10 if the underlying on which the settlement is based meets any one of those exceptions. Among the exceptions is the following

Paragraph 815-10-15-59(d)

- ▶ Specified volumes of sales or service revenues of one of the parties to the contract.

If an arrangement as a whole (or an embedded feature) meets the definition of a *derivative* and does not qualify for any of the derivatives scope exceptions, it will be accounted for as a derivative instrument at fair value.

DSR

Tentative Board Decisions (December 2023)

Refine the scope of Topic 815 to incorporate a scope exception for contracts with underlyings based on the operations or activities that are specific to one of the parties to the contract.

- ▶ Essentially expands the sales or service revenue scope exception in paragraph 815-10-15-59(d)
- ▶ This scope exception would be broadened to include both of the following:
 - Financial performance measures and expenses of one of the parties to the contract (for example, arrangements with contingent payments based on sales revenue, EBITDA, or net income)
 - The occurrence or nonoccurrence of an event that is related to the operations or activities that are specific to one of the parties to the contract (for example, obtaining regulatory approval, achieving a product development milestone, or achieving a greenhouse gas emissions target)

This scope exception would be subject to certain restrictions (or “guardrails”).

- ▶ Regardless of whether an underlying is based on the operations or activities that are specific to one of the parties to the contract, underlyings based on a market rate or index, or the price or performance (including default) of a financial asset or liability, would not meet this scope exception

OMB's 2024 Compliance Supplement Update



59 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

59

Other Audit Advisories

- ▶ Few changes this year
- ▶ Clarification added to the “Due Date for Submission of Audit Reports and Low-Risk Auditee Criteria”
- ▶ Updated the section describing the Federal Audit Clearinghouse (FAC) transition from Census to General Services Administration (GSA)
- ▶ Added a new section for the 2024 Revisions to the Uniform Guidance



60 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

60

Due Date Clarification

- ▶ This section clarifies that when considering whether prior single audit submission filings were timely that the auditor considers both the 9-month and 30-day aspect of the single audit due date
- ▶ This is not a change in the guidance - just a clarification as the prior version of Appendix VII only discussed the 9-month requirement in the suggested audit procedures and may have caused confusion
- ▶ Critical step to determine if low-risk auditee and percentage of coverage needed under UG

§ 200.512 Report submission.

(a) *General.*

(1) The audit must be completed and the data collection form described in [paragraph \(b\)](#) of this section and reporting package described in [paragraph \(c\)](#) of this section must be submitted within the **earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.** If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

FAC Transition

- ▶ The provider of the FAC changed from Census to GSA on October 1, 2023. New Web address is: <https://www.fac.gov/>
- ▶ Single audits with a fiscal period ending in 2023 and 2024 and single audits of other past periods not submitted to Census before October 1, 2023, are to be submitted to the new GSA FAC
- ▶ Resubmissions of past reports will all be submitted to the GSA FAC
- ▶ Updates were made to describe previous waivers granted. Note that there are no new waivers issued by OMB at this time



2024 Revisions to the Uniform Guidance

- ▶ This new section clarifies that the effective date of the increase in the single audit threshold to \$1 million (established in the recently revised Uniform Guidance (UG)) is effective for auditee fiscal years beginning on or after October 1, 2024 (i.e., fiscal year ends September 30, 2025, and later)
- ▶ And although Appendix VII is silent, it is our understanding based on communications between the AICPA GAQC and OMB, that this same effective date applies to the increase in the Type A threshold to \$1 million (also established in the recently revised UG)
- ▶ These threshold changes **cannot** be adopted early
- ▶ This new section also discusses the broader government-wide effective date of the UG (the revised UG is effective for awards issued on or after Oct. 1, 2024), how federal agencies may elect to implement the revisions as early as June 21, 2024, and related auditor considerations

63 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

63

2024 Revisions to the Uniform Guidance

- ▶ The auditees and auditors should perform reasonable procedures to ensure that the compliance requirements identified as subject to the audit are current and determine whether there are any additional or modified provisions of federal awards based on the 2024 revisions
- ▶ Auditors must not, however, apply compliance requirements from the 2024 revisions in circumstances in which the federal agency has not yet applied the 2024 revisions to the federal award subject to audit
- ▶ For example, a non-federal entity with a fiscal year beginning on January 1, 2024 may receive an award on June 21, 2024 made subject to the 2024 revisions by the federal agency. Consequently, the auditor should perform reasonable procedures to ensure that compliance requirements identified as subject to the audit are current and determine whether there are any additional or modified provisions of federal awards based on the 2024 revisions

64 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

64

Other Reminders

Requirement to separately identify COVID-19 expenditures on the SEFA and DCF retained

- ▶ SEFA: on a separate line by AL# with "COVID-19" as a prefix to the program name
- ▶ DCF: on a separate row with "COVID-19" in Part II Item 1c, Additional Award Identification
- ▶ Although not discussed in Appendix, Education has issued separate identification guidance for its programs that use alpha characters

Note that Appendix VII did not establish similar SEFA and DCF requirements for IJJA funding



Appendix VII also states that auditors should include the COVID-19 identification for audit findings

2024 Revised Uniform Guidance



2024 Revised Uniform Guidance (UG)

- ▶ OMB issued final revisions to the UG (2 Code of Federal Regulations (CFR) 200) in a [Federal Register \(FR\) notice](#) on April 22, 2024
- ▶ A [redline document](#) showing the UG revisions is also available with several [reference guides](#)
- ▶ The effective date of the UG changes stated in the FR notice is for contracts issued on or after October 1, 2024
- ▶ Federal agencies can apply the new guidance prior to October 1, 2024, but they are not required to do so
- ▶ Federal agencies cannot apply the new changes prior to June 21, 2024
- ▶ Many thresholds will change once the 2024 UG is effective
- ▶ This may cause confusion as current awards may be under previous guidance while new awards issued on or after Oct. 1, 2024 will be subject to the revised provisions
- ▶ Auditees will have to be aware of all the updates in the UG and apply these correctly to new awards
- ▶ This will likely require a significant amount of time to understand the changes that affect their awards and to train employees
- ▶ Need to familiarize yourself with the updated UG
- ▶ The updates to the UG permit federal agencies to grant extensions for the Single Audit completion

67 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

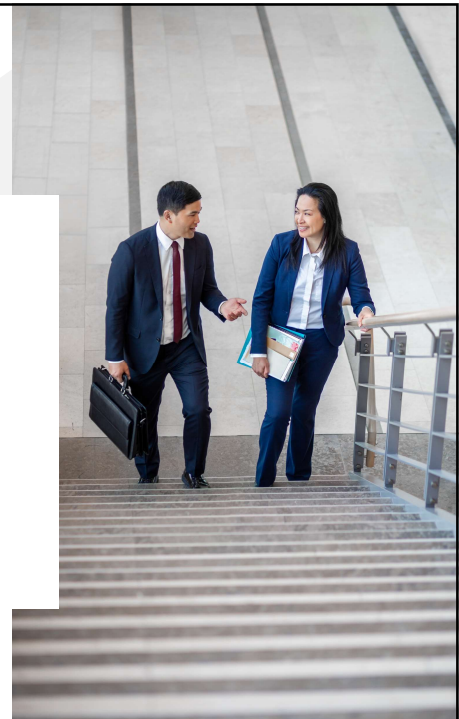
67

OMB Proposed Changes to 2 CFR 200

OMB made changes to the following Parts within 2 CFR Parts

- ▶ 1, About Title 2 of the Code of Federal Regulations and Subtitle A
- ▶ 25, Universal Identifier and System for Award Management
- ▶ 170, Reporting Subaward and Executive Compensation Information
- ▶ 175, Award Term for Trafficking in Persons
- ▶ 180, OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Non-procurement)
- ▶ 182, Governmentwide Requirements for Drug-Free Workplace (Financial Assistance)
- ▶ 183, Never Contract with the Enemy
- ▶ 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

68 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE



68

2024 Revised Uniform Guidance

- ▶ The electronic Code of Federal Regulations which houses the Uniform Guidance will be updated to reflect all the new revisions to the UG on October 1, 2024
- ▶ There is still uncertainty in whether the historical guidance will be maintained and if so, how, for audits of awards that were made prior to the revised effective date
- ▶ Entities that have awards under both versions of the UG will have to reach out to the representatives at the agencies making the awards to determine if the 2024 UG revisions can be applied to prior awards or if they need to follow two sets of guidance
- ▶ If the revisions to the UG cannot be applied to existing contracts before the effective date, entities may need to track awards separately to ensure compliance with appropriate guidance
- ▶ The 2024 Supplement does not incorporate the revised UG information



Audit thresholds not effective until audits of years ending September 30, 2025, or later. No early adoption possible!

UG REVISIONS

Effective Date Considerations

COMMON QUESTIONS TO DATE	ANSWER
Can we adopt the new audit threshold for our client base for their June 30, 2024, audits?	No. Can't adopt it until audits of years ending September 30, 2025, or later.
Should I adopt the new \$1 million type A program threshold for our June 30, 2024, audits?	No. Can't adopt it until audits of years ending September 30, 2025, or later.
How will we deal with testing compliance when some awards will be subject to the current UG and some to the new UG?	You will need to determine the UG criteria relevant to each award. It is expected that the 2025 Supplement will address both the current and the new UG requirements in Part 3.
How can I determine if an award is subject to the current UG or the new UG?	For new awards, will be based on the date. Can also look to the terms and conditions of the award.
During the transition from Circular A-133 to the UG (10 years ago), there was a concept of incremental funding into existing awards that allowed the new rules to be applied. Will that same concept apply this time?	Unsure. Will need to wait for OMB guidance.

UG REVISIONS

Effective Date Considerations

COMMON QUESTIONS TO DATE	ANSWER
What about subawards?	Will depend on whether the new UG applied to the funding the subaward came from.
The new UG says some agencies can adopt the new UG in their awards as early as June 21, 2024. How will we know which agencies have done this?	EPA is the only agency that early adopted and the item they adopted early was very narrow and deals with the ability of the agency to terminate a Federal award if it no longer effectuates the program goals or agency priorities.
There seems to be a lot of transitional issues and questions. Will OMB be issuing guidance?	Yes. OMB is working on this. The guidance will likely cover both transition issues from the auditee and auditor perspectives. There is guidance on the Council on Federal Financial Assistance (COFFA) site that discusses suggestions provided by OMB to Federal agencies to assist in the consistent implementation of the 2024 UG revisions.

71 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

71

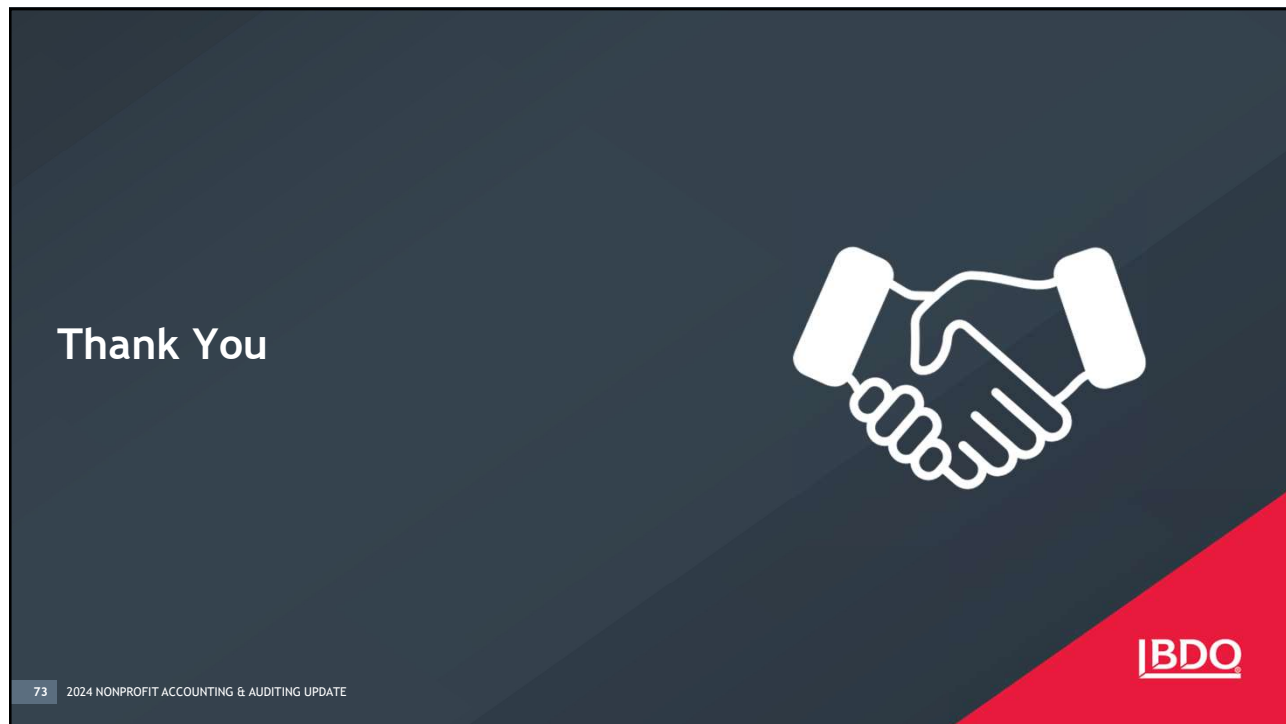
Questions?



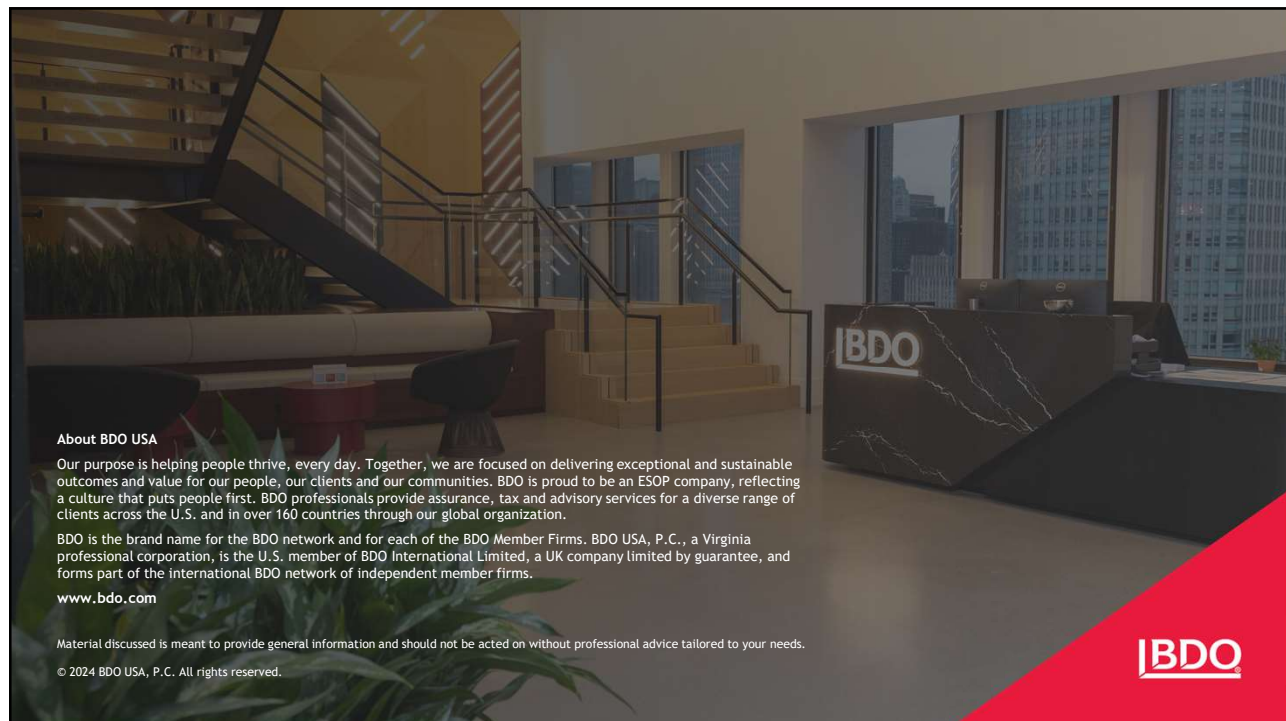
IBDO

72 2024 NONPROFIT ACCOUNTING & AUDITING UPDATE

72



73



74