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NOT-FOR-PROFIT ORGANIZATIONS

Ask the Experts:
Common Issues & Challenges for NFPs

Not-for-Profit Webinar *May 25, 2022*



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MEET THE EXPERTS



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ASK THE EXPERTS

General Topics to Be Covered

- Hot Topic – NEW Lease Accounting
- Tracking and Reporting In-Kind Donations
- Updates on Audit Communications
- Simplifying the 990
- Additional Questions

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Ask the Experts:
Hot Topic – NEW Lease Accounting

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ASK THE EXPERTS

Is my Organization ready for ASC 842, Leases?

- Long anticipated
- Scope: includes leases of all property, plant and equipment
- All organizations with leases are likely impacted
- Effective for years beginning after 12/15/21

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ASK THE EXPERTS


What are the significant changes in the new leasing standard?

- Lessees record most leases on the balance sheet
- Bright-line tests are no longer used to determine classification
- Underlying principles for lessors are aligned with ASC 606, Revenue
- Expanded disclosures

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ASK THE EXPERTS


Our Organization is a lessee – what has changed for us?

- Recognize lease assets and lease liabilities for both operating and finance* (previously capital) leases
- Classification will determine how and when the lessee recognizes expense:
 - Operating – continue to recognize rent expense
 - Financing – recognize interest and depreciation expense

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LEASE CLASSIFICATIONS

Operating Lease	Financing Lease
Statement of Financial Position	
ROU (Right of Use) Asset	Property, plant, equipment
Lease obligation	Lease obligation
Statement of Activities	
Lease (rent) expense	Depreciation expense
	Interest expense

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ASK THE EXPERTS


Our Organization is a lessee – what has changed for us?

- Lessee required to perform a present value calculation of future expected lease payments to establish the lease liability and the related right-to-use (ROU) asset
- Short-term lease exemption
- Policy

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ASK THE EXPERTS

What is the difference between an operating vs. finance lease?

- 5 criteria for finance lease:
 - Transfer of title/ownership to the lessee
 - Exercising a purchase option
 - Lease term
 - Present value
 - Alternative use

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ASK THE EXPERTS

Our Organization is a lessor – what has changed for us?

- Largely unchanged – underlying asset continues to be classified as the lessor’s fixed asset

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ASK THE EXPERTS

What do we need to watch out for when implementing?

- Embedded leases
- Separate lease and non-lease components
- Debt covenants and other financial ratios
- Disclosure objective
- Practical expedients

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NOT-FOR-PROFIT ORGANIZATIONS

Ask the Experts:
Tracking and Reporting In-Kind Contributions

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IN-KIND CONTRIBUTIONS


What New Guidance Addresses In-Kind Contributions?

- Not-for-Profit Entities (Topic 958) – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*
 - *Amends 968-606 Not-for-Profit Entities – Revenue Recognition*
 - *Focus is on non-financial assets*

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IN-KIND CONTRIBUTIONS


What Types of Contributions Are Addressed by the ASU?

- Fixed assets or use of fixed assets or utilities
- Materials and supplies
- Intangible assets
- Services
- Financial assets excluded (example, donated securities)

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IN-KIND CONTRIBUTIONS


What Are the Key Provisions of the New Guidance?

- Segregation of contributions of non-financial assets on the statement of activities
- Enhanced disclosure requirements

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IN-KIND CONTRIBUTIONS


What Should My Organization Be Tracking?

- Amounts and categories of contributed non-financial assets
- Monetization or use of contributed non-financial assets
- Restrictions and subsequent release (if applicable)

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IN-KIND CONTRIBUTIONS


How Could this ASU Impact Our Financial Statements?

- Detail breakdown of contributed assets reported on the statement of activities by category, dollar value and restriction (consider materiality)
- Fair value measurement of the contributed asset
- Policy regarding monetization of contributed assets or anticipated use of the assets

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IN-KIND CONTRIBUTIONS

What Is the Effective Date of the ASU?

- New guidance is effective for years beginning after 6/15/2021 (current FY for many NFPs)
- Retroactive application required for comparative statements, so prior-year information may also be impacted

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NOT-FOR-PROFIT ORGANIZATIONS

Ask the Experts: *Updates on Audit Communications*

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AUDIT COMMUNICATIONS


When Do the Updates on Audit Communications Take Effect?

- Statements on Audit Standards 134-140 were set to take effect for years ending on or after December 15, 2020
- Implementation was delayed by one year due to impact of COVID-19

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AUDIT COMMUNICATIONS

What Is the Visible Impact for Your Organizations?

- The updates in SAS 134-140 will effect for-profit, not-for-profit and benefit plan audits
- Expect changes in communication format, audit reports and terminology

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AUDIT COMMUNICATIONS


What's New for Engagement Letters & Planning Communications?

- Added transparency
- Clearer communication of roles and responsibilities
- Clearer language regarding level of assurance
- Communication of primary risks of material misstatement during planning
- Increased focus on related-party identification and balances
- Identification of significant unusual transactions

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AUDIT COMMUNICATIONS


What's New for the Audit Opinion?

- Adds headings
- Moves opinion to beginning of letter
- Clearer identification of management and auditor responsibilities

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AUDIT COMMUNICATIONS


What Is the Impact of the Changes on Benefit Plan Audits?

- Limited-scope audit terminology replaced by “Section 103(a)(3)(c) Audits”
- No longer using “disclaimer of opinion” terminology
- Completely revamped audit opinion
- Clear explanation of certified information and scope of audit

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AUDIT COMMUNICATIONS

What Is the Impact of the Changes on Benefit Plan Audits?

- Changes in terminology will extend to engagement letter and other communications
- New audit procedures related to risk assessment and response
- Additional considerations related to IRS Form 5500 filing

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NOT-FOR-PROFIT ORGANIZATIONS

Ask the Experts:
Simplifying the 990

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SIMPLIFYING THE 990

General Topics to Be Covered:

- Financial Statement and Form 990 Reporting Differences
- Part VII Officer Listings and Schedule J Threshold
- Schedule B Reporting
- Considerations for 2021 Filing

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SIMPLIFYING THE 990

Why Doesn't the 990 Match Our Financial Statements?

- Donated Services
- Unrealized Gains and Losses/ Investments
- Special Events
- Compensation

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Schedule D

Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return.


Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.

1	Total revenue, gains, and other support per audited financial statements		1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12:			
a	Net unrealized gains (losses) on investments	2a		
b	Donated services and use of facilities	2b		
c	Recoveries of prior year grants	2c		
d	Other (Describe in Part XIII.)	2d		
e	Add lines 2a through 2d		2e	
3	Subtract line 2e from line 1			3
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1:			
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a		
b	Other (Describe in Part XIII.)	4b		
c	Add lines 4a and 4b		4c	
5	Total revenue. Add lines 3 and 4c . (This must equal Form 990, Part I, line 12.)			5


Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.

Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.

1	Total expenses and losses per audited financial statements		1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25:			
a	Donated services and use of facilities	2a		
b	Prior year adjustments	2b		
c	Other losses	2c		
d	Other (Describe in Part XIII.)	2d		
e	Add lines 2a through 2d		2e	
3	Subtract line 2e from line 1			3
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:			
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a		
b	Other (Describe in Part XIII.)	4b		
c	Add lines 4a and 4b		4c	
5	Total expenses. Add lines 3 and 4c . (This must equal Form 990, Part I, line 18.)			5



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SIMPLIFYING THE 990


In What Year Are Officers and Compensation Reported?

- Individuals should be included as of last day of reporting period
- Calendar-year compensation
- W-2 compensation should be Box 1 or Box 5, whichever is greater
- Examples of nontaxable benefits

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SIMPLIFYING THE 990

What Are the Compensation Thresholds?

	Page 7 – Form 990	Schedule J
Officers:		
Current	Over \$100,000	Over \$150,000
Former	Over \$100,000	Over \$100,000
Highest Paid Employees:		
Current	Over \$100,000	Over \$150,000
Former	Over \$100,000	Over \$100,000

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Polling Question:

For an organization that files on a 6/30/2021 fiscal yearend, what period is used for reporting officer compensation?


- 7/1/2020 – 6/30/2021
- **1/1/2020 – 12/31/2020**
- 1/1/2021-12/31/2021
- 7/1/2021 – 6/30/2022




SIMPLIFYING THE 990

What Do I Need to Provide for Schedule B?

- Contributions as of the last day of year-end
- Excel format best for organization
- Tracking of cash and noncash donations for significant reporting
– **\$5,000 or 2% of line 1h Total Contribution**



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ASK THE EXPERTS


What Do I Need to Remember When I'm Ready to File?

- Extensions filed timely
- Form 990-T (e-filing)
- BCO-10 and PA Registration
- Signatures and answers to all questions

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QUESTIONS?

Thank You for Attending the Program!

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