NON-PROFIT UPDATE 2021 ACCOUNTING UPDATE

Presented by Cerini & Associates, LLP

CERINI & ASSOCIATES LLP

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTING STANDARDS UPDATE

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WHAT IS THE FASB AND WHY SHOULD WE CARE?

- Established in 1973.
- The Financial Accounting Standards Board (FASB) is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut, that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP).
- The seven members of the FASB serve full time and, to foster their independence, are required to sever connections with the firms or institutions they served before joining the Board.
- While the Board members of the FASB individually have diverse backgrounds, each has a concern for investors, other users, and the public interest in matters of accounting and financial reporting and they collectively have “knowledge of accounting, finance, business, accounting education, and research.”
- **<u>In short, the FASB creates and modifies the accounting rules that your organization has to follow to comply with GAAP.</u>**

HOW DO THESE ACCOUNTING CHANGES HAPPEN?

- The Board identifies financial reporting issues based on requests/recommendations.
- The FASB decides whether to add a project to its technical agenda.
- The Board deliberates at one or more public meetings various reporting issues identified.
- The Board issues an Exposure Draft to solicit broad stakeholder input. (In some projects, the Board may issue a Discussion Paper to obtain input in the early stages of a project.)
- The Board holds a public roundtable meeting on the Exposure Draft, if necessary.
- The FASB analyzes comment letters, public roundtable discussions, and all other information obtained through due process activities.
- The Board redeliberates the proposed provisions, carefully considering the stakeholder input received, at one or more public meetings.
- The Board issues an Accounting Standards Update (ASU) describing amendments to the Accounting Standards Codification (ASC).

WHAT IS THE AICPA AND WHY SHOULD WE CARE?

- Established in 1887.
- The American Institute of Certified Public Accountants (AICPA) is the national professional organization of Certified Public Accountants (CPAs) in the United States, based in North Carolina, that sets ethical standards for the profession and United States auditing standards (GAAS) for audits of private companies, non-profit organizations, and federal, state, and local governments.
- Until the FASB was established, the ACIPA set generally accepted professional and technical standards for CPAs. Upon the formation of the FASB, the AICPA transferred its responsibility for setting GAAP to the FASB. Following this transfer, the AICPA retained its responsibility for setting standards in areas such as financial statement auditing, professional ethics, attest services, etc.
- The Auditing Standards Board (ASB) is the AICPA's senior committee for auditing, attestation, and quality control applicable to the performance and issuance of audit and attestation reports. It serves the public interest by developing, updating, and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services.
- The standards issued by the AICPA are called Statements on Auding Standards (SAS).
- **<u>In short, the AICPA creates and modifies rules that CPAs must follow in performing and reporting on audits of your organization.</u>**

ACCOUNTING CHANGES TO BE DISCUSSED

- AICPA Technical Q&A 3200-18, *Accounting For A Forgivable Loan Received Under The US Small Business Administration Paycheck Protection Program*
- ASU 2014-09, *Revenue From Contracts With Customers*
- ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*
- ASU 2016-02, *Leases*
- ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*
- ASU 2021-03, *Intangibles – Goodwill and Other: Accounting Alternative for Evaluating Triggering Events*
- ASU 2017-04, *Intangibles — Goodwill and Other: Simplifying the Test for Goodwill Impairment*
- ASU 2016-13, *Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments.*
  - Related ASU's will be mentioned as well
- ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*
- SAS No. 134, *Auditor Reporting*
- SAS No. 135, *Communication with Those Charged with Governance*
- SAS No. 136, *EPB ERISA Audits*

ACCOUNTING FOR PAYCHECK PROTECTION PROGRAM (PPP) LOANS

- During June 2020, the AICPA and FASB collaborated to issue a Technical Q&A (TQ 3200-18) to provide guidance on the appropriate classification and accounting for PPP loans.
- Organizations have two options for classifying and accounting for PPP loans:
  - Classify the PPP loan as debt, pursuant to Accounting Standards Codification (ASC) 470, *Debt.*
    - Recognize the PPP loan payment as a debt liability and accrue interest pursuant to the loan's contractual terms.
    - Forgiveness income is recognized, and the debt liability extinguished/derecognized, when the United States Small Business Administration (SBA) formally approves the Organization's forgiveness application. Any amount not forgiven will continue to be accounted for as debt and repaid pursuant to the terms of the loan.
  - Classify the PPP loan as a refundable government grant, analogous to the treatment of conditional grants, pursuant to ASU 2018-08, which modifies ASC 958-605, *Not for Profit Entities – Revenue Recognition.*
    - Recognize the PPP loan payment as a refundable grant liability.
    - Forgiveness income is recognized when the conditions of loan forgiveness are met. In this case, the conditions of forgiveness comprise expending the PPP loan funds on qualifying expenses incurred during the covered period, ensuring the appropriate ratio of payroll to other qualifying costs incurred, and maintaining the required full-time-equivalent staffing levels, in accordance with the terms of the PPP loan.
    - This approach matches the timing of forgiveness income recognition to the timing of incurring the underlying expenses, analogous to a deficit funded grant.

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REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- **Non-public entities (including non-profits) were required to adopt the new revenue recognition standards during the 2019 calendar year-end, or 2020 fiscal year-end.**
- **Per ASU 2020-05, non-public entities that had not yet applied the standard may adopt for calendar 2020 year-end, or 2021 fiscal year-end.**
- The standard must be applied retrospectively. Retrospective application requires accounting records be adjusted for any prior periods presented in the financial statements, as though this ASU had always been in place. The cumulative impact of adoption, if any, would result in the adjustment of opening net assets.
- The purpose is to provide a single, principle-based standard that can be applied across many industries.
- Only applicable for “exchange” transactions in which both parties receive value:
  - Fees-for-service (FFS) contracts/arrangements:
    - Organization gets paid for each unit of service it delivers, regardless of the underlying cost to provide such services. If the cost to provide services is higher than the revenue received, the organization loses money and if the cost is lower than the revenue, the organization has a profit.
  - Direct benefits to donors/members
- Does not apply to contributions revenue since that is non-reciprocal and non-exchange. This type of revenue is covered under ASU 2018-08 in later pages.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- The revenue recognition principles address:
  - All contracts with customers, except:
    - Lease contracts (no differences exist between non-profit and for-profit revenue derived from leases).
    - Insurance contracts (this is NOT referring to payments from insurers for healthcare services provided).
    - Financial instruments (investment income is not subject to these ASU's).
    - Guarantees.
    - Non-monetary exchanges in the same line of business to facilitate sales to customers.
  - Certain contracts not with customers are excluded:
    - Contributions.
    - Collaborative arrangements (shared costs).

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- Areas where the ASU's impact nonprofits:
  - Memberships
  - Subscriptions
  - Products and services
  - Royalty agreements
  - Sponsorships
  - Conferences and seminars
  - Tuition and other fee for service arrangements
  - Advertising
  - Licensing
  - Federal and state grants and contracts

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- Final U.S. GAAP Model
  - **Core Principle:** Revenue should be recognized in the amount of the consideration an organization is entitled to for the transfer of goods and services to customers.
  - Steps to apply the core principle (see the following pages):

    1. Identify the contract(s) with the customer,

    2. Identify the performance obligation(s),

    3. Determine the transaction price,

    4. Allocate the transaction price, and

    5. Recognize revenue when (or as) a performance obligation is satisfied.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

Step 1: Identifying the Contract

- Required criteria to be considered a "contract:"
  - Contract has been approved by both parties,
  - Both parties are committed,
  - Each party's rights regarding goods or services can be identified,
  - Payment terms can be identified,
  - Contract has commercial substance, and
  - Collectability of consideration is probable.
- Combining Contracts:
  - Contracts with the same customer should be combined if:
    - The contracts are negotiated as a package with a single commercial objective.
    - The amount of consideration paid in one contract is dependent upon the other contract.
    - The goods or services promised in the contract are a single performance obligation.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

Step 2: Identify Performance Obligations

- Definition of performance obligation:
  - A promise in a contract with a customer to transfer to the customer either:
    - A good or service (or bundle) that is distinct, or
    - A series of goods or services that are substantially the same and that have the same pattern of transfer to the customer.

- Examples of Performance Obligations:
  - A housing-based nonprofit enters into a contract with a homebuyer to build a home.
  - An animal rescue nonprofit enters into a royalty agreement that will allow a commercial company that manufactures dog treats to say that they are approved by the nonprofit.
  - A school charges parents $1,000 per month to enroll their children in a day care program.
  - A museum providing full naming rights to a bank to name the museum for a period of ten years, with signage, name on all materials, etc., for a fee of $2,000,000.

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REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

Step 3: Determine the Transaction Price

- Use customary business practices.
- Defined as the amount of consideration an entity expects to receive in exchange for transferring promised goods or services, excluding amounts collected on behalf of third parties, for example:
  - A membership organization includes as part of its annual dues, the dues to be part of a related organization, which is transferred to that related organization.
- May consist of:
  - Fixed amounts:
    - Tickets to a golf outing.
  - Variable amounts:
    - A discount at a museum store.
  - Both:
    - A cemetery plot and related perpetual care.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

Step 4: Allocate Transaction Price

- Allocate to each performance obligation:
  - In a systematic manner.
  - Standalone selling price—most common method.
  - If good or service is not sold separately, estimate the separate price using observable inputs using:
    - Adjusted market assessment method (estimated price that the market would be willing to pay),
    - Cost plus margin method (estimated cost to provide the product/service, plus a reasonable "profit" margin), or
    - Residual value method (allocate remaining value here if all other components of price are otherwise determinable).

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REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

Step 5: Recognize Revenue When Performance Obligations are Satisfied

- Satisfaction of Performance Obligations:
  - Revenue is recognized when a performance obligation is satisfied (asset or service is transferred).
    - An asset is transferred when the customer obtains control of the asset.

- Control Factors:
  - Control of an asset refers to
    - Ability to direct the use of, and obtain all of the remaining benefits from, the asset.
    - Ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.
  - Determine if control of good or services are transferred.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

Step 5: Recognize Revenue As Performance Obligations are Satisfied

- Recognition when Performance Obligation is Satisfied Over Time
  - One criteria must be met:
    - Customer simultaneously receives and consumes the benefits as the entity performs, for example:
      - Twenty tickets to a museum – each time a ticket is used
    - The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, for example:
      - Adding an enhancement to a client's website, or
    - The asset created has no alternative use to the reporting entity, AND the entity has a right to payment for the performance completed to date, for example:
      - Midway through the contract, the contract is terminated, but the contract provided that the customer is responsible for expenditures incurred to date.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- **Example A: Education and Advocacy Membership**
  - **Facts:**
    - A not-for-profit membership organization has annual dues of $200. The only direct benefit members receive is a monthly newsletter with a fair value of $48.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- **Example A: Education and Advocacy Membership**
  - **Facts:**
    - A not-for-profit membership organization has annual dues of $200. The only direct benefit members receive is a monthly newsletter with a fair value of $48.
  - **Response:**
    - Step 1 – Identify the Contract
      - The newsletter is a contract with a customer, since this is an exchange transaction.
    - Step 2 – Identify the Performance Obligations
      - The provision of the monthly newsletter.
    - Step 3 – Determine the Transaction Price
      - $48 is allocated to the performance obligations to provide the monthly newsletter.
    - Step 4 – Allocate Transaction Price
      - The standalone method allocates $48 to the monthly newsletters.
    - Step 5 – Recognize Revenue As Performance Obligations are Satisfied
      - The $48 is recognized as revenue over twelve months, as each issue is provided to the member. Previous GAAP would have had the $200 recognized over twelve months.
      - The remaining $152 is a contribution, since no specific identifiable benefits are provided.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- **Example B: Tuition and Fees**
  - **Facts:**
    - A student is accepted into a nonprofit college. After new student orientation, the student registered for classes and received a tuition statement of $10,000 for the fall semester. The college charges an additional $200 in student fees. The related books for registered classes will be an additional $300. Students can withdraw with no-charge within the first two weeks of the semester.

REVENUE RECOGNITION AND THE FIVE STEP REVENUE RECOGNITION MODEL (ASU 2014-09)

- **Example B: Tuition and Fees**
  - **Facts:**
    - A student is accepted into a nonprofit college. After new student orientation, the student registered for classes and received a tuition statement of $10,000 for the fall semester. The college charges an additional $200 in student fees. The related books for registered classes will be an additional $300. Students can withdraw with no-charge within the first two weeks of the semester.
  - **Response:**
    - Step 1 – Identify the Contract
      - A contract exists for tuition and fees after the withdrawal period ends. It's cancelable until that point in time. There's no contract for related books until ordered/purchased.
    - Step 2 – Identify the Performance Obligations
      - The college has obligations to provide classes for the student, student services, and access to the textbook provider.
    - Step 3 – Determine the Transaction Price
      - The fair value of tuition and fees is $10,200. The fair value of the textbooks is $300.
    - Step 4 – Allocate Transaction Price
      - $10,000 is allocated to the performance obligation to provide classes. $200 is allocated to the performance obligation to provide student service. $300 is allocated to textbooks.
    - Step 5 – Recognize Revenue As/When Performance Obligations are Satisfied
      - $10,200 for tuition/fees are recognized ratably over the semester once withdrawal period ends. $300 for textbooks is recognized at their time of purchase.

CLARIFYING THE SCOPE/ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND MADE (ASU 2018-08)

- **Effective date – Generally, 2019 calendar year-end, 2020 fiscal year-end for resource recipients; 2020 calendar year-end, 2021 fiscal year-end for resource providers.** Early adoption is permitted.
- These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises.
- This ASU compliments the new revenue recognition rules.
- The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction (and subject to the new ASC 606). It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards.
- It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition.
- The new ASU does not apply to transfers of assets from governments to businesses.

CLARIFYING THE SCOPE/ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND MADE (ASU 2018-08)

- **ASU 2018-08 Vs. ASU 2014-09**
  - "Commensurate" value determines which accounting standard to apply.
    - Exchange transactions qualify under ASU 2014-09 and take place when both parties receive commensurate value in reciprocal transfers in a transaction/contract.
      - Fulfilling the organization's mission does NOT create commensurate value.
      - Benefits received by the general public also do NOT constitute commensurate value.
    - Nonexchange transactions qualify under ASU 2018-08 as they are nonreciprocal and "one-sided."
- **Conditions Vs. Restrictions**
  - Conditional contributions involve barriers to be overcome and a right of return to the resource provider.
    - Reporting requirements are NOT considered barriers.
    - Examples of barriers include required levels of service, matching elements, and qualified expenses/budgets.
  - Restricted contributions specify the use of funds after a certain date or a more specific purpose than the organization's exempt purpose.
- **Disclosures**
  - Disclosures of revenue recognition policies will be affected.
  - Conditions and restrictions should be disclosed for major contracts and transactions.

NEW LEASE STANDARD (ASC TOPIC 842)

- In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842). ASC Topic 842 supersedes current lease accounting standards under ASC Topic 840. Topic 842 focuses on increasing transparency and comparability to provide financial statement users with more information about an entity's leasing activities and to eliminate "off-balance sheet" accounting.
- **<u>Per ASU 2020-05, non-public entities (including nonprofits) may delay implementation to calendar 2022 year-end, or 2023 fiscal year-end.</u>**
- Early adoption is permitted.
- Comparative statements must be restated using a modified retrospective transition method (defined in a later page).
- A contract is (or contains) a lease when two criteria are met:

    1. The contract explicitly or implicitly specifies the use of an identifiable asset, and

    2. The customer controls the use of the asset for that period of use.

- ASC Topic 842 applies to substantially all leases, but there is still a distinction between operating leases and finance (capital) leases because different recognition and presentation is required on the statements of activities and cash flows.

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NEW LEASE STANDARD (ASC TOPIC 842)

<u>Accounting for Lessees</u>

The Transition Approach for Prior Periods Included in the Financial Statements

- Modified retrospective transition approach
  - The cumulative effect of application recognized at either:
    - Beginning of earliest comparative period presented <u>(comparative periods adjusted)</u>; or
    - Effective date <u>(comparative periods not adjusted).</u>

- Certain practical expedients are permitted, but must be applied consistently to all leases
  - Package of practical expedients (must be elected together). At the adoption date, an entity may elect not to reassess:
    - Whether expired or existing contracts contain leases under the new definition of a lease,
    - Lease classification for expired or existing leases, and
    - Whether previously capitalized indirect costs would qualify for capitalization under the new standard.
  - Use of hindsight – when determining the lease term and in assessing other lease options.
  - Not to reassess whether land easements not accounted for as leases under current US GAAP qualify as leases under the new standard.

NEW LEASE STANDARD (ASC TOPIC 842)

Accounting for Lessees

Leases on the Statement of Financial Position

- Lessees will recognize all leases, including operating leases, with a term greater than twelve months on the statement of financial position with a right-of-use (ROU) asset and corresponding lease liability.
- This will affect key statement of financial position measures and ratios which could affect compliance with contractual covenants.
- At lease commencement, the lessee will determine if a lease is either a finance lease or an operating lease based on the five criteria:
  - Ownership transfers,
  - Purchase option,
  - Lease term is the major part of the asset's remaining economic life,
  - Present value of lease payments equals or exceeds the fair value of the asset, and
  - Asset has a specialized nature that has no alternative use.

NEW LEASE STANDARD (ASC TOPIC 842)

Accounting for Lessees

Lease Liability Initial and Subsequent Measurement

Lease Liability = Present value of unpaid lease payments

Lease payments exclude variable or contingent payments and should be discounted at the rate implicit in the lease, if available. Lessees may determine a single discount rate for a portfolio of similar type leases. Lessees may also elect an accounting policy to use a risk-free discount rate for all leases.

ROU Asset Initial Measurement

Lease Liability + Initial Direct Costs + Prepaid Lease Payments − Lease Incentives Received

ASC Topic 842 has a narrow definition of initial direct costs and only includes those costs that are directly attributable to obtaining the lease and would not have otherwise been incurred. Some origination costs incurred in negotiating and arranging a lease that are capitalized under current standards will now be expensed, such as fixed employee salaries, cost of advertising leases, and unsuccessful origination efforts.

NEW LEASE STANDARD (ASC TOPIC 842)

Accounting for Lessees

ROU Asset Subsequent Measurement

Finance Lease

ROU Asset = Beginning Balance − Accumulated Amortization

The ROU asset is amortized on the straight-line basis over the lease term.

Operating Lease

Method 1

ROU Asset = Beginning Balance − Accumulated Amortization

The amortization of the ROU asset each period equals the difference between the straight-line single lease cost for the period and the periodic accretion of the lease liability using the effective interest method.

Method 2

Lease Liability + Unamortized Initial Direct Costs +/− Prepaid (Accrued) Lease Payments − Unamortized Balance of Lease Incentives Received

The carrying amount of the ROU asset is derived from the carrying amount of the lease liability at the end of each reporting period. This is inherently a manual process.

NEW LEASE STANDARD (ASC TOPIC 842)

Accounting for Lessees

Other Key Considerations

- Lease and non-lease components:
  - Non-lease components such as consumables, service costs, and maintenance should be accounted for separately from the lease unless the lessee elects to account for non-lease components as part of the lease to which they relate.
- Short term leases:
  - Lessees may elect not to recognize leases with a lease-term, including optional renewal periods, of twelve months or less as long as they don’t include a bargain purchase option.
- Expanded Qualitative and Quantitative Disclosures:
  - Lease terms and conditions, extension and termination options, purchase options, etc.
  - Operating lease costs, amortization of finance lease ROU assets and interest on finance lease liabilities, variable lease cost, etc.

NEW LEASE STANDARD (ASC TOPIC 842)

Accounting for Lessors

- ASC Topic 842 does not significantly change the way lessors account for leases. Lessors will continue to classify their leases as sales-type, direct financing, and operating leases at lease commencement.
- Changes to how lessors will classify leases. It is expected that fewer leases will qualify as direct financing leases, and lessors will classify the vast majority of leases as sales-type or operating.
- Minor tweaks are made to the accounting for sales-type and direct financing leases, and ASC 842 eliminates the existing special guidelines when accounting for leases involving real estate.

OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets**
  - **Effective date – 2022 calendar year-end and fiscal year-end.** Early adoption permitted.
- **Nonfinancial assets** include fixed assets, use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.
- Present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.
- Disclose in the footnotes:
  - Disaggregation of amount of contributed nonfinancial assets by category.
  - For each category, provide qualitative information about whether the contributed nonfinancial assets were monetized or utilized during the reporting period, and if so, describe the programs or activities in which those assets were used.
  - The nonprofit's policy about monetizing rather than utilizing those assets.
  - A description of donor imposed restricted associated with those assets.
  - A description of the valuation techniques and inputs used to arrive at a fair value measure.
  - The principal market used to arrive at a fair value measure.

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OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2021-03, Intangibles – Goodwill and Other: Accounting Alternative for Evaluating Triggering Events.**
  - **Effective date: 2020 calendar year-end, 2021 fiscal year-end, on a prospective basis.**
  - Provides an accounting alternative that allows private companies and not-for-profit organizations to perform a goodwill triggering event assessment, and any resulting test for goodwill impairment, as of the end of the reporting period, whether the reporting period is an interim or annual period. It eliminates the requirement for companies and organizations that elect this alternative to perform this assessment during the reporting period, limiting it to the reporting date only.
  - The scope of the alternative is limited to goodwill that is tested for impairment in accordance with Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill.

OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2017-04, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment**
  - **Effective for 2023 calendar year-end, 2024 fiscal year-end, as per ASU 2019-10.**
  - Eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.
  - Also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2016-13, Financial Instruments —Credit Losses: Measurement of Credit Losses on Financial Instruments**
  - **Effective date – for nonprofit entities, extended to 2023 calendar year-end, 2024 fiscal year-end, as per ASU 2019-10.** Early adoption is permitted.
  - Requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts, replacing the previous incurred loss methodology. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.
  - Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses.
  - Amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2018-19, Codification Improvements Financial Instruments—Credit Losses**
  - **Effective date – same as ASU 2016-13; For nonprofit entities, 2023 calendar year-end, 2024 fiscal year-end.**
  - The guidance clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard.
- **ASU 2019-04, Codification Improvements to Financial Instruments—Credit Losses, Derivatives and Hedging, and Financial Instruments**
  - **Effective date - For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements are the same as the effective dates and transition requirements in ASU 2016-13. For entities that have adopted the amendments in ASU 2016-13 as of the issuance date of ASU 2019-04, the effective date is 2020 calendar year-end, 2021 fiscal year-end. Early adoption is permitted as long as the entity has adopted the amendments in ASU 2016-13.**
  - These amendments clarify and improve areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement.

OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2019-05, Financial Instruments—Credit Losses: Targeted Transition Relief.**
  - **Effective date – For non-profit entities that have not yet adopted ASU 2016-13, the effective date and transition methodology are the same as in ASU 2016-13, which is 2023 calendar year-end, 2024 fiscal year-end (as per ASU 2019-10). For entities that have adopted ASU No. 2016-13, the amendments are effective for 2020 calendar year-end, 2021 fiscal year-end. Early adoption is permitted.**
  - The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening net asset balance in the statement of financial position as of the date that an entity adopted ASU No. 2016-13.
  - These amendments provide entities that have certain instruments with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments. The fair value option election does not apply to held-to-maturity debt securities.

OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2019-11, Improvements to Topic 326, Financial Instruments—Credit Losses**
- **Effective date – For non-profit entities that have not yet adopted ASU 2016-13, the effective date and transition methodology are the same as in ASU 2016-13, which is 2023 calendar year-end, 2024 fiscal year-end (as per ASU 2019-10). For entities that have adopted ASU No. 2016-13, the amendments are effective for 2020 calendar year-end, 2021 fiscal year-end. Early adoption is permitted.**
  - The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening net asset balance in the statement of financial position as of the date that an entity adopted ASU No. 2016-13.
  - These amendments provide clarified guidance around how to report expected recoveries.
  - "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. This ASU permits organizations to record expected recoveries on purchased credit deteriorated (PCD) assets (assets that have more than insignificant deterioration in credit quality since origination).
  - In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities.

OTHER ACCOUNTING UPDATES SOON TO IMPACT NON-PROFITS

- **ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans**
  - **Effective date – 2022 calendar year-end, 2023 fiscal year-end.** Early adoption is permitted.
  - These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including but not limited to the following:

Disclosure Requirements Deleted:

- The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
- The amount and timing of plan assets expected to be returned to the employer.
- Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.

Disclosure Requirements Added:

- The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates.
- An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.
- The amendments also clarify the disclosure requirements related to the following:
  - The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets.
  - The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.

STATEMENTS ON AUDITING STANDARDS (SAS) No. 134

- **Effective date: Due to COVID-19, AICPA ASB deferred to 2021 calendar year-end, 2022 fiscal year-end.**

- Changes the form and content for all auditor's reports under Generally Accepted Auditing Standards (GAAS). The changes are intended to enhance the communicative value and relevance of the auditor's report, including:
  - *Opinion* section of auditor's report to be presented first, followed by *Basis for Opinion* section.
  - Enhanced auditor reporting relating to going concern, including a separate section in the auditor's report when substantial doubt exists.
  - Expanded description of auditor's responsibilities, including those relating to professional judgment, skepticism, and communications with those charged with governance.
  - Auditors are required to communicate with those charged with governance about the significant risks identified by the auditor.

STATEMENTS ON AUDITING STANDARDS (SAS) No. 134

- Auditors may be engaged by those charged with governance to communicate key audit matters (KAMs) in the auditor's report. Those charged with governance decide whether the auditor reports on KAMs in the auditor's report. Auditors are **not** required to communicate KAMs.

- KAMs may include, among other things:
  - Higher assessed risk of material misstatement areas or significant risks;
  - Areas that required considerable auditor judgment, such as accounting estimates; or
  - Significant events or transactions in the current period.

- When engaged to do so, the auditor's report will include a section describing the following for each KAM:
  - Primary reason for designation as a KAM;
  - How the KAM was addressed in the audit; and
  - Refer to the financial statement accounts or disclosures related to the KAM

- If the audit does not identify any KAMs, then the audit report will state that within the conclusion.

- Those who choose not to include KAMs in the auditor's report will continue to receive written and oral communications from their auditor separate from the auditor's report.

- Communication of KAMs does not alter opinion on the financial statements.

CERINI & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
1993 2018 25th ANNIVERSARY

STATEMENTS ON AUDITING STANDARDS (SAS) No. 135

- **Effective date: Due to COVID-19, AICPA ASB deferred to 2021 calendar year-end, 2022 fiscal year-end.**

- Intended to enhance the quality of audits by increasing auditor's focus on related parties and transactions with related parties and significant unusual transactions.

- Creates new communication requirements for:
  - Significant unusual transactions;
  - Difficult or contentious matters for which the auditor consulted outside the engagement team; and
  - Uncorrected misstatements that could potentially cause material misstatements on future-period financial statements even though they are considered immaterial to the financial statements under audit.

STATEMENTS ON AUDITING STANDARDS (SAS) No. 136

- **Effective date: Due to COVID-19, AICPA ASB deferred to 2021 calendar year-end, 2022 fiscal year-end.**

- Revises auditor's report on ERISA plan financial statements to provide better insight into the responsibilities of management and the auditor.

- An ERISA limited scope audit is now referred to as an ERISA section 103(a)(3)(C) audit.

- The election to exclude certain investments is no longer considered a scope limitation.

- The auditor's report includes the following changes:
  - A new section regarding the scope and nature of ERISA section 103(a)(3)(C) audits to be presented first, followed by *Opinion* section of auditor's report, followed by *Basis for Opinion* section;
  - Expanded management and auditor responsibility sections; and
  - A two-part opinion addressing information not covered by the investment certification.

- Additional audit procedures are required for an ERISA section 103(a)(3)(C) audit, including:
  - Auditor inquiring of management as to how management determined the entity preparing and certifying the investment information is a qualified institution; and
  - Emphasis that the auditor is required to determine the information that is certified and not certified to conclude which is required to be audited.