



# GAAP Update & Refresher Nonprofit Seminar

# Agenda

## 1. Debrief on Recent Standards:

- a. ASU 2018-08; Grants and Contributions / ASC 958 Reminders
- b. ASU 2020-07; Gifts-in-Kind (nonfinancial assets)
- c. ASU 2016-14; Financial Statements for Nonprofits

## 2. GAAP Update

- a. Leases – Under Common Control
- b. Software Costs
- c. Income Tax Disclosures
- d. Crypto Assets

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**Grants and Contributions  
Refresher  
ASU 2018-08**



# Recommendation

- The best plain English guide for contribution accounting is the AICPA NFP Audit and Accounting Guide
- Available as an e-book for \$115 to \$165 (can order a printable version)
- QR code for link to purchase →
- Read chapter 5 – Contributions Received and Agency Transactions



# Contributions and Grants Overview

- The FASB codification does not distinguish the difference in terms for contributions, grants and other similar terms.
- What is an intention to give?
- What is a conditional contribution?
- What is a contribution?
- What is a restriction?
- How do you distinguish between a restriction and a condition?

# Contributions and Grants Overview

- A contribution is an unconditional transfer of cash or other assets to an entity or settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.
- A conditional contribution is a contribution that contains a donor-imposed condition.
- An intention to give is not defined but essentially it is a desire to give but is not unconditional or based upon a future uncertain event.

# Overview

## › Step 1: Exchange vs. Nonexchange

- Exchange transaction when resource provider is receiving commensurate value in return for the resources transferred

## › Step 2: Conditional vs. Unconditional

- Conditional contributions when there is a barrier to overcome & right of return/release

# Step 1: Exchange vs. Nonexchange

- Direct commensurate value received by the resource provider in exchange for the resources provided
- The resource provider, *e.g.*, government, is not synonymous with the general public
- Furthering a resource provider's mission, a "feel good" sentiment, or receiving name recognition does not constitute commensurate value
- Type of resource provider or name of award should not override the substance of the transaction
- If the beneficiary of a grant or contract is a third party, judgment is required

# Step 2: Conditional vs. Unconditional Contributions

## For a *donor-imposed condition* to exist

- › A right of return/ release must exist; **&**
- › The agreement must include a barrier
  - There are now indicators & examples to help in determination

- Cannot do probability assessment
- Need to determine if a barrier or guidepost
- Involves judgment

To determine what is a barrier, NFP will consider indicators, which will include, but are not limited to, the following:

**Inclusion of a measurable performance-related barrier or other measurable barrier, e.g.,** specified level of service, specific output or outcome

**Extent to which a stipulation limits discretion by the recipient on conduct of an activity, e.g.,** qualifying expenses, specific protocol

**Extent to which a stipulation is related to the purpose of the agreement** (excludes administrative or trivial)

# Donor Advised Funds

- Maintained and operated externally, a donor advised fund is a separately identified fund or account that by a section 501(c)(3) organization, which is called a **sponsoring organization**.
- Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.\*

Source: <https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds>

# Donor Advised Funds

- Some donors make gifts from a donor advised fund (DAF)
- DAFs provide variance power to the holder of the fund, i.e., a Community Foundation
- That variance power is what creates the tax deduction
- Warning – be careful of pledges that state they are being made by the donor’s DAF
- Why the warning – the variance power that the DAF has creates an intention to give not an unconditional promise.
- Ask yourself: do I have a legally enforceable pledge?

# Agency Transaction

**FASB master glossary defines an agent as** – *A party that acts for and on behalf of another party. For example, a third-party intermediary is an agent of the transferor if it acts on behalf of the transferor.*

**It has a second definition for an agent which is** – *An entity that acts for and on behalf of another. Although the term agency has a legal definition, the term is used broadly to encompass not only legal agency, but also the relationships described in Topic 958. A recipient entity acts as an agent for and on behalf of a donor if it receives assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary. A recipient entity acts as an agent for and on behalf of a beneficiary if it agrees to solicit assets from potential donors specifically for the beneficiary's use and to distribute those assets to the beneficiary. A recipient entity also acts as an agent if a beneficiary can compel the recipient entity to make distributions to it or on its behalf.*

# Agency Transactions

- This is a fairly complex area within Subtopic 958-605 of the FASB Codification.
- There are many examples in the paragraphs included in 958-605-55 which is the implementation guidance for contribution accounting.
- For today our focus is on the concept of variance power and if the NFP has the ability to direct where the funds are going.

# Variance Power

The Master Glossary of the FASB Codification defines variance power:

*The unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets. Unilateral power means that the recipient entity can override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party.*

# Case Studies

## Examples

Typical wording and what to look for

Is there variance power?

Is it an agency transaction or a contribution?

Is it conditional?

Is it restricted?

What is the accounting?

# Case Studies – Example 1

I wanted you to know that I have authorized the \$100,000 USD grant to CP today and expect it to be at your office within the next 10-14days. Please let me know when you receive it.

I have attached Michaela's resume and as I said would like \$65000 AUD directed to her for her medical studies in 2023 and the remainder to research in Australia, if possible.

Michaela is unaware that the grant has come from us and we would appreciate your discretion when allocating it to her.

She is very happy to come to the CP office in Wollongong or Sydney to learn more about the research you are undertaking.

I will send an introduction to her shortly.

Thank you again for your assistance with this. I think she is an excellent student and very deserving of assistance to complete her studies.

# Case Studies – Example 2

## Connection to Right of Return (From the FASB Codification)

· · > Example 21: Contribution to a Recreational Organization

**958-605-55-70S** NFP H is a recreational organization that provides various sports programs to children that live in the community. NFP H receives an upfront grant in the amount of \$40,000 from a foundation to be used toward its tennis program. Consistent with NFP H's grant proposal, the agreement includes specific guidelines for which NFP H could use the assets (for example, to hire 10 tennis instructors or to provide a summer camp for 9 weeks) but does not specify that NFP H's entitlement to the \$40,000 is dependent upon NFP H meeting any of the specific indicated guidelines in the agreement. The grant contains a right of return for funds not spent on the tennis program.

**958-605-55-70T** NFP H determines that this grant is not conditional because it does not contain a barrier to overcome to be entitled to the transferred assets. Although the grant agreement contains guidelines for how NFP H could spend the \$40,000, the agreement does not specify that entitlement to the transferred assets are dependent upon meeting any of the guidelines. Because the guidelines in the grant agreement were not required to be met to be entitled to the funding, the agreement does not contain a barrier to overcome. NFP H should recognize the revenue upon receipt of the assets as donor restricted because it is required to use the assets for the tennis program, which is narrower than NFP H's overall mission.

# Case Studies – Example 3

Emails received during fiscal 2025

- This email shall confirm my plan to pledge to NFP A in early 2026 an amount of \$1,000,000 to match the 2025 walk donations up to the amount of \$1,000,000. The name of the donor should remain anonymous.
- I shall confirm my pledge to NFP A in early 2026 a gift in the amount of \$1,000,000 to match the 2025 walk donations. The name of the donor shall remain anonymous.

# Case Studies – Example 4

This agreement (the “Agreement”) is made between [REDACTED] a private grant-making foundation, organized under the laws of the State of New Jersey and recognized as exempt from federal income taxation under Code section 501(c)(3), and [REDACTED] concerning a contemplated grant of \$2,400,000 (the “Grant”) to Grantee. The purpose of the grant contemplated by this Agreement, as further elaborated in the final Project Narrative and Project Budget submitted to [REDACTED] (the “Purpose”).

**Disbursement Schedule:**

Scheduled Date	Amount
2023 Jan 27	\$1,200,000
2024 Jan 01	\$1,200,000

**Question – Do we have an unconditional contribution?**

# Case Studies – Example 4

The agreement also included this:

**Section 11. Grantee's Accounting Treatment of Grant.** Because this Agreement cannot be construed as giving rise to any legally binding pledge, Grantee should not recognize income associated with this grant award until funds are actually received. Grantee should consult with its accountant concerning the correct accounting treatment.

# Case Studies – Example 5

Grant from Foundation to NFP to perform medical research project. The grant is the sole funding source for the NFP for this project.

- Term: Award is 3 years.
- Grant amount: \$15,432,220, based on budget prepared as part of the grant application.
- Use of funds: a) May only be used for the project; b) Must spend in accordance with the budget c) The foundation must approve in writing any budget cost category changes of more than 10%; d) Any grant funds received not used on eligible project expenses must be returned
- Payments: Payments made in accordance with the Reporting & Payment Schedule, and are contingent on meeting the applicable target, milestone, or reporting deliverables. The Reporting & Payment Schedule specify “go/no go milestones” at the end of each 6 months to determine if the project will continue to the next phase.
- Reporting: Reports made in accordance with the Reporting & Payment Schedule using the foundation’s standard templates.

# Gifts-in-Kind ASU 2020-07



# Gifts of Nonfinancial Assets - Background

- Concerns raised by regulators
- FASB's reaction and considerations
- Fair value accounting overview
  - Principal or most advantageous market
  - Donor restrictions vs. legal restrictions

# Gifts of Nonfinancial Assets – Fair Value Accounting Overview

- Principal market - Ensure the legal ability to be active in that market
  - Specific market may not be the principal or most advantageous market because of fulfillment of the organization's mission
  - Organizations may work in regions or accept dollars that are significantly less than market price as part of fulfilling its mission.
- Highest and best use of a nonfinancial asset takes into account the use of the asset that is:
  - Physically possible
  - Legally permissible; and
  - Financially feasible
- The fact that a donor may restrict access through donor-restrictions does not affect the price in the principal (or most advantageous) market. That would impact net asset classification
- An NFP should take into account the characteristics of an asset, which includes legal restrictions on any holder of the asset (Examples include conservation or zoning easements)

# Gifts of Nonfinancial Assets (GIKs)

## Requirements of ASU 2020-07

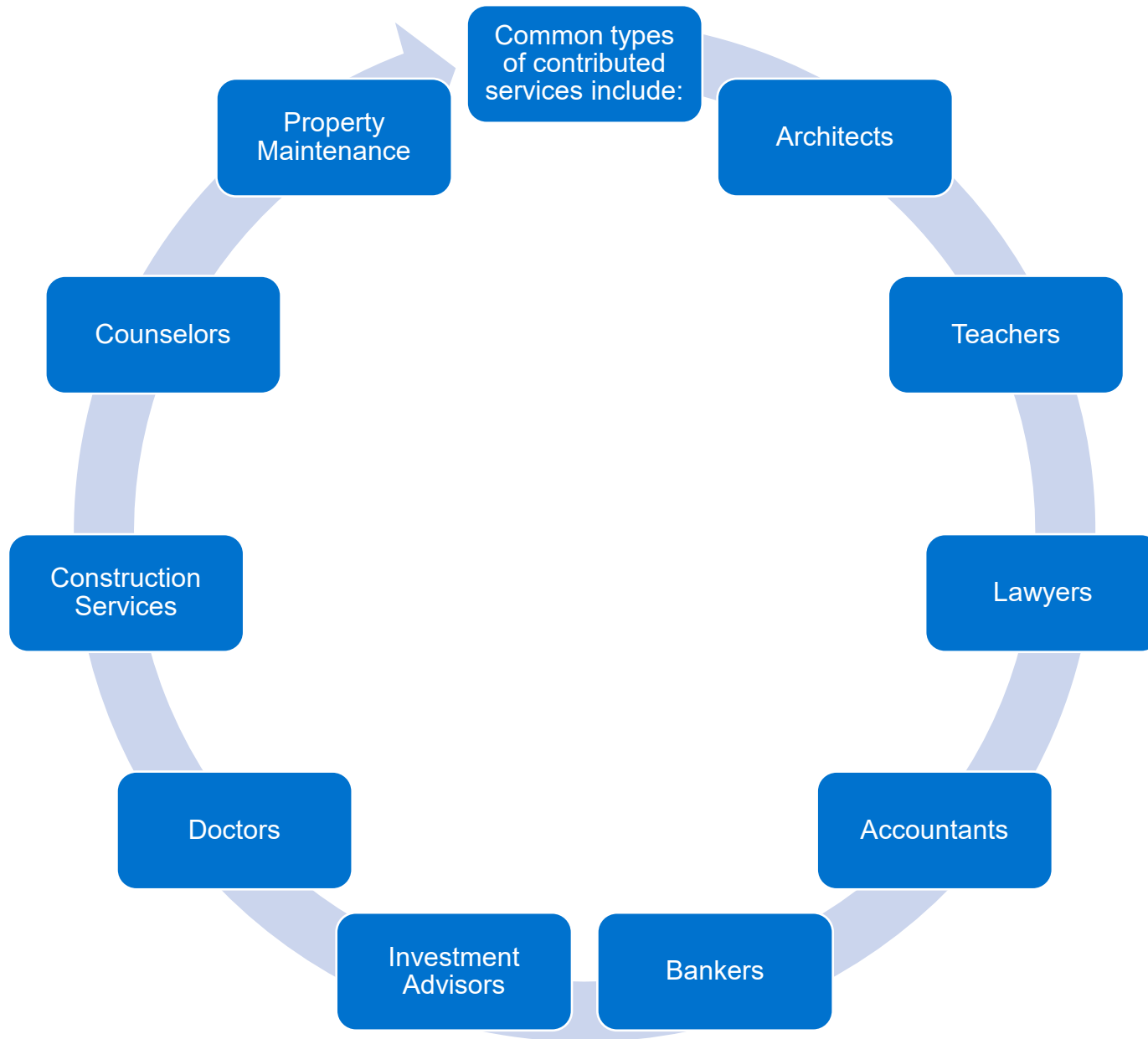
Present contributed nonfinancial assets as separate line item in the statement of activities

Disclose disaggregation by category of nonfinancial asset, including whether used or monetized. If used, in which areas/programs; also, any monetization policies

Disclose a description of donor restrictions associated with nonfinancial asset

Provide description of the valuation techniques & inputs used to arrive at a fair value measure for contributed nonfinancial assets in accordance with paragraph 820-10-50-2(bbb)(1) of codification for initial recognition

Disclose principal market (or most advantageous market if there is no principal market) used to arrive at fair value measure if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed asset



## Contributed Services – Most Common Examples

**NOTE:** Common indicators of specialized skills include:

- Maintaining a particular license or certification
- Working with technical tools
- Artistic talent at a proficiency greater than the general public.

# Accounting for Contributed Services – Definition per GAAP

- The majority of nonprofits, including churches, receive some form of volunteer time, whether it is for direct services in its programs, consultants, vendors or board involvement.
- The value of contributed services must be recognized if the service either (does not apply to affiliates – different rules)
  - Creates or enhances assets that are not financial in nature (e.g., buildings, materials, supplies, etc.) or
  - Requires specialized skills, are provided by individuals with those skills and would typically need to be purchased if the services had not been donated.

# Present as Separate Line in Statement Activities

	<u>Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support, revenues, and gains</b>			
Contributions and grants, primarily private	18,510	5,670	24,180
Gifts-in-kind	67,680		67,680
Government grants	9,680	-	9,680
Other income	465	-	465
Net assets released from restrictions	1,430	(1,430)	-
Total support, revenues, and gains	97,765	4,240	102,005
<b>Expenses</b>			
Food bank operations	86,940	-	86,940
Supporting services:			-
General and Administrative	1,050	-	1,050
Fundraising	3,475	-	3,475
Total expenses	91,465	-	91,465
<b>Change in net assets</b>	6,300	4,240	10,540

# Example Footnote Disclosure

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statement of activities included:

	2022	2021
Property	\$ 100,000	\$ 300,000
Donated Services	500,000	500,000
	<u>\$ 600,000</u>	<u>\$ 800,000</u>

The nonfinancial assets listed above were recognized within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

## *Property*

Contributed property is included in assets held for sale. In valuing the contributed property, the Organization estimated the fair value based on selling price or appraised value of the property.

## *Donated Services*

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

# Financial Statements for Nonprofits ASU 2016-14



# Overview FASB ASU 2016-14

Effective FY19

## FASB's objectives

- Reduce confusion about time and purpose restrictions on face of financials
- Reduce confusion about the name of the net asset classes
- Improve transparency about liquidity especially related to restrictions
- Address NFP sector inconsistencies in expense reporting
- Clear a path for direct cash flow reporting (if desired)

Flexibility granted to meet requirements

Encourage NFPs to better tell their financial story

# Use of Operating Measures, or Similar Subtotals, on the Statement of Activities (SOA)

- Neither required or prohibited by GAAP
- Examples: operating and nonoperating, expendable and nonexpendable, recurring and nonrecurring, or in other ways (FASB ASC 958-220-45-9)
- Intermediate measure of operations:
  - Must be in the same statement that reports change in net assets without donor restrictions
  - Must include, if applicable – impairment losses on long-live assets to be held and used (ASC 360-10-45-4); costs associated with exit/disposal activity that does not involve a discontinued operation (ASC 420-10-45-3); gain/loss on sale of long-lived asset that is not treated as discontinued operation (ASC 360-10-45-5)
  - Disclose what is in operating/nonoperating if not apparent from details on the face of the SOA
- Board-designations, appropriations, and similar actions presented on the SOA must have appropriate disaggregation and descriptions on face of SOA or in footnotes (ASC 958-220-50-1)

# Example 1: No Disaggregation or Subtotals

	Without Donor Restrictions	With Donor Restrictions	Total 20X2	Total 20X1
Ticket sales	18,000	-	18,000	16,000
Contributions	3,300	9,000	12,300	10,000
Investment return	994	9,600	10,594	8,250
Net asset released from restriction	4,000	(4,000)	-	-
<b>Total Revenues</b>	<b>26,294</b>	<b>14,600</b>	<b>40,894</b>	<b>34,250</b>
Program	20,000	-	20,000	19,000
Management & general	4,000	-	4,000	3,000
Fundraising	2,500	-	2,500	2,000
<b>Total Expenses</b>	<b>26,500</b>	<b>-</b>	<b>26,500</b>	<b>24,000</b>
<b>Change in Net Assets</b>	<b>(206)</b>	<b>14,600</b>	<b>14,394</b>	<b>10,250</b>
Net assets, beginning of year	190,250	130,000	320,250	310,000
Net Assets, End of Year	190,044	144,600	334,644	320,250

- Example NFP is a museum
- Endowment contributions, investment return, and appropriations
- Significant depreciation expense

# Example 2: Operating Subtotal Added

	Without Donor Restrictions	With Donor Restrictions	Total 20X2	Total 20X1
<b>Operating Activities</b>				
Ticket sales	18,000	-	18,000	16,000
Contributions	3,300	1,000	4,300	4,000
Endowment appropriation	-	1,700	1,700	1,600
Net asset released from restriction	4,000	(4,000)	-	-
<b>Total Revenues</b>	<b>25,300</b>	<b>(1,300)</b>	<b>24,000</b>	<b>21,600</b>
Program	20,000	-	20,000	19,000
Management & general	4,000	-	4,000	3,000
Fundraising	2,500	-	2,500	2,000
<b>Total Expenses</b>	<b>26,500</b>	<b>-</b>	<b>26,500</b>	<b>24,000</b>
<b>Change in Net Assets from Operations</b>	<b>(1,200)</b>	<b>(1,300)</b>	<b>(2,500)</b>	<b>(2,400)</b>
<b>Nonoperating Activities</b>				
Endowment contributions	-	8,000	8,000	6,000
Investment return, net of endowment appropriation	994	7,900	8,894	6,650
<b>Change in Net Assets from Nonoperating Activities</b>	<b>994</b>	<b>15,900</b>	<b>16,894</b>	<b>12,650</b>
<b>Total Change in Net Assets</b>	<b>(206)</b>	<b>14,600</b>	<b>14,394</b>	<b>10,250</b>
Net assets, beginning of year	190,250	130,000	320,250	310,000
Net Assets, End of Year	190,044	144,600	334,644	320,250

- Same as Example 1, but with operating subtotal added
- Endowment activity in nonoperating, except for the appropriations included in operating

# Example 3: Operating Subtotal Added

	Without Donor Restrictions	With Donor Restrictions	Total 20X2	Total 20X1
<b>Operating Activities</b>				
Ticket sales	18,000	-	18,000	16,000
Contributions	3,300	1,000	4,300	4,000
Endowment appropriation	-	1,700	1,700	1,600
Net asset released from restriction	4,000	(4,000)	-	-
<b>Total Revenues</b>	<b>25,300</b>	<b>(1,300)</b>	<b>24,000</b>	<b>21,600</b>
Program	17,500	-	17,500	16,525
Management & general	3,600	-	3,600	2,600
Fundraising	2,400	-	2,400	1,900
<b>Total Expenses</b>	<b>23,500</b>	<b>-</b>	<b>23,500</b>	<b>21,025</b>
<b>Change in Net Assets from Operations Before Depreciation</b>	<b>1,800</b>	<b>(1,300)</b>	<b>500</b>	<b>575</b>
Depreciation Expense	3,000	-	3,000	2,975
<b>Change in Net Assets from Operations</b>	<b>(1,200)</b>	<b>(1,300)</b>	<b>(2,500)</b>	<b>(2,400)</b>
<b>Nonoperating Activities</b>				
Endowment contributions	-	8,000	8,000	6,000
Investment return, net of endowment appropriation	994	7,900	8,894	6,650
<b>Change in Net Assets from Nonoperating Activities</b>	<b>994</b>	<b>15,900</b>	<b>16,894</b>	<b>12,650</b>
<b>Total Change in Net Assets</b>	<b>(206)</b>	<b>14,600</b>	<b>14,394</b>	<b>10,250</b>
Net assets, beginning of year	190,250	130,000	320,250	310,000
<b>Net Assets, End of Year</b>	<b>190,044</b>	<b>144,600</b>	<b>334,644</b>	<b>320,250</b>

- Same as Example 2, but with further disaggregation of depreciation expense
- Statement of functional expenses (or disclosure) will show depreciation expense allocated on a functional basis

# Example 4: Major Campaign Started

	Without Donor Restrictions	With Donor Restrictions	Total 20X3	Total 20X2
<b>Operating Activities</b>				
Ticket sales	19,500	-	19,500	18,000
Contributions	3,000	-	3,000	4,300
Endowment appropriation	-	1,800	1,800	1,700
Net assets released from restriction	7,000	(4,000)	3,000	-
<b>Total Revenues</b>	<b>29,500</b>	<b>(2,200)</b>	<b>27,300</b>	<b>24,000</b>
Program	23,000	-	23,000	20,000
Management & general	4,500	-	4,500	4,000
Fundraising	2,750	-	2,750	2,500
<b>Total Expenses</b>	<b>30,250</b>	<b>-</b>	<b>30,250</b>	<b>26,500</b>
<b>Change in Net Assets from Operations</b>	<b>(750)</b>	<b>(2,200)</b>	<b>(2,950)</b>	<b>(2,500)</b>
<b>Nonoperating Activities</b>				
Endowment contributions	-	1,500	1,500	8,000
Investment return, net of endowment appropriation	1,100	8,000	9,100	8,894
Campaign contributions	-	47,000	47,000	-
Campaign expenses	(900)	-	(900)	-
Campaign net assets released from restriction	900	(3,900)	(3,000)	-
<b>Change in Net Assets from Nonoperating Activities</b>	<b>1,100</b>	<b>52,600</b>	<b>53,700</b>	<b>16,894</b>
<b>Total Change in Net Assets</b>	<b>350</b>	<b>50,400</b>	<b>50,750</b>	<b>14,394</b>
Net assets, beginning of year	190,044	144,600	334,644	320,250
<b>Net Assets, End of Year</b>	<b>190,394</b>	<b>195,000</b>	<b>385,394</b>	<b>334,644</b>

- In 20X3, the NFP starts a major campaign to fund building expansion, new exhibits, costs of the campaign, and 5-years of operational support to increase services
- Campaign activity shown as nonoperating
- \$3M of annual operational support, release of restriction added in operations and deducted in nonoperating
- Statement of functional expenses (or disclosure) will show campaign expenses allocated on a functional basis

# Example 5: Board-Designated Operating Reserve

	Without Donor Restrictions	With Donor Restrictions	Total 20X9	Total 20X8
<b>Operating Activities</b>				
Ticket sales	26,000	-	26,000	25,000
Contributions	4,300	1,000	5,300	5,000
Endowment appropriation	-	1,800	1,800	1,700
Net asset released from restriction	4,000	(4,000)	-	-
<b>Total Revenues</b>	<b>34,300</b>	<b>(1,200)</b>	<b>33,100</b>	<b>31,700</b>
Program	34,000	-	34,000	24,000
Management & general	6,000	-	6,000	5,000
Fundraising	4,000	-	4,000	3,000
<b>Total Expenses</b>	<b>44,000</b>	<b>-</b>	<b>44,000</b>	<b>32,000</b>
Transfer in from operating reserve	10,000	-	10,000	-
<b>Change in Net Assets from Operations</b>	<b>300</b>	<b>(1,200)</b>	<b>(900)</b>	<b>(300)</b>
<b>Nonoperating Activities</b>				
Contribution designated by the board for operating reserve	-	-	-	50,000
Transfer out of operating reserve	(10,000)		(10,000)	-
Endowment contributions	-	1,000	1,000	1,500
Investment return, net of endowment appropriation	994	7,900	8,894	6,650
<b>Change in Net Assets from Nonoperating Activities</b>	<b>(9,006)</b>	<b>8,900</b>	<b>(106)</b>	<b>58,150</b>
<b>Total Change in Net Assets</b>	<b>(8,706)</b>	<b>7,700</b>	<b>(1,006)</b>	<b>57,850</b>
Net assets, beginning of year	342,750	180,000	522,750	465,100
<b>Net Assets, End of Year</b>	<b>334,044</b>	<b>187,700</b>	<b>521,744</b>	<b>522,950</b>

- In 20X8, the NFP receives an unexpected \$50M unrestricted contribution.
- The board designates the contribution for an operating reserve. \$10M will be used annually over the next 5 years to significantly increase services.
- The contribution is reported as nonoperating.
- The \$10M annual transfer is added in operations and deducted in nonoperating.
- The board-designated reserve and transfers are described in the notes.

# Overview FASB ASU 2016-14 (continued)

Net asset classes – Simplified from three to two and renamed

Indirect cash flow reconciliation no longer required when doing the direct method cash flows

Enhanced disclosures

- Governing board designations
- Restrictions on net assets and impact on financial resources available
- Qualitative information about liquidity
- Quantitative information about financial resource availability
- Expenses by both natural and functional classification
- Underwater endowment information

Net investment return rather than gross components

Placed in service rather than over time for the expiration of capital restrictions

# Reporting of Expenses

ASU 2016-14 requires expense reporting by nature and function

Functions include program and support, and support includes management and general, and development

Total expenses by nature and function

- Must be presented in a single location
- Either on the face of the statement of activities
- As a matrix in the notes to financial statements (cannot be a supplemental schedule)
- Or in a separate financial statement

Only expenses should be functionalized, not losses

Can have this separated between operating and nonoperating

# Example 1: FASB ASC Example

	Program Activities			Supporting Activities			Total Expenses	
	A	B	C	Programs Subtotal	Management and General	Fund-Raising		Supporting Subtotal
Salaries and benefits	\$ 7,400	\$ 3,900	\$ 1,725	\$ 13,025	\$ 1,130	\$ 960	\$ 2,090	\$ 15,115
Grants to other organizations	2,075	750	1,925	4,750				4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	382
<b>Total expenses</b>	<b>\$ 13,296</b>	<b>\$ 8,649</b>	<b>\$ 5,837</b>	<b>\$ 27,782</b>	<b>\$ 2,038</b>	<b>\$ 2,150</b>	<b>\$ 4,188</b>	<b>\$ 31,970</b>

# Example 2: Too Much Detail?

	Program Services					Total Program Services	Support Services		
	Program A	Program B	Program C	Program D	Other		Management and General	Fundraising	Total
Salaries and wages	71,425	40,320	17,388	16,770	3,557	149,459	24,581	3,437	177,477
Employee benefits and payroll taxes	23,150	11,825	8,494	6,148	1,098	50,716	6,855	1,175	58,745
Subcontracts	46,524	34,437	9,630	7,070	207	97,868	-	-	97,868
Grants to other organizations	13,937	28,707	1,041	3,627	423	47,734	-	-	47,734
Professional services	16,355	5,086	6,142	8,925	917	37,424	5,513	1,349	44,287
Travel	9,742	4,521	6,992	4,274	452	25,982	2,451	318	28,751
Occupancy	10,700	4,760	2,808	2,649	512	21,428	3,423	524	25,375
Meetings and conferences	7,656	1,860	9,079	2,753	541	21,890	938	56	22,884
Outsource services	1,172	44	4,557	4,192	41	10,004	850	70	10,925
Information technology	3,370	1,404	2,282	1,877	186	9,118	775	133	10,026
Supplies and other	1,494	644	1,275	289	8	3,710	329	2	4,040
Procured goods	936	309	197	2,412	2	3,855	-	-	3,855
Beneficiary payments	5	-	197	3,215	-	3,416	-	-	3,416
Equipment maintenance	1,215	175	1,237	289	59	2,975	223	-	3,198
Memberships	630	293	635	106	37	1,702	705	56	2,463
Document production	264	264	764	220	61	1,572	69	72	1,713
Other	462	89	-	2	-	552	1,055	-	1,607
Insurance	36	242	27	3	-	307	969	-	1,276
Telecommunications	441	36	679	28	14	1,198	56	2	1,256
Taxes, licenses and fees	172	51	226	115	20	585	466	37	1,089
Postage and delivery	236	449	22	59	2	768	27	23	817
<b>Total Expenses</b>	<b>209,921</b>	<b>135,514</b>	<b>73,669</b>	<b>65,022</b>	<b>8,137</b>	<b>492,264</b>	<b>49,284</b>	<b>7,254</b>	<b>548,802</b>

# Example 3: Using Subtotals to Articulate to Disaggregated Expenses in the SOA

	Program		Supporting		Total
	Exhibits and Collections	Education	Administration	Fundraising	
Operating expenses-					
Salaries and benefits	\$ 18,350	\$ 2,331	\$ 5,513	\$ 1,858	\$ 28,053
Professional fees	2,691	88	492	148	3,419
Facility cost	5,010	10	888	4	5,913
Marketing	2,010	14	5	80	2,109
Other expense	4,802	455	638	844	6,739
Operating expenses before depreciation	32,863	2,899	7,536	2,935	46,232
Depreciation	2,524	450	750	150	3,874
Total operating expenses	35,387	3,349	8,286	3,085	50,106
Nonoperating expenses-					
Campaign expenses	300	-	150	750	1,200
<b>Total Expenses</b>	<b>\$ 35,687</b>	<b>\$ 3,349</b>	<b>\$ 8,436</b>	<b>\$ 3,835</b>	<b>\$ 51,306</b>

# Liquidity and Availability of Resources

Financials assets

Available for general expenditure

Within one year of the balance sheet date

No definition of general expenditure

No required format

Qualitative information required to supplement quantitative if necessary

Liquidity describes how university ensures it has liquidity to meet daily needs

# Example 1: Basic Tabular Disclosure

	<u>20X2</u>	<u>20X1</u>
Cash and cash equivalents	1,500	2,500
Receivables	6,448	2,300
Investments	<u>140,000</u>	<u>133,000</u>
Total financial assets	147,948	137,800
Less amounts unavailable for general expenditures within one year due to:		
Investments for endowment funds	(120,000)	(110,000)
Restricted by donor with purpose restrictions	(2,500)	(2,000)
Board-designated reserves	<u>(25,000)</u>	<u>(25,000)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u><u>448</u></u></b>	<b><u><u>800</u></u></b>

- Common tabular format of the availability disclosure.
- A total of financial assets is made
- Deductions for amounts unavailable for general expenditures within one year.

# Example 2: Add Back Endowment Appropriation

	<u>20X2</u>	<u>20X1</u>
Cash and cash equivalents	1,500	2,500
Receivables	6,448	2,300
Investments	<u>140,000</u>	<u>133,000</u>
Total financial assets	147,948	137,800
Less amounts unavailable for general expenditures within on year due to:		
Investments for endowment funds	(120,000)	(110,000)
Restricted by donor with purpose restrictions	(2,500)	(2,000)
Board-designated reserves	(25,000)	(25,000)
Add endowment appropriation for following year	<u>6,000</u>	<u>5,500</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u><u>6,448</u></u></b>	<b><u><u>6,300</u></u></b>

Same as Example 1, but next year's endowment appropriation that is available for general expenditure is added back.

# Example 3: Show Reserves as Available

	<u>20X2</u>	<u>20X1</u>
Cash and cash equivalents	1,500	2,500
Receivables	6,448	2,300
Investments	<u>140,000</u>	<u>133,000</u>
Total financial assets	147,948	137,800
Less amounts unavailable for general expenditures within on year due to:		
Investments for endowment funds	(120,000)	(110,000)
Restricted by donor with purpose restrictions	(2,500)	(2,000)
Add endowment appropriation for following year	<u>6,000</u>	<u>5,500</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u>31,448</u></b>	<b><u>31,300</u></b>

- Same as Example 2, but the board-designated reserves are not deducted.
- Disclosure is added to describe why the board-designated reserves are not deducted.

The Organization has a \$25 million board-designated liquidity reserve. The balance of the reserve is included in the total of financial assets available presented in the table above as the board has the ability to use those funds for operational purpose.

# Example 4: Add Additional Liquidity Resources

	20X2	20X1
Cash and cash equivalents	1,500	2,500
Receivables	6,448	2,300
Investments	140,000	133,000
<b>Total financial assets</b>	<b>147,948</b>	<b>137,800</b>
Less amounts unavailable for general expenditures within on year due to:		
Investments for endowment funds	(120,000)	(110,000)
Restricted by donor with purpose restrictions	(2,500)	(2,000)
Board-designated reserves	(25,000)	(25,000)
Add endowment appropriation for following year	6,000	5,500
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b>6,448</b>	<b>6,300</b>
Additional liquidity resources:		
Bank lines of credit	10,000	9,000
<b>Financial Assets and Liquidity Resources Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b>16,448</b>	<b>15,300</b>

- Same as Example 2, but additional liquidity resources (bank lines of credit) are added.
- The GAAP-required subtotal is shown.
- Then the available borrowing capacity of bank lines of credit are added to show additional available liquid resources.

# Example 5: Text-Based Disclosure

At June 30, 20X1, the Organization had \$125.0 million of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, which consisted of cash of \$5.1 million, investments in marketable securities of \$119.5 million, and accounts receivable of \$0.4 million. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

- Example of NFP with no limitations on availability of financial assets.
- GAAP does not mandate a tabular format for the disclosure.
- Text-based disclosure is option, particularly when little to no limitations on availability of financial assets.

# Common Control Leases



# Leases Under Common Control

## Leases – Common Control (ASU 2023-01 issued March 2023)

- Issue 1: Terms and Conditions to be Considered – (available to private companies & nonprofits but not available to nonprofits with conduit debt)
  - Provide a practical expedient to use written terms to determine if a lease exists & if so its classification
- Issue 2: Accounting for Leasehold Improvements (available to all entities)
  - Leasehold improvements amortized over the economic life of the improvements as long as lessee continues to use the underlying asset (rather than the shorter of life of asset or lease term)
  - If stopped using lease, it is a transfer between entities under common control
  - If the lease between the entities under common control is a sublease agreement (i.e. the ultimate landlord is an entity not under common control), the leasehold improvements can't be amortized over a life that exceeds the third-party lease term

Effective for FY beginning after December 15, 2023 – CY 2024 and FYE 2025

# Leases Under Common Control

## Case study 1 with current client

- Client is a mother/daughter relationship with overlapping management
- Lease Inception vs Commencement
- When does it get recorded
- Contract versus management intentions – needed to get written terms

## Case study 2 with current client

- Same client
- Construction done on parent's space for the common control entity
- Common control entity wants to capitalize and amortize the construction costs
- Lease vs contributed space exists – needed to get written terms

# Leases Under Common Control

## Arrangement Cancellable by Either Party With Notice Period – Short-Term Lease Conclusion

Common control arrangement to occupy space that is cancellable by either party at any time with 30 days' notice with no more than an insignificant penalty, i.e., one-month lease. The entity has made significant leasehold improvements (LHI) to the space that have a useful life of 20 years.

Because this is a common control arrangement, we do not believe that the existence of significant improvements create more than an insignificant penalty. The reason for this is that improvements in a common control arrangement can benefit the common control group not only through the lessee's use of the improvements during the lease term, but also from their use by other parties in the common control group. This is economically different than improvements associated with third-party leases. It is important to note that this view is based on our interpretation of the standard and there are currently differing views related to this matter that will likely evolve over time.

### Conclusion

Arrangement is a short-term lease (and continues to be a lease as it renews each month) which results in:

- No ROU asset or lease liability being recorded
- Short-term lease expense, which must be disclosed
- LHI amortized over their 20-year useful life to the common control group as long as the lease continues
- If the lease ends, the carrying value of the LHI is recorded as distribution, i.e., transfer of assets between entities under common control
- Related-party disclosures
- Disclosures required by ASC 842

# Leases Under Common Control

## Arrangement Cancellable by Either Party With No Notice Period – Not a Lease Conclusion

Common control arrangement to occupy space that is cancellable by either party at any time with no more than an insignificant penalty. The entity has made significant leasehold improvements to the space that have a useful life of 20 years.

Because this is a common control arrangement, we do not believe that the existence of significant improvements create more than an insignificant penalty following the same logic as outlined on the prior slide. As a result, this arrangement does not create enforceable rights and obligations and therefore is not a lease.

### Conclusion

Arrangement is not a lease which means:

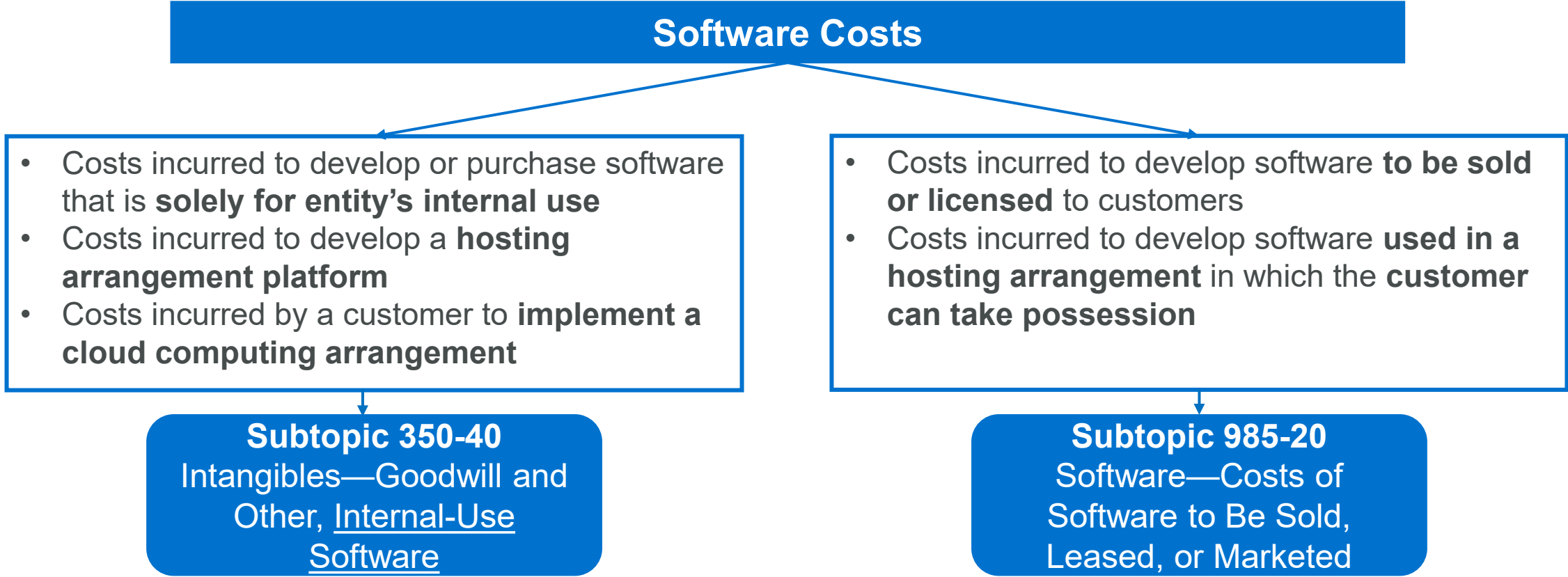
- No ROU asset or lease liability is recorded
- Related improvements would be recorded as a transfer of value between entities under common control as an adjustment/transfer in net assets
- Related-party disclosures

# Software Costs



# Software Costs

## Current GAAP



### Objectives:

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

# Software Costs

## Targeted Improvements

The FASB decided to make targeted improvements

They are leaving the Subtopic 985-20 model on software to be sold, leased or marketed alone

Improvements to Subtopic 350-40, internal use software

- Phases would be gone

Entities would be required to begin capitalizing when:

- Management has authorized and committed to funding the software project
- It is probable that the project will be completed and the software will be used to perform the function intended

Require separate statement of cash flows presentation

- Cash paid for capitalized internal-use software costs would be included as a separate investing cash outflow

Exposure Draft issued October 2024, Final ASU expected 3Q 2025

# Income Tax Disclosures



# Income Tax Disclosures

ASU 2023-09

Amendments address investor requests for more transparency about income tax information through improvements to income tax disclosures

For NFPs think about unrelated business income tax

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

# Income Tax Disclosures

## New Requirements

**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

# Crypto Assets



# Crypto Assets – Scope and Measurement

Update No. 2023-08: Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

**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

# 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 and as an investing activity if otherwise purchased\*

## 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**.

# Transition and Effective Date – Crypto Assets

Transition

- In year of application, adjust beginning of period net assets for transition to fair value.
- Guidance will be effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.

Effective Date

- Early adoption is permitted.

# Questions?

# Contact

## Forvis Mazars

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