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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 Contributions
- Updates on Audit Communications
- Simplifying the 990
- Additional Questions

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*May 25, 2022*




## NOT-FOR-PROFIT ORGANIZATIONS

### **Ask the Experts:**


### ***Hot Topic – NEW Lease Accounting***

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## NEW LEASE ACCOUNTING


### *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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## NEW LEASE ACCOUNTING


### *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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## NEW LEASE ACCOUNTING


### ***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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## NEW LEASE ACCOUNTING


### ***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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## NEW LEASE ACCOUNTING


### ***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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## NEW LEASE ACCOUNTING

### ***Our Organization Is a Lessor – What Has Changed for Us?***

- Largely unchanged – underlying asset continues to be classified as the lessor's fixed asset
- Three types of lessor leases:
  - *Direct financing*
  - *Sales Type*
  - *Operating*

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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
- 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
- Special Events
- Compensation
- Schedule D Reconciliation

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### Schedule D

<b>Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return.</b>				
Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.				
<b>1</b>	Total revenue, gains, and other support per audited financial statements . . . . .		<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part VIII, line 12:			
<b>a</b>	Net unrealized gains (losses) on investments . . . . .	<b>2a</b>		
<b>b</b>	Donated services and use of facilities . . . . .	<b>2b</b>		
<b>c</b>	Recoveries of prior year grants . . . . .	<b>2c</b>		
<b>d</b>	Other (Describe in Part XIII.) . . . . .	<b>2d</b>		
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .		<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .		<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part VIII, line 12, but not on line 1:			
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>		
<b>b</b>	Other (Describe in Part XIII.) . . . . .	<b>4b</b>		
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .		<b>4c</b>	
<b>5</b>	Total revenue. Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 12.) . . . . .		<b>5</b>	


  

<b>Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.</b>				
Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.				
<b>1</b>	Total expenses and losses per audited financial statements . . . . .		<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part IX, line 25:			
<b>a</b>	Donated services and use of facilities . . . . .	<b>2a</b>		
<b>b</b>	Prior year adjustments . . . . .	<b>2b</b>		
<b>c</b>	Other losses . . . . .	<b>2c</b>		
<b>d</b>	Other (Describe in Part XIII.) . . . . .	<b>2d</b>		
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .		<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .		<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part IX, line 25, but not on line 1:			
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>		
<b>b</b>	Other (Describe in Part XIII.) . . . . .	<b>4b</b>		
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .		<b>4c</b>	
<b>5</b>	Total expenses. Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 18.) . . . . .		<b>5</b>	





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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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