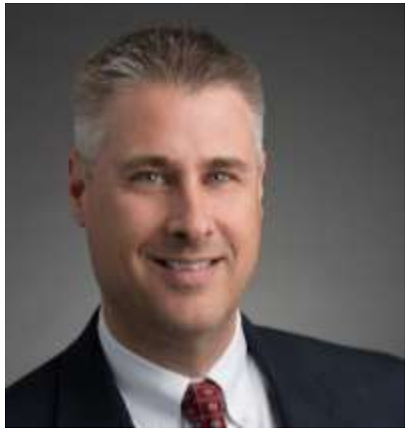
Nonprofit Accounting and Auditing Update

April 2025

Today’s Instructor



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Agenda

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Objectives

- By the end of this presentation, participants will be able to:
  - Identify recent US accounting standards impacting not-for-profit organizations and how they might impact your organization.
  - Identify emerging changes and issues pertaining to auditing standards and how they might impact your audits.

Current Environment for Federal Awards (Accounting Implications)

Current Federal Award Environment

- Federal awards frozen, de-obligated, etc.
- Going concern evaluation
- Collectability of receivables
- Other impacts from the Executive Orders

Current Accounting Landscape Impacting Nonprofit Organizations

Recently Issued ASUs Impacting Nonprofits

- 2024 – None
- 2025 – None to date

Pending ASUs Impacting Nonprofits

- Credit Losses – Topic 606 Receivables
  - CECL credit loss model (ASC 326) was effective for CY23/FY24 entities for how to evaluate allowances on financial assets carried at cost/amortized cost (we covered this topic in detail at the April 2024 LFMA meeting)
  - In addition to past history of collectability and known issues in the receivable population, organizations also needed to use “Information related to reasonable and supportable forecasts about future conditions” as part of the model (see next slide)

Estimating Expected Credit Losses

(ASC 326-20-30-7 to 30-9)

Information related to past events + Information related to current conditions + Information related to reasonable and supportable forecasts about future conditions = Inputs in estimating expected credit losses

Not considered in estimating the allowance under legacy guidance

Pending ASUs Impacting Nonprofits

- Credit Losses – Topic 606 Receivables (Continued)
  - October 16, 2024 – FASB added a project to the agenda to simplify the CECL model for private companies and certain (most) not-for-profit entities. The goal of the project is to reduce the time and effort necessary to analyze and estimate credit losses for current accounts receivable and current contract assets.
  - On March 6, 2025, the Private Company Council (PCC) affirmed its decision that the scope of the project should apply to “ASC 606” receivables and contract assets and would take the form as a “practical expedient”
  - Effective date would be years beginning after December 15, 2025, with early adoption permitted

Pending ASUs Impacting Nonprofits

- Credit Losses – Topic 606 Receivables (Continued)
  - Next steps is for the FASB to review the recommendations of the PCC and move forward with a final ASU (accounting standard update)
  - If issued, most not-for-profit entities can utilize easier models (such as subsequent cash collections of receivables) to set its allowances for expected credit losses
  - Stay tuned!
- Accounting for and Disclosure of Software Costs
  - Added to the agenda on December 15, 2021
  - Proposed ASU issued on October 29, 2024
  - Comments were due on January 27, 2025

Pending ASUs Impacting Nonprofits

- Accounting for and Disclosure of Software Costs (Continued)
  - The amendments in the proposed Update would remove all references to a prescriptive and sequential software development method (referred to as "project stages") throughout Subtopic 350-40. The proposed amendments would specify that a company would be required to start capitalizing software costs when both of the following occur:
    - 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 (referred to as the "probable-to-complete recognition threshold")

Pending ASUs Impacting Nonprofits

- Accounting for and Disclosure of Software Costs (Continued)

In evaluating the probable-to-complete recognition threshold, a company may have to consider whether there is significant uncertainty associated with the development activities of the software. The proposed amendments also would require a company to separately present cash paid for capitalized internal-use software costs as investing cash outflows in the statement of cash flows.

Status: FASB will review the returned comments and work toward a final ASU.

Major Accounting Pronouncements Over the Last Several Years

Recent Major ASUs Adopted

- ASU 2016-14 (Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities)
- ASU 2014-09 (Revenue from Contracts with Customers (Topic 606))
- ASU 2018-08 (Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made)
- ASU 2016-02 (Leases (Topic 842))
- ASU 2016-13 (Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments)

- We are still seeing issues with application of these new standards on the audit trail

Audit Standard 145 – Risk Assessment

SAS 145 – Risk Assessment

- Auditors have been applying this new standard for the past year or two in their financial statement audits under GAAS (generally accepted auditing standards)
- A big focus of the standard is the identification of SCOTABDs (significant class of transactions, account balances and disclosures).
- For each SCOTABD, the auditor must gain a robust understanding of the process used by the organization (cradle to grave) along with gaining an understanding of controls in place over the transaction.
- This understanding focuses on relevant assertions (e.g. existence/occurrence, completeness/cut-off, valuation, presentation/disclosure, etc.)

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SAS 145 – Risk Assessment

- Reminders: Management is responsible for the preparation of the financial statements in accordance with the applicable framework (such as US GAAP) and is responsible to have appropriate policies and procedures and internal controls to meet the financial reporting objectives
- Auditors will use the **COSO Model** of internal controls to gain an understanding of the organization's controls, etc.

Internal control components and principles

Control environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk assessment	6. Specifies relevant objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information & communication	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring activities	16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

SAS 145 – Risk Assessment

- Recommendation: Utilize the risk assessment component of the COSO model to do a full evaluation of your controls (processes and procedures) over your significant accounting cycles
- Learn from audit findings/observations to further enhance controls

Tax Matters

Watch list: 2025 tax items of interest for exempt organizations

Executive orders targeting nonprofit organizations & federal funding

- Immigration activities
- DEI initiatives in operations or activities
- Federal funding

2025 tax bill

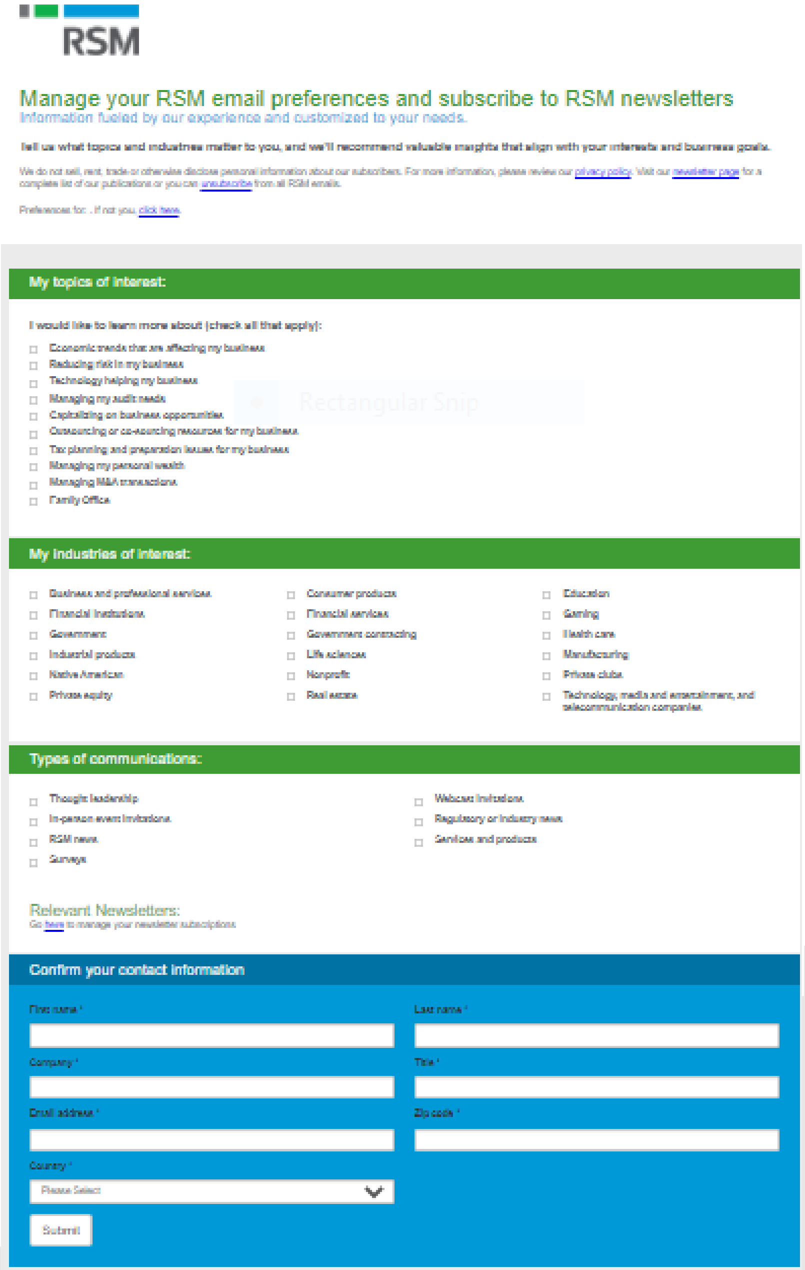
- Certain provisions expire after Dec. 31, 2025; tax legislation is expected this year
- Proposed: Permit “churches” to engage in politicking
- Proposed: Deny exempt status to organizations that support “illegal immigrants” (provided not in the context of religious activities/beliefs)

IRS activity

- Recent uptick in examinations will likely taper
- Status of pending guidance (e.g., DAFs, UBTI expense allocations) uncertain
- Voluntary resignations, early retirements, reductions-in-force

Additional Resources

- Visit RSM's email and subscriptions preference center in order to subscribe to our newsletters and other thought leadership.
- The **Muse** newsletter is a must-read for nonprofit professionals!



Questions and Answers

Thank you for your time and attention

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