Adapting to Change: Maneuvering New Accounting Reporting Requirements for Nonprofits (2D)

Kenneth Cerini, Cerini & Associates, LLP

2024 | BOSTON INNOVATE JMT CONSULTING

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THE EXPERTS IN MISSION-DRIVEN NONPROFIT FINANCE

Introduction

Kenneth Cerini
Managing Partner
Cerini & Associates, LLP
kcerini@cerinicpa.com
631-838-1103

The Economy

Chief economists from the World Economic Forum noted:

- The global economy is expected to remain uncertain throughout 2024.
- Financial conditions are expected to remain tight.
- Geopolitical tensions are growing, leading to volatility.
- Inflation is expected to lessen.
- Labor markets and financial conditions will loosen this year.
- Expect banks to take a more conservative approach to lending, restricting credit to lower quality borrowers with higher collateral limits

Federal Reserve projected GDP to reach 1.4% by the end of 2024 and unemployment rates to remain around 3.8%

Charitable giving in the U.S. is predicted to grow by 4.2% in 2024 and 3.9% during 2025 in inflation-adjusted terms, according to The Philanthropy Outlook 2024 & 2025.

The Economy

Impact on nonprofits:

Health & Welfare

- Increase in unemployment and widening gap between haves and have nots … anticipate increased demand for services

Arts & Culture

- Mixed bag … as inflation comes under control and market conditions improve this should have a positive impact, but increased unemployment and lack of discretionary funds could negatively impact the sector.

Education

- Continued decline in students, coupled with higher unemployment should continue to provide challenges to private schools

The Economy

2024 Election Impact

- The Presidential election will hamper economic growth as people await the outcome and the corresponding policy implications
- President Joe Biden and former President Donald Trump are on track to accept their respective party's nomination this summer. This will result in a new level of divisiveness in the country
- Impact on Market Performance – Not sure how markets will react

Geopolitical concerns (territorial conflicts and critical elections are potential fracture points that can disrupt the economy).

The Economy

- Organizational Needs:
  - Strong Leadership – 75% of organizational leadership is anticipated to leave their positions in the next 5 to 10 years
    - Need to develop succession plan (only 27% have)
  - Risk Management – Consider a risk committee
    - Clear understanding throughout agency
      - Compliance related issues
      - Cyber security threats/IT Issues
      - Insurance exposure
      - Staffing issues (Pay parity)
      - Changing regulations (New exempt employee wage limits)
  - Careful budgeting and cash flow monitoring
    - Uncertainty of revenue streams
    - Cash flow delays
    - Rising demand/need
    - Increased audit activity
    - Monitoring service provision and grants

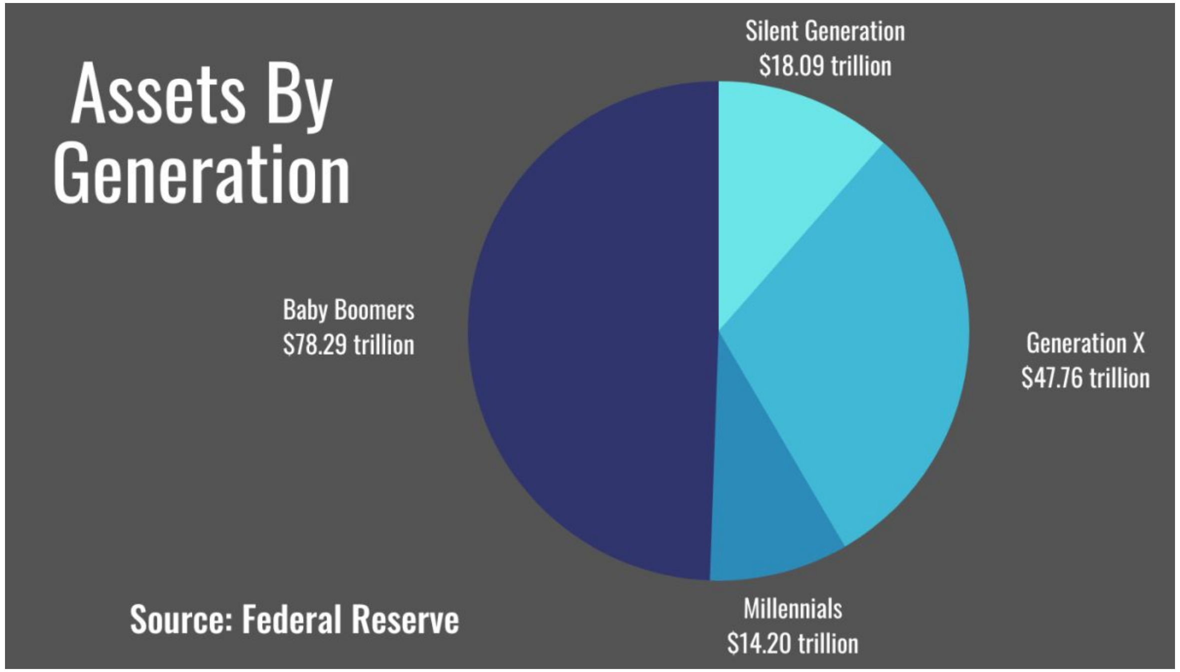
The Economy

- The Economy
  - Organizational Needs:
    - Information flow
      - Timely information will be critical to organizational effectiveness
    - Proper planning/strategic thinking
      - Collaboration/Partnerships (even Merger)
      - Board make-up and engagement
      - Rethink operations and relevancy
        - Re-assess current programs/contracts
        - Re-assess service delivery models
        - Re-assess the impact of current services
        - Consider agency effectiveness and relevancy
    - Advocacy and monitoring
      - Need to push for appropriate contracts with fair wages
    - DEI – Needs to be integrated

Fundraising Trends

Planned Giving – The great wealth transfer:

- $84 Trillion in assets is set to change hands over the next 20 to 25 years
- $72.6 trillion to heirs and $11.9 trillion going to charity



Pew Research Center

Name	Years Born
Silent Generation	1928–1945
Baby Boomers	1946–1964
Generation X	1965–1980
Millennials	1981–1996
Generation Z	1997–2012

Recruiting Trends: AI and Recruiters

AI and Recruiters

- A recent study showed that 82% of CEOs and senior leaders anticipate significant impacts from AI on their businesses. But will this impact be positive for recruitment?

How can You Use AI In Recruiting

- Speed up candidate screening
- Draft and customize job descriptions and candidate outreach
- Automate scheduling interviews
- Real-time engagement with candidates
- Quickly analyze interviews

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Recruiting Trends: AI and Recruiters

Benefits

- Reduce Admin Work: AI handles tasks like job description writing, candidate queries, and interview scheduling, allowing recruiters to focus on strategic aspects. According to LinkedIn, nearly 70% of recruiters say AI is saving them time.
- Speed Up Volume Screening: AI helps screen large volumes of candidates efficiently, particularly beneficial in retail and early career hiring.
- Diversify Your Talent Pool: AI eliminates biases in screening, focusing solely on qualifications and skills, thus broadening the candidate pool.
- Enhance the Candidate Experience: Streamlining the hiring process and providing transparency through AI tools like chatbots improves the candidate experience.

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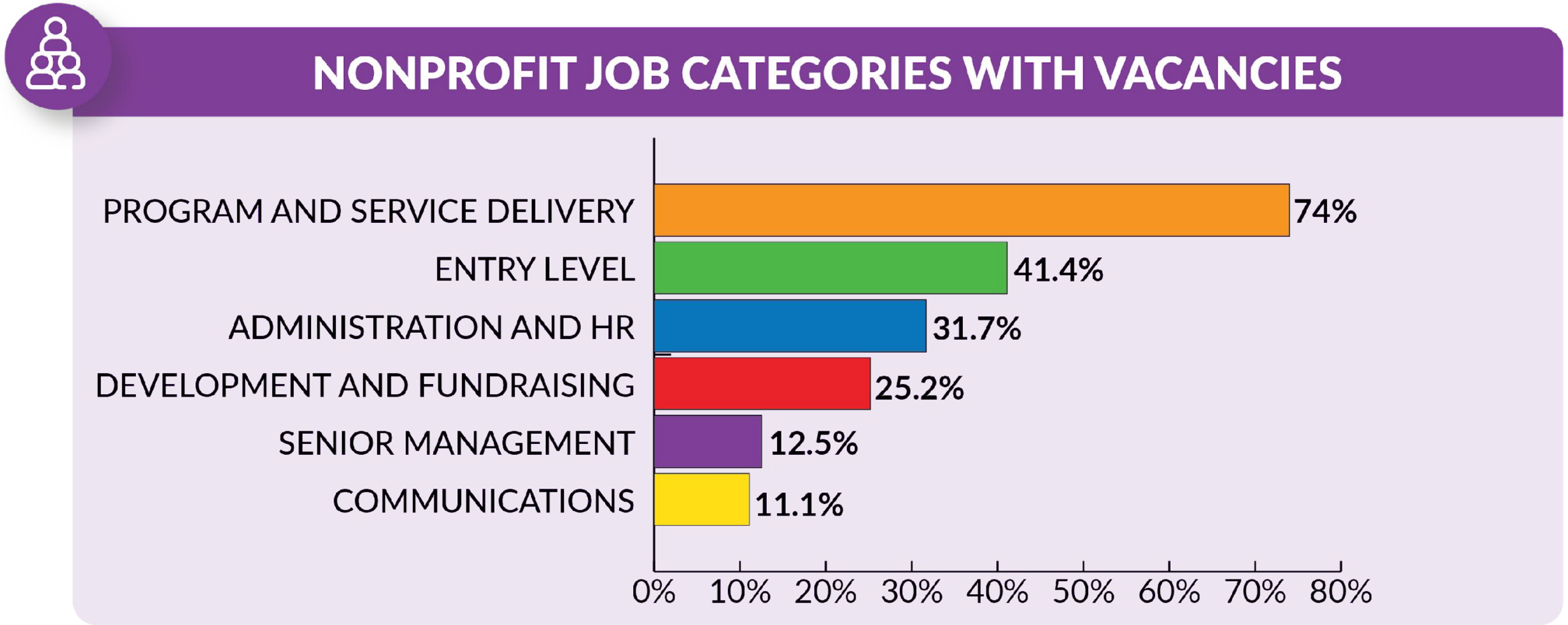
Recruiting Trends: AI and Recruiters

Challenges and Risks

- Variable Quality of Candidates: Relying solely on AI for screening may lead to missing out on prime candidates and requires careful oversight by recruiters.
- Loss of Human Touch: While AI boosts efficiency, maintaining personal connections between candidates, recruiters, and employers is crucial for successful hiring.
- Making a Large Investment: Incorporating AI into recruitment is an investment, suitable mainly for high-volume roles and not yet adept for executive search.

Recruiting Trends: Why is Good Talent Hard to Find for Nonprofits?

Tight job market for certain positions is expected to continue for the balance of 2024, challenging nonprofits to attract and retain talent.



Recruiting Trends: Why is Good Talent Hard to Find for Nonprofits?

Compensation and Benefits

Salary Disparity:

- Nonprofits often operate with limited budgets, impacting their ability to offer competitive salaries.
- Consider creative benefits packages like flexible work arrangements, student loan assistance, and comprehensive health insurance to attract talent.

Limited Benefits:

- Nonprofits may struggle to provide robust benefits packages, including retirement contributions and paid parental leave.
- Partnering with other organizations and exploring innovative benefit solutions can help mitigate this challenge.

Recruiting Trends: Why is Good Talent Hard to Find for Nonprofits?

Compensation Trends

- 91% of nonprofits reported having to increase salaries again in 2023, and 35% described that the organization could not meet the expected salary demands for top talent and common staff positions.
- PNP staffing Group 2024 Nonprofit Salaries and Staffing Trends https://info.careersinnonprofits.com/pnp-2024-nonprofit-salary-staffing-trends

POSITIONS	BUDGET SIZES AND 2023 SALARIES				
Senior Management	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
CEO/PRESIDENT	200-209K	240-249K	300-309K	300-309K	400-409K
EXECUTIVE DIRECTOR	130-139K	170-179K	210-219K	230-239K	280-289K
CHIEF OPERATING OFFICER	120-129K	155-164K	190-199K	210-219K	250-259K
CHIEF OF STAFF/DEPUTY DIRECTOR	100-109K	140-149K	150-159K	150-159K	225-234K
Finance	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
CFO/VP FINANCE	120-129K	150-159K	185-194K	200-209K	220-229K
DIRECTOR OF FINANCE	100-109K	110-119K	130-139K	130-139K	160-169K
CONTROLLER	90-99K	100-109K	120-129K	130-139K	145-154K
STAFF ACCOUNTANT	60-69K	70-79K	70-79K	70-79K	80-89K
BOOKKEEPER	50-59K	50-59K	60-69K	60-69K	60-69K
Fundraising & Resource Development	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
CHIEF DEVELOPMENT OFFICER/VP DEV	100-109K	150-159K	180-189K	200-209K	220-229K
DIRECTOR OF DEVELOPMENT	80-89K	110-119K	130-139K	130-139K	140-149K
DIRECTOR OF MAJOR GIFTS	75-84K	100-109K	110-119K	120-129K	130-139K
DIRECTOR OF FOUNDATION/ CORPORATE RELATIONS	80-89K	100-109K	110-119K	120-129K	130-139K
DIRECTOR OF SPECIAL EVENTS	70-79K	75-84K	90-99K	90-99K	100-109K
GRANTS WRITER	60-69K	70-79K	80-89K	80-89K	80-89K
DEVELOPMENT ASSOCIATE	50-59K	60-69K	60-69K	60-69K	70-79K
DEVELOPMENT ASSISTANT	40-49K	50-59K	60-69K	50-59K	55-64K
Marketing & Public Relations	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
CMO/VP MARKETING/COMMUNICATIONS	110-119K	140-149K	180-189K	180-189K	190-199K
DIRECTOR MARKETING/COMMUNICATION	80-89K	100-109K	120-129K	120-129K	125-134K
DIRECTOR OF ADVERTISING/GOV RELATIONS	90-99K	100-109K	140-149K	120-129K	135-144K
MARKETING MANAGER	60-69K	70-79K	80-89K	80-89K	80-89K
SOCIAL MEDIA PROFESSIONAL	55-64K	60-69K	70-79K	70-79K	70-79K
MARKETING ASSOCIATE	40-49K	50-59K	50-59K	60-69K	60-69K
Programs	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
CHIEF PROGRAMS OFFICER/VP PROGRAM	100-109K	140-149K	175-184K	180-189K	200-209K
DIRECTOR OF PROGRAMS	80-89K	100-109K	110-119K	120-129K	110-119K
PROGRAM ASSOCIATE	60-69K	60-69K	60-69K	70-79K	60-69K
PROGRAM ASSISTANT	50-59K	50-59K	50-59K	50-59K	50-59K

Human Resources/Talent Management	Under $2M	$2.1M - $10M	$10.1M - $20M	$20.1M - $50M	$50.1M - $100M+
VP/CHIEF HUMAN RESOURCES OFFICER	90-99K	130-139K	175-184K	175-184K	170-179K
DIRECTOR OF HR/TALENT MANAGEMENT	110-119K	100-109K	115-124K	120-129K	130-139K
HR MANAGER	75-84K	80-89K	80-89K	90-99K	80-89K
BENEFITS MANAGER	75-84K	70-79K	70-79K	70-79K	70-79K
HR ASSOCIATE	45-54K	50-59K	60-69K	60-69K	50-59K
Membership & Meetings	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
VP/DIRECTOR OF MEMBERSHIP	90-99K	110-119K	130-139K	130-139K	155-164K
MEMBERSHIP MANAGER	70-79K	80-89K	70-79K	80-89K	70-79K
VP/DIRECTOR OF MEETINGS	70-79K	110-119K	120-129K	140-149K	115-124K
MEETING PLANNER	50-59K	70-79K	80-89K	80-89K	80-89K
IT & Database Management	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
CTO/CIO/VP	140-149K	140-149K	180-189K	200-209K	160-169K
DIRECTOR OF IT	90-99K	110-119K	120-129K	130-139K	120-129K
IT MANAGER	80-89K	70-79K	80-89K	90-99K	90-99K
DATABASE MANAGER	60-69K	70-79K	80-89K	80-89K	95-104K
WEBSITE MANAGER	55-64K	70-79K	90-99K	100-109K	80-89K
Administration & Support	**Under $2M**	**$2.1M - $10M**	**$10.1M - $20M**	**$20.1M - $50M**	**$50.1M - $100M+**
EXECUTIVE ASSISTANT	60-69K	70-79K	70-79K	80-89K	70-79K
ADMINISTRATIVE ASSISTANT	40-49K	50-59K	50-59K	50-59K	50-59K
OFFICE MANAGER	60-69K	60-69K	60-69K	60-69K	60-69K
RECEPTIONIST	35-39K	40-49K	40-49K	40-49K	40-49K

Recruiting Trends: Why is Good Talent Hard to Find for Nonprofits?

Employee Turnover (2022 Statistics)

Average turnover for nonprofits is 19% verse 12% for all other industries

- Career Development and Growth
  - Resource Limitations
  - Limited Upward mobility
- Work-Life Balance and Burnout
  - Demanding workload
  - Burnout risk
- Public Perceptions and Misperceptions
  - Lack of awareness
  - Instability percetion

Recruiting Trends: Why is Good Talent Hard to Find for Nonprofits?

Career Development and Growth

Resource Limitations:

- Many nonprofits lack resources for comprehensive career development programs.
- Implementing modest programs demonstrates investment in employee growth.

Limited Upward Mobility:

- Some nonprofits have flatter organizational structures with fewer advancement opportunities.
- Highlight internal promotion stories and offer skills development programs to address this concern.

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Work-Life Balance and Burnout

Demanding Workload:

- Nonprofit work can be demanding, requiring long hours and emotional investment.
- Fostering work-life balance through flexible options and promoting healthy boundaries is crucial.

Burnout Risk:

- Emotional intensity and lack of resources can lead to burnout.
- Provide mental health resources and support systems to combat burnout and retain talent.

Recruiting Trends: Why is Good Talent Hard to Find for Nonprofits?

Public Perception and Misconceptions

Lack of Awareness:
- Potential candidates may not be aware of diverse career paths within the nonprofit sector.
- Engage in community outreach and highlight the impact of your work to increase awareness.

Instability Perception:
- Misconceptions about the stability of nonprofits can deter candidates.
- Emphasize financial stability and long-term goals to address concerns about viability.

Recruiting Trends: Understanding your Workforce

Generation Z 1997onward

- Value in-person interactions
- Look for feedback frequently

Millennials, born 1977-97

- By 2025 will comprise of 75% of the Global Workforce
- Looking to be coached or mentored
- Prefer Collaborative and technology centric training
- Aligning with company values is key

Generation X, born 1965-76

- Embrace a hands-off management policy
- Entrepreneurial spirt and results oriented

Boomers, born 1943-64

- More reserved in communication style
- Value traditional instructor-led courses or self learning tools
- Wants a manager that is ethical, fair and consistent

Tech Trends in 2024

Artificial Intelligence (AI):

- AI transforms nonprofit operations.
- Enables data-driven decisions and personalized strategies.
- Generative AI aids content creation for newsletters, social media, and fundraising.
- Chatbots enhance customer service, freeing up staff for complex tasks.

The global AI market is valued at over **$136 billion**

116.9 million people in the US will use generative AI by 2024

48% of businesses use some form of AI to utilize big data effectively

83% of companies claims that AI is a top priority in their business plans

89% of nonprofits agree that AI will improve efficiency, but only **28% say they use it**

25% of companies have adopted AI to address labor shortages

By 2030, **30% Of Work Hours** Across the US Economy Could Be Automated With AI

About 50% of nonprofit activities (not jobs) can be automated using AI, leading to more efficient and productive organizations.

Tech Trends in 2024

AI Usage Policy

To navigate AI complexities, nonprofits should develop concise policies. Key components include:

- Ethical Guidelines: Clearly define ethical principles for fair, transparent, and accountable AI use.
- Data Governance: Establish protocols for responsible data handling, ensuring compliance with privacy regulations.
- Training and Education: Implement ongoing training to enhance staff AI literacy and adapt to technological advancements.
- Regular Audits and Assessments: Conduct periodic audits to identify and address potential biases or ethical concerns, ensuring alignment with organizational values.

Sample AI Usage Policy: https://www.roundtabletechnology.com/ai-policy-template

Tech Trends in 2024

Cloud Computing for Increased Collaboration and Efficiency

- Cloud-based tools facilitate remote work and improve operational efficiency.
- Solutions like Google for Nonprofits offer discounted access to essential tools for nonprofits.

Enhanced Digital Security Measures

- Nonprofits must prioritize robust cybersecurity measures to protect sensitive information.
- Cybersecurity training and affordable security solutions are essential for safeguarding digital assets.
- Growing threats in 2024 demand robust cybersecurity measures, one attack every 39 seconds
- AI poses challenges with sophisticated cyber threats.
- Next-gen firewalls, end-to-end encryption, AI-driven threat prevention crucial.
- Regular security training essential for staff awareness

Tech Trends in 2024

Mobile Engagement and Payment Solutions
- Mobile apps and payment solutions enable convenient and secure donations.
- Services like PayPal Giving Fund facilitate mobile transactions and increase donor accessibility.

Virtual and Augmented Reality for Storytelling
- VR and AR technologies offer immersive storytelling experiences for nonprofits.
- Grants and partnerships make these technologies more accessible to organizations.

Automation and Workflow Optimization
- Vital for nonprofits with limited resources.
- Automates rule-based tasks, reducing time and errors.
- Project management, email marketing, and social media tools incorporate AI for advanced automations.

Tech Trends in 2024

Data Analytics for Impact Measurement

- Data analytics tools help nonprofits measure impact and make informed decisions.
- Google Analytics coupled with donor management software offers insights into engagement and fundraising effectiveness.

Voice Search Optimization and Accessibility

- Optimizing for voice search ensures accessibility to a broader audience.
- Voice-assisted devices make content and services accessible to individuals with visual impairments.

Tech Trends in 2024

Cybersecurity threats are accelerating

- One attack happens every 39 seconds

Best Practices:

- Conduct Regular Risk Assessments
  - -Identify and mitigate cybersecurity risks through thorough analysis of systems, data, and processes.
  - -Identify potential vulnerabilities and implement measures to address them proactively.
- Implement a Comprehensive Cybersecurity Framework
  - -Manage cybersecurity risks effectively with a comprehensive framework.
  - -Include technical, administrative, and physical controls, along with incident management policies and procedures.

Tech Trends in 2024

- Train Your Employees
  - -Employees are the first line of defense against cyber threats.
  - -Provide regular training and awareness programs to ensure employees understand cybersecurity importance and can identify/respond to threats.
- Stay Up-to-Date with Latest Threats
  - -The cyber threat landscape constantly evolves with new threats emerging regularly.
  - -Stay informed about the latest threats and trends to implement effective protective measures.
- Work with a Trusted Cybersecurity Partner
  - -Collaborate with a trusted cybersecurity partner for effective risk management.
  - -Leverage partner expertise and experience to implement comprehensive cybersecurity frameworks and receive ongoing support and advice.

Check Out The Full Trend Report

ACCOUNTING CHANGES TO BE DISCUSSED

- 2024 FASB Technical Agenda Items
- 2024 Yellow Book Update
- COVID-19 Funding – Provider Relief Funds
- SAS Nos. 142 through 149
- ASU 2016-13, Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments (and subsequent amendments)
- ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract
- ASU 2016-02, Leases, Topic 842
- ASU 2023-01, Leases, Topic 842: Common Control Arrangements
- ASU 2017-04, Intangibles — Goodwill and Other: Simplifying the Test for Goodwill Impairment
- ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans
- ASU 2022-06, Reference Rate Reform, Topic 848: Deferral of the Sunset Date of Topic 848

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2024 FASB TECHNICAL AGENDA ITEMS

The FASB maintains a Technical Agenda of future-thinking areas of potential change. The following agenda items may eventually impact nonprofits in future years:

- Software costs accounting and disclosure (added in 2022)

This project reflects recommendations from preparers and practitioners to update current US GAAP for software costs. Over the years, there has been a shift in how companies develop software and the costs incurred have become more significant for more companies. Constituents are also questioning whether the accounting should differ between software that is developed for internal use and software that is to be sold, leased, or otherwise marketed

- Government grants accounting (added in 2023)

In 2021, the FASB issued a standard requiring companies to disclose the accounting policy for and selected information about certain types of government assistance. However, that standard provided no accounting guidance. Moreover, it only applied to government assistance that is accounted for by analogy to grant or contribution accounting models. In other words, the existing disclosure requirements are tied to the company's accounting policy for government assistance, not to the nature of the government assistance.

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2024 YELLOW BOOK UPDATE

- The long anticipated 2024 Yellow Book, which supersedes the 2018 Yellow Book, was released February 1, 2024, by the United States Government Accountability Office (GAO). The 2024 revision is effective for financial audits, attestation engagements, and reviews for periods beginning on or after December 15, 2025 (calendar 2026 year and later)

- Changes focus on deficiencies identified within firms performing Single Audits and the quality of their work and don't have a major impact on nonprofits themselves.

- The 2024 Compliance Supplement has not yet been released. It will impact years starting after June 30, 2023 (fiscal 2024) and may be released in May 2024. Proposed changes for the 2024 Compliance Supplement include:
  - Various increases to add flexibility, such as raising the threshold for equipment capitalization from $5,000 to $10,000
  - Raising the de minimis indirect rate from 10% to 15%
  - Raising the Single Audit requirement threshold from $750,000 to $1,000,000
  - Including a requirement for pass-through entities to confirm that potential subrecipients are not suspended, debarred, or otherwise excluded from receiving Federal funds
  - Removing the prior written approval requirements for some items

COVID-19 FUNDING

PROVIDER RELIEF FUNDS (PRF)

- US Department of Health and Human Services ("HHS") funding made available to healthcare providers who bill Medicaid and Medicare.
- Funding to be used for health-care related expenditures or to offset lost revenues due to the COVID-19 pandemic.
- Funding is administered by the Health Resources & Services Administration ("HRSA").
- Uniform Guidance audit requirement exists for recipients who spent more than $750,000 in a reporting period.
- Reporting is based on the dates provided in the table listed below.

Period	Payment Received Period	Period of Availability for Eligible Expenses	Period of Availability for Lost Revenues	Reporting Time Period
1	April 10, 2020, to June 30, 2020	January 1, 2020, to June 30, 2021	January 1, 2020, to June 30, 2021	July 1, 2021, to September 30, 2021
2	July 1, 2020, to December 31, 2020	January 1, 2020, to December 31, 2021	January 1, 2020, to December 31, 2021	January 1, 2022, to March 31, 2022
3	January 1, 2021, to June 30, 2021	January 1, 2020, to June 30, 2022	January 1, 2020, to June 30, 2022	July 1, 2022, to September 30, 2022
4	July 1, 2021, to December 31, 2021	January 1, 2020, to December 31, 2022	January 1, 2020, to December 31, 2022	January 1, 2023, to March 31, 2023
5	January 1, 2022, to June 30, 2022	January 1, 2020, to June 30, 2023	January 1, 2020, to June 30, 2023	July 1, 2023, to September 30, 2023
6	July 1, 2022, to December 31, 2022	January 1, 2020, to December 31, 2023	January 1, 2020, to June 30, 2023	January 1, 2024, to March 31, 2024
7	January 1, 2023, to June 30, 2023	January 1, 2020, to June 30, 2024	January 1, 2020, to June 30, 2023	July 1, 2024, to September 30, 2024
8	July 1, 2023, to December 31, 2023	January 1, 2020, to December 31, 2024	January 1, 2020, to June 30, 2023	January 1, 2025, to March 31, 2025
9	January 1, 2024, to June 30, 2024	January 1, 2020, to June 30, 2025	January 1, 2020, to June 30, 2023	July 1, 2025, to September 30, 2025

STATEMENTS ON AUDITING STANDARDS (“SAS”) 142 to 149

No significant outward changes to reporting. The changes are more to audit procedures behind the scenes.

Enhanced focus on audit risk

- Understanding and identifying significant risks
- Evaluating risk at each assertion level
- Increased focus on accounting estimates
  -Use of specialists and related evaluation of information obtained from specialists
- Greater emphasis on audit evidence, especially with respect to use of technology
- The need to assess the IT control environment
- Revised requirements relating to audit documentation
- Increased professional auditor skepticism
- More internal monitoring/self assessment
- Updates to standards for “groups audits” of consolidated entities where there are multiple audit firms involved.

ACCOUNTING FOR CREDIT LOSSES

ASU 2016-13, Financial Instruments —Credit Losses: Measurement of Credit Losses on Financial Instruments

Effective date – For nonprofit entities, 2023 calendar year-ends, 2024 fiscal year-ends.

- Current expected credit loss (“CECL”) model 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.

ACCOUNTING FOR CREDIT LOSSES

ASU 2016-13, Financial Instruments —Credit Losses: Measurement of Credit Losses on Financial Instruments

Information considered when estimating expected credit losses may include:

- Borrower's financial condition and/or ability to make scheduled payments;
- Remaining payment terms of the financial assets and their maturity dates;
- Nature and volume of financial assets, including volume/severity of past due or adversely classified financial assets;
- Value of underlying collateral on financial assets;
- Entity's lending policies and procedures;
- Experience, ability, and depth of the entity's management, and other relevant staff; and
- Environmental factors of a borrower and the areas in which the entity's credit is concentrated.

NEW LEASE STANDARDS (ASC TOPIC 842)

- In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842). ASC Topic 842 supersedes 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.
- Per ASU 2020-05, non-public entities (including nonprofits) could delay implementation to calendar 2022 year-end, or 2023 fiscal year-end.
- Early adoption was permitted.
- 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.
- Comparative statements must be restated using a modified retrospective transition method.
- 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.

NEW LEASE STANDARDS (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 STANDARDS (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 must 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 or by class of underlying asset, rather than at the entity level.

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 STANDARDS (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 STANDARDS (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 STANDARDS (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.
- There are 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.

NEW LEASE STANDARDS (ASC TOPIC 842)

ASU 2023-01, Leases (Topic 842): Common Control Arrangements

- **<u>Effective for 2024 calendar year-ends, 2025 fiscal year-ends.</u>**
- Amendments provide not-for-profit organizations that are not conduit bond obligors with a practical expedient to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease.
- In addition, the ASU requires all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group, not the lease term if shorter.

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ACCOUNTING FOR DEFINED BENEFIT PLANS

ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans

- **Effective date – 2022 calendar year-ends, 2023 fiscal year-ends.**
- 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.

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REFERENCE RATE REFORM (ASC 848)

ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

- In July 2017, the Financial Conduct Authority ("FCA"), which oversees the London Interbank Offered Rate ("LIBOR"), announced that the LIBOR rate would be phased out by December 31, 2021. This phase out was later delayed by the FCA until June 30, 2023. A significant volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will need to be modified to replace references to LIBOR with replacement rates.
- ASC 848 provides for optional expedients related to accounting for contract modifications within the scope of the following topics:

-ASC Topic 310, Receivables – should be accounted for by prospectively adjusting the effective interest rate.

-Topic 840/842, Leases – should be accounted for as continuations of existing contracts with no reassessments of lease classification and the discount rate or remeasurement of lease payments that otherwise would be required.

-Subtopic 815-15, Derivatives and Hedging – Embedded Derivatives – not required to reassess original conclusion about whether the contract contains an embedded derivative.

- Topic 848 had an original sunset date of December 31, 2022. The amendments in this ASU defer the sunset date to December 31, 2024.

2024

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