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A WEBCAST SERIES

2024 BDO Annual Nonprofit Accounting and Auditing Update

MAY 30, 2024

BDO

With You Today

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Learning Objectives

Upon completion of this course, participants will be able to identify key changes to the audit and accounting guidance that affects the Nonprofit and Higher Education Industry

Describe the impact that changes to guidance issued by the FASB and the ASB will have on the Nonprofit and Higher Education Industry and their financial statements

Describe transition and implementation considerations for the new guidance relevant to the Nonprofit and Higher Education Industry

What We'll Be Discussing in this Session

FASB Pronouncements Issued in 2024

FASB Pronouncements Issued in 2023

CECL Reminder

Standard is Effective Now

ASB Updates

Resources

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FASB Accounting Pronouncements Issued in 2024

Recent Accounting Standards

Standard	Effective Date
ASU 2024-01: Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards	**Public Business Entity (PBE) - Years beginning after December 15, 2024** **All others - Years beginning after December 15, 2025** *** A nonprofit is not a public business entity**
ASU 2024-02: Codification Improvements – Amendments to Remove References to the Concepts Statements	**PBE's - Years beginning after December 15, 2024** **All others: Years beginning after December 15, 2025**

FASB Accounting Pronouncements Issued in 2023

Recent Accounting Standards

Standard	Effective Date
ASU 2023-01: Leases (Topic 842): Common Control Arrangements	**Years beginning after December 15, 2023**
ASU 2023-02: Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)	**PBE's - Years beginning after December 15, 2023** **All others - Years beginning after December 15, 2024**
ASU 2023-03 (SEC Only): Presentation of Financial Statements (Topic 205), Income Statement - Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation-Stock Compensation (Topic 718)	**Immediately**
ASU 2023-04 (SEC Only): Liabilities (Topic 405). Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121	**Immediately**

Recent Accounting Standards

Standard	Effective Date
ASU 2023-05: Business Combinations – Joint Ventures Formations (Subtopic 805-60): Recognition and Initial Measurement	**JV formation dates on or after January 1, 2025**
ASU 2023-06: Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative	**Depends upon SEC action**
ASU 2023-07: Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures	**Years beginning after December 15, 2023**
ASU 2023-08: Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets	**Years beginning after December 15, 2024**
ASU 2023-09: Income Taxes (Topic 740): Improvements to Income Tax Disclosures	**PBE's - Years beginning after December 15, 2024** **All others - Years Beginning after December 15, 2025**

ASU 2023-01 - Leases (Topic 842)

Common Control Arrangements

ASU 2023-01

Leases (Topic 842) Common Control Arrangements

2-PART ASU

- Issue 1: Terms and Conditions
- Issue 2: Leasehold Improvements

EFFECTIVE DATE

- Fiscal years beginning after December 15, 2023
- Early adoption permitted

ASU 2023-01

Leases (Topic 842) Common Control Arrangements

Terms and Conditions: A Summary

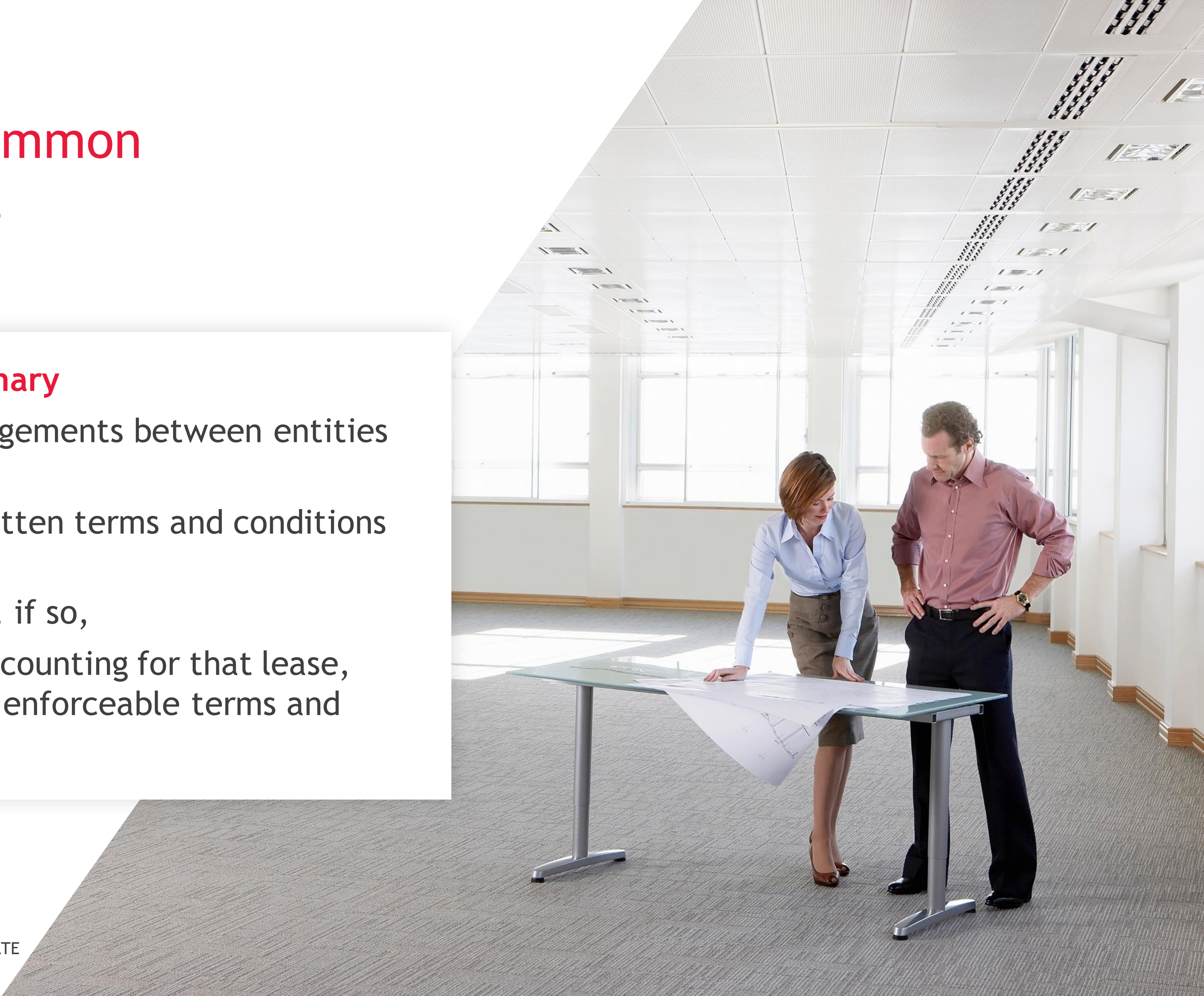
- Does NOT apply to entities that are:
  - Public Business Entities
  - Not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or over-the-counter market
  - Employee benefit plans that file or furnish financial statements with the SEC

ASU 2023-01

Leases (Topic 842) Common Control Arrangements

Terms and Conditions: A Summary

- Practical expedient for arrangements between entities under common control
- Allows entities to use the written terms and conditions to assess:
  - Whether a lease exists and, if so,
  - The classification of and accounting for that lease, instead of using the legally enforceable terms and conditions



ASU 2023-01

Leases (Topic 842) Common Control Arrangements

Terms and Conditions: Transition Methods

For entities that have already adopted ASC 842 –Two available methods

- Prospectively, by applying the guidance only to arrangements that commence or are modified after the ASU's effective date
- Retrospectively to the beginning of the period in which the entity adopted ASC 842

ASU 2023-01

Leases (Topic 842) Common Control Arrangements

Leasehold Improvements: A Summary

- **Before ASU 2023-01:** ASC 842 required all lessees to amortize leasehold improvements over the shorter of their useful life or the remaining term of the lease.
- **With ASU 2023-01:** For entities under common control, standard requires amortization of leasehold improvements over the useful life of those assets to the common control group, regardless of the lease term.
  - **Exception to New Requirement:** When the lessor is itself leasing the asset from a party outside of the common control group, in other words, the asset is being subleased to the lessee of the common control group and that lease does not contain a bargain purchase option or transfer of ownership, then the leasehold improvements cannot be amortized over a period longer than the term of the lessor's lease.

ASU 2023-01

Leases (Topic 842) Common Control Arrangements

Leasehold Improvements: Transition

For entities that have already adopted ASC 842 –Two available methods:

- Prospectively, by applying the guidance to either
  - All new leasehold improvements, or
  - To all new and existing leasehold improvements
- Retrospectively – to date when entity adopted ASC 842
  - Any reversal of amortization or impairment as a result of retrospective adoption should be recognized through a cumulative effect adjustment to net assets

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ASU 2023-02 - Investments - Equity Method and Joint Ventures (Topic 323)

Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

ASU 2023-02

Investments: Equity Method and Joint Ventures (Topic 323)

Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

Summary

- For investments made primarily for the purpose of receiving income tax credits and other income tax benefits when certain requirements are met
- Now all entities can use the proportional amortization method, not just entities with investments in low-income-housing tax credits (LIHTC)
- Proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits being presented net in the statement of activities as a component of income tax expense (benefit).

Who Is Impacted?

- All reporting entities that hold:
  - Tax equity investments that meet the conditions for and elect to account for them using the proportional amortization method, or
  - An investment in a LIHTC structure through a limited liability entity that is not accounted for using the proportional amortization method and to which certain LIHTC-specific guidance removed from subtopic 323-740 has been applied

When is it applicable?

- Public business entity – fiscal years beginning after December 15, 2023
- All other entities – fiscal years beginning after December 15, 2024

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ASU 2023-05 - Business Combinations - Joint Venture Formations (Subtopic 805-60)

Recognition and Initial Measurement

ASU 2023-05

Joint Venture Formations (Subtopic 805-60)

Summary

A joint venture, upon formation, will recognize and initially measure its assets and liabilities at fair value

Who Is impacted?

Any entity that meets the definition of a joint venture or corporate joint venture

When Is It Applicable?

Effective prospectively for all joint venture formations with a formation date on or after January 1, 2025

ASU 2023-08 - Intangibles - Goodwill and Other - Crypto Assets (Subtopic 350-60)

Accounting for and Disclosure of Crypto Assets

ASU 2023-08

Accounting for and Disclosure of Crypto Assets

WHAT ARE THE MAIN PROVISIONS?

- All entities holding assets that meet certain scope criteria (discussed on subsequent slides), will be required to measure the crypto assets at fair value.
- Fair value in the ASU refers to the second definition in the ASC Master Glossary which is: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- The ASU does not address the initial measurement, recognition, and derecognition of crypto assets. The ASU notes entities should follow existing GAAP.

HOW DOES THIS DIFFER FROM CURRENT GAAP?

- Prior to the issuance of ASU 2023-08, crypto assets held by an entity were recorded as an intangible asset and were accounted for as indefinite-lived intangible assets and thus were examined for impairment each year or more frequently if events or circumstances indicated.
- If the carrying amount of the asset exceeded its fair value, an impairment loss would be recorded and reduce the carrying amount of the asset to its fair value. Subsequent increases in the carrying amount of the asset and reversal of an impairment loss was prohibited.

ASU 2023-08

Accounting for and Disclosure of Crypto Assets

WHO IS IMPACTED?

- All entities holding assets that meet certain scope criteria (discussed on subsequent slides)

WHEN IS THE STANDARD EFFECTIVE?

- All entities for fiscal years beginning after December 15, 2024
- Early adoption is permitted

WHAT IS THE METHOD OF TRANSITION?

- A cumulative-effect adjustment to the opening balance of net assets (or other appropriate component of equity or retained earnings) as of the beginning of the annual reporting period in which an entity adopts the ASU

ASU 2023-08

Accounting and Disclosure for Crypto Assets

How is the cumulative-effect adjustment to opening net assets in the year of adoption calculated?

Calculated as the difference between the carrying amount of crypto assets as of the end of the prior annual reporting period and the fair value of those same crypto assets as of the beginning of the reporting period when the standard is being adopted.

ASU 2023-08

What Is Cryptocurrency?

What is Cryptocurrency?

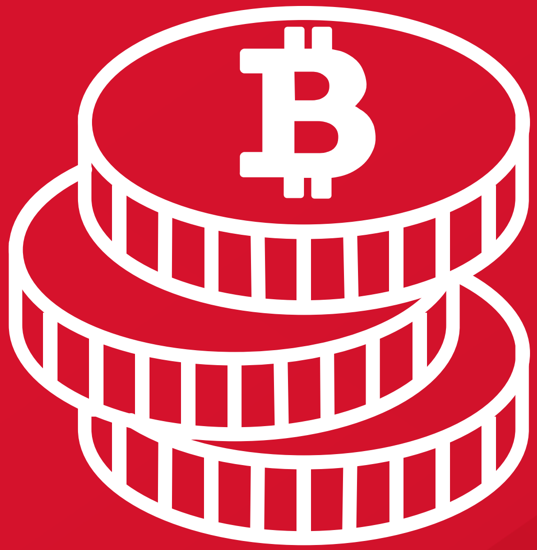
- Type of digital asset
- A broad term for any virtual currency that represents a stored value secured through cryptography, which uses highly sophisticated encryption techniques to store and pass information.
- May use blockchain technology to encrypt, verify and record transactions (i.e., bitcoin)
- Each type of cryptocurrency has a digital representation of value that allows owners to use it as a medium of exchange.

Source: [Digital Assets | FINRA.org]

ASU 2023-08

Examples of Crypto Assets

- There are THOUSANDS of crypto assets in the world
- Examples / Well-Known Crypto Assets
  - Bitcoin (BTC)
  - Ethereum (ETH)
  - Uniswap (UNI)
  - Medical Chain (MTN)
  - Power Ledger (POWR)
  - Decentraland’s MANA
  - The Sandbox’s SAND



ASU 2023-08

Criteria Breakdown

Applies to entities holding assets that meet **ALL** of the following criteria:

1

Meets the definition of intangible assets in the ASC Master Glossary

- Per ASC Glossary
  - Assets (not including financial assets) that lack physical substance.
  - The term intangible assets is used to refer to intangible assets other than goodwill.

2

Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets

- The holder is only entitled to the rights and value of the crypto asset itself

ASU 2023-08

Criteria Breakdown

Applies to entities holding assets that meet **ALL** of the following criteria:

3

Are created or reside on a distributed ledger based on blockchain or similar technology

What is a distributed ledger?

- Are databases shared across a network and spread over various geographical locations
- Are held, reorganized, and controlled by individuals called nodes
- Considered highly secure
  - Secure, tamper-proof, and immutable
  - Need for a third party is eliminated
  - Inherently decentralized
  - Highly transparent

ASU 2023-08

Criteria Breakdown

Applies to entities holding assets that meet **ALL** of the following criteria:

4

Are secured through cryptography

Cryptography is the practice of developing and using coded algorithms to protect and obscure transmitted information so that it may only be read by those with the permission and ability to decrypt it. Put differently, cryptography obscures communications so that unauthorized parties are unable to access them.

5

Are fungible

- Ability of a good or asset to be interchanged with another individual good or asset of the same type
- Fungible assets are identical
- Examples of fungible assets:
  - One $50 bill is the same as another $50 bill
  - One share of Facebook stock is the same as another share of Facebook stock
  - One Bitcoin is the same as another Bitcoin
- Examples of assets that are not fungible
  - Cars – A Ferrari is not the same as a Ford
  - Land, diamonds, houses, etc.
  - Non-fungible tokens

ASU 2023-08

Criteria Breakdown

Applies to entities holding assets that meet **ALL** of the following criteria:

6

Are not created or issued by the reporting entity or its related parties

- The crypto asset cannot have been developed or created by the entity we are auditing or a related party.

ASU 2023-08

Financial Statement Presentation

STATEMENT OF FINANCIAL POSITION (ASC 350-60-45-1)

- Must be presented separately on the SOFP from other intangible assets
- Can present on a more disaggregated basis – could present by individual crypto asset holding

STATEMENT OF ACTIVITIES (ASC 350-60-45-2)

- Gains and losses from remeasurement of crypto assets shall be included in the change in net assets and must be presented separately from changes in the carrying amount of other intangible assets

ASU 2023-08

Financial Statement Presentation

Statement of Cash Flows (ASC 350-60-45-3)

- Crypto Assets Received as Noncash Consideration (ASC 230-10-45-27A)
  - If crypto assets accounted for in accordance with Subtopic 350-60 are received as noncash consideration in the ordinary course of business (for example, in exchange for goods and services transferred to a customer) and converted nearly immediately into cash, the cash received shall be classified as operating activities

What Does Nearly Immediately Mean?

- Refers to a short period of time that is expected to be within hours or a few days, rather than weeks

ASU 2023-08

Financial Statement Presentation

Statement of Cash Flows (ASC 350-60-45-3)

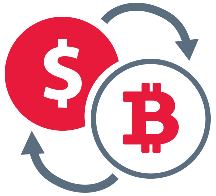
- Nonprofit Specific Guidance for Crypto Assets Received As Donations (ASC 230-10-45-21A)
  - When crypto assets are donated to a NFP without restrictions and the NFP does not impose any limitations on the sale of the crypto assets, and the crypto assets are converted to cash nearly immediately these shall be classified as operating activities
  - When crypto assets are donated and the donor restricts the use of the contributed resource to a long-term purpose, then the cash receipts are classified as financing activities

What Does Nearly Immediately Mean?

- Refers to a short period of time that is expected to be within hours or a few days, rather than weeks
- From ASC 230-10-45-21A: Cash receipts resulting from the sale of donated financial assets (for example, donated debt or equity instruments) or crypto assets accounted for in accordance with Subtopic 350-60 by NFPs that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash shall be classified as operating cash flows. If, however, the donor restricted the use of the contributed resources to a long-term purpose of the nature of those described in paragraph 230-10-45-14(c), then those cash receipts meeting all the conditions in this paragraph shall be classified as a financing activity.

ASC 350-60-50-1

Financial Statement Disclosure Requirements for Crypto Assets



Must disclose the following for each significant crypto asset holding (significance is determined by the fair value of the crypto asset):

- Name of the crypto asset
- Cost basis
- Fair value
- Number of units held

For crypto assets that are not individually significant, the NFP must disclose:

- Aggregated cost bases of the crypto asset holdings
- Aggregated fair values of the crypto asset holdings

ASC 350-60-50-2

Financial Statement Disclosure Requirements for Crypto Assets

1. Method used to determine the cost basis for computing gains and losses.

   Examples:

   - First-in, first-out
   - Specific identification
   - Average cost
   - Other method

2. If not presented separately, the line item in which gains and losses are reported in the statement of activities

ASC 350-60-50-3

Financial Statement Disclosure Requirements for Crypto Assets

A reconciliation, in the aggregate, that includes the following:
Opening balance of crypto assets
Additions to crypto assets
Disposals of crypto assets
Gains included in change in net assets for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net gain from remeasurement as included in change in net assets for the period shall be included in the gains line.
Losses included in change in net assets for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net loss from remeasurement as included in change in net assets for the period shall be included in the losses line.
Closing balance of crypto assets

ASC 350-60-50-4

Financial Statement Disclosure Requirements for Crypto Assets

In relation to the reconciliation discussed on the prior slide (as required by ASC 350-60-50-3) the following items also need to be disclosed.

- A description of the nature of activities that result in additions
  - Examples:
    - Purchases
    - Receipts from customers
    - Mining activities
- A description of the nature of activities that result in dispositions
  - Examples:
    - Sales
    - Use as payment for services
- Total amount of cumulative realized gains and cumulative realized losses from dispositions that occurred during the period

ASC 350-60-50-5

Financial Statement Disclosure Requirements for Crypto Assets

An entity that receives crypto assets as noncash consideration in the ordinary course of business (or as a contribution, in the case of a not-for-profit entity) that are converted nearly immediately into cash need not include that activity in the disclosures required by paragraphs 350-60-50-3 through 50-4.

ASC 350-60-50-4

Financial Statement Disclosure Requirements for Crypto Assets

Crypto assets subject to contractual sale restrictions at the statement of financial position date also need to disclose:

350-60-50-6

For interim and annual reporting periods, an entity shall disclose the following information for crypto assets subject to contractual sale restrictions at the statement of financial position date:

a. The fair value of the crypto assets that are subject to contractual sale restrictions
b. The nature and remaining duration of the restriction(s)
c. Circumstances that could cause the restriction(s) to lapse disclosed

350-60-50-7

In providing the required disclosures in paragraph 350-60-50-6, an entity with multiple crypto assets subject to contractual sale restrictions shall consider all of the following:

a. The level of detail necessary to satisfy the required disclosures
b. How much emphasis to place on each of the required disclosures
c. How much aggregation or disaggregation to undertake
d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed

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ASU 2023-09 - Income Taxes (Topic 740)

Improvements to Income Tax Disclosures

Three Areas Covered by the ASU

Tax Rate Reconciliation

*An entity other than a public business entity shall qualitatively disclose the nature and effect of specific categories of items that result in a significant difference between the statutory tax rate and the effective tax rate.

Additional Disclosures for Income Taxes Paid

Other Changes to Disclosure Requirements

- Terminology Change: Within ASC 740, the term “public entity” is replaced with “public business entity” as defined in the Master Glossary of the Codification.
- Because nonprofit organizations are not business entities, they are also not public business entities.
- The effective date of the ASU for nonprofit entities is annual periods beginning after December 15, 2025, and should be applied on a prospective basis although retrospective application is permitted. Early adoption is permitted.

ASU 2023-09 INCOME TAXES

Income Taxes Paid Disclosures

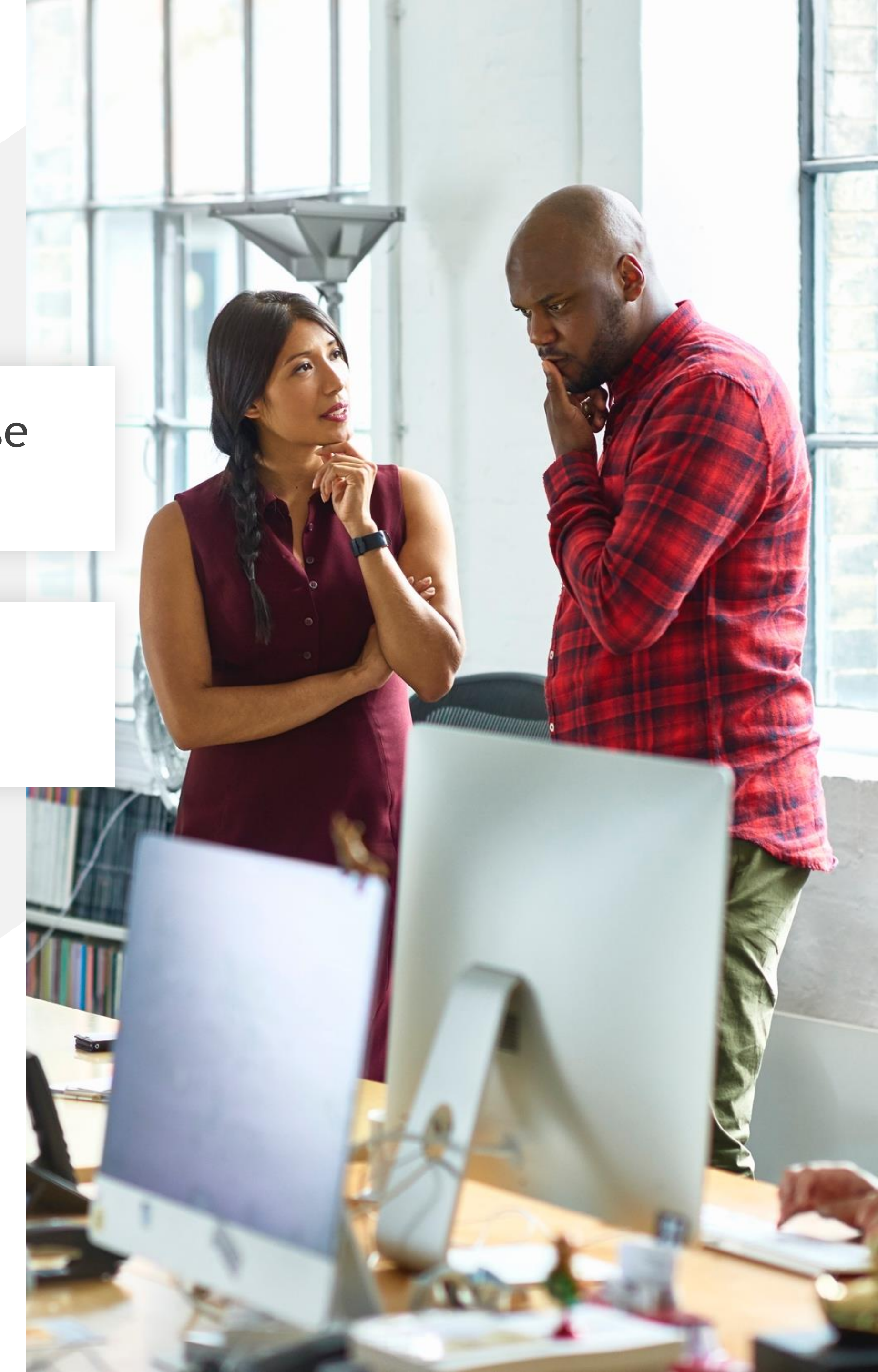
The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes

The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received)

Other Disclosure Requirements

Income (or loss) from continuing operations before income tax expense (benefit) disaggregated between domestic and foreign

Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign



ASU 2023-09 INCOME TAXES

Disclosure Requirements REMOVED from ASC 740

Eliminates the requirement for all entities to (1) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or (2) make a statement that an estimate of the range cannot be made.

Removes the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

CECL Reminder - Effective Now

FINANCIAL INSTRUMENTS

Credit Losses (Topic 326)

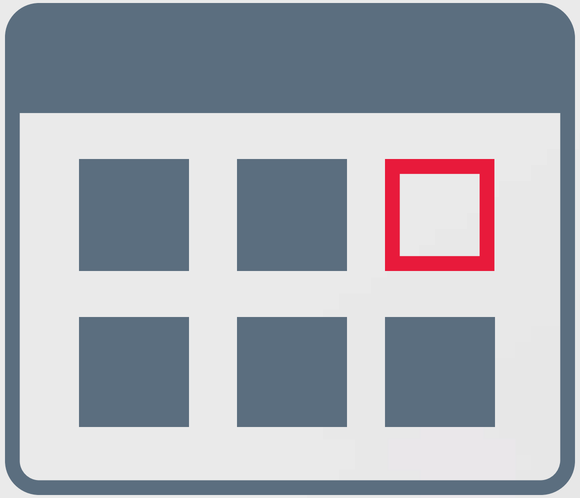
- Issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity
- Changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model
- Entities will be required to estimate credit losses over the entire contractual term of an instrument

- The ASU includes financial assets recorded at amortized cost basis such as loan receivables, trade and certain other receivables as well as certain off-balance sheet credit exposures such as loan commitments and financial guarantees
- The ASU does not apply to financial assets measured at fair value, promises to give (pledges receivable) and loans and receivables between entities under common control
- Subsequently, the FASB issued ASU 2018-19, ASU 2019-04, ASU 2019-05 and 2019-10, 2019-11, 2020-02 and 2022-02 to clarify and improve ASU 2016-13

FINANCIAL INSTRUMENTS

Credit Losses (Topic 326)

- The ASU is effective for fiscal years beginning after December 15, 2022, for all nonprofit entities
- Thus, 12/31/23 year end entities should have adopted this already
- An entity must apply the amendments in the ASU through a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective except for certain exclusions (refer to the standard for those exclusions)



Implementation of CECL

THE NEW CECL MODEL

Historical Loss Information	Segments or pools are created based on common risk characteristics. A combination of both internal and external information, including macroeconomic variables, are used to establish a relationship between historical losses and other variables.
+	
Current Conditions	To reflect current asset-specific risk characteristics, adjustments to the historical data will need to be considered. These adjustments are usually done through a combination of both qualitative and quantitative factors.
+	
Reasonable and Supportable Forecasts	The forecast period to project expected credit losses should be reasonable and supportable. Document the rationale and provide evidence supporting the reliability and accuracy of economic scenarios and forecasts.
+	
Reversion to History	Entities are to revert to historical loss information when unable to make reasonable and supportable forecasts. The reversion method applied must be well documented and is not a policy election.
=	
Expected Credit Loss	The result should represent the current expected credit loss over the remaining contractual term of the financial asset or group of financial assets.

FINANCIAL INSTRUMENTS

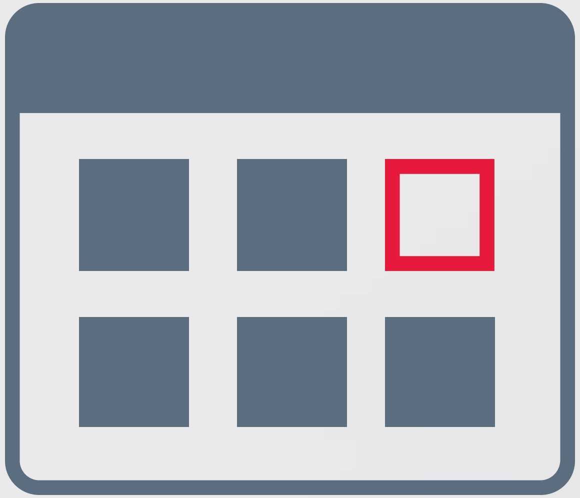
Credit Losses (Topic 326) Some Reminders

- Organizations should have a memo documenting their CECL analysis as of the beginning of the fiscal year and the end of the fiscal year – so in the adoption year, there will be two separate analyses.
- May conclude there are zero expected losses but cannot jump to that conclusion without going through each step of the analysis and documenting conclusions.

FINANCIAL INSTRUMENTS

Credit Losses (Topic 326) - Disclosures

- There are numerous disclosures related to Topic 326
- These have been outlined in the Appendix B to this presentation for your reference
- Best practice is to utilize the disclosure checklist to ensure all applicable disclosures are included



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AICPA Auditing Standards Board (ASB) Updates

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AICPA ASB - Recent Statements on Auditing Standards (SAS)

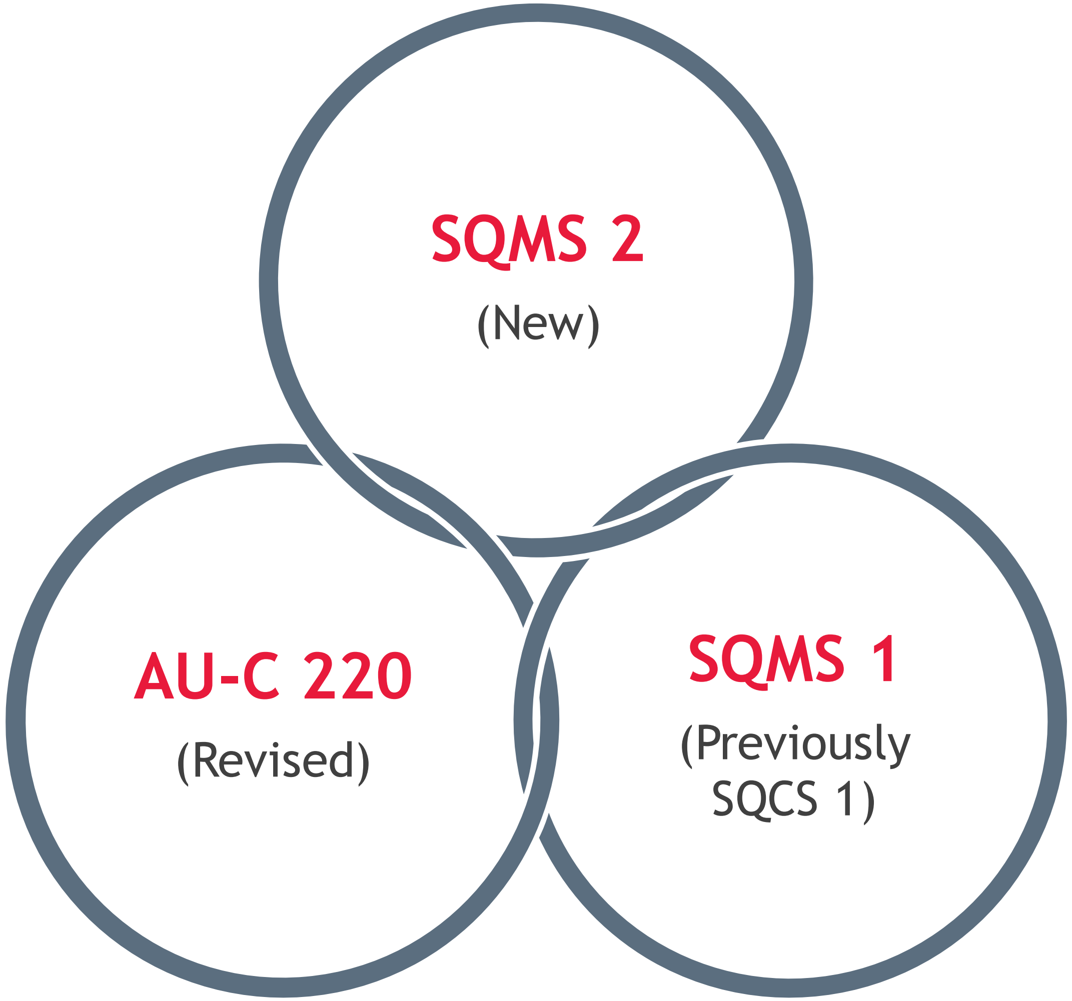
SAS No.	Topic	AU- C Section Affected	Effective Date
146	Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards	220 and various other AU-Cs	Audits of periods beginning on or after 6/30/2025
147	Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations	210	Audits of periods beginning on or after 6/30/2023

AICPA ASB - Recent Statements on Auditing Standards

SAS No.	Topic	AU- C Section Affected	Effective Date
148	Amendments to AU-C Section 935	935	Various (to align with effective dates of SAS 142 and 145)
149	Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Audits)	600 and various other AU-Cs	Audits of periods ending on or after 12/15/2026

Statements on Quality Management Standards

- Statement on Quality Management Standards (SQMS) 1, *A Firm's System of Quality Management*
- SQMS 2, *Engagement Quality Reviews* (New!)
- SAS No. 146, *Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards* (AU-C section 220)
- Related conforming amendments (SQMS 3)
- **Affects every firm that performs engagements in accordance with SASs, SSAEs or SSARS**



SQMS 1 – Key Changes from Current AICPA Quality Control Standards

1. New risk-based approach focused on quality management
2. Revised components of the system of quality management
3. More robust leadership and governance requirements
4. Enhanced monitoring and remediation process
5. New requirements for networks and service providers

SAS No. 146 – Quality Management (QM) for an Engagement Conducted in Accordance with GAAS

Evolving use of varying audit delivery models

Engagement team may be located together or across different geographic regions

Revised definition of **engagement team** that includes partner, staff and **any other individuals** who perform audit procedures on the engagement, including those engaged by a network firm

Requirements have been enhanced to recognize the use of technological resources in the audit

Understanding Effective Dates

Now

Operate extant system of quality control

Perform risk assessment and gap analysis, and design and implement new responses

Consult with your peer reviewer

Early adoption permitted if all three standards are implemented at the same time.

December 15, 2025

Operate the new system of quality management

Perform the first annual evaluation of the system of quality management (SQMS No. 1)

Perform EQ reviews when required by firm policy in accordance with SQMS No. 2 starting with:

- Calendar-year 2026 financial statement audits or review engagements
- Other engagements that begin on or after Dec. 15, 2025

December 15, 2026

Apply the requirements of the QM SAS starting with calendar-year 2026 financial statement audits

SQMS 2 – Engagement Quality Reviews

Addresses the appointment and eligibility of the engagement quality reviewer and performance of quality reviews

Engagement requirements for EQ reviewers:

- Consider threats to objectivity but no cooling-off period required
- Sufficient time to perform EQ review
- Permitted use of qualified external EQ reviewers and assistants

SQMS 2 – Engagement Quality Reviews

Addresses the appointment and eligibility of the engagement quality reviewer and performance of quality reviews

Performance of EQ reviews

- Focus on significant matters and significant judgments
- Involvement of EQ reviewer at appropriate points in time throughout engagement

Effective for audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm’s accounting and auditing practice beginning on or after December 15, 2025.

SAS 149

Generally accepted auditing standards (GAAS) apply to an audit of group financial statements (a group audit). This SAS applies to all group audits. It addresses special considerations that apply to a group audit, including in circumstances in which component auditors are involved or when the group auditor makes reference to the audit of a referred-to auditor. The requirements and guidance in this SAS refer to, or expand on, the application of other relevant AU-C sections to a group audit.

This SAS is effective for audits of group financial statements for periods ending on or after December 15, 2026.

SAS 149

The objectives of the auditor are to do the following:

a. With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements
b. Identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks
c. Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work
d. Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, or through making reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements, as a basis for forming an opinion on the group financial statements

Resources

Certified Nonprofit Accounting Professional (CNAP) Training Program

Professional Training for Nonprofit Financial Leaders

The Certified Nonprofit Accounting Professional (CNAP; "see-nap") is a nationally recognized certification training program designed to teach critical skills and best practices specific to nonprofit financial management. A CNAP designation certifies the expertise and commitment of nonprofit financial managers and accounting professionals.

The CNAP Training Program consists of the CNAP Essentials course (14 CPE) and follow up CNAP Advanced course (10 CPE).

Why CNAP? Because understanding how to create a sound fiscal infrastructure is one of the best ways to help organizations maximize Its impact.

Course Fees - Online CNAP – $795 | In-person CNAP – $995

For more information - https://bdocnap.matrixlms.com/

BDO Clients: Use coupon code BDO252022 for 25% off (Note: Not an access code)

The course fee covers all course materials, certification exam and certification fee. In-person CNAP also includes breakfast & lunch during course sessions.

Immediate Return on Investment

Participants build confidence and gain skills through the CNAP program they can immediately leverage to improve their organization's financial strength and infrastructure.

Strong Targeted Curriculum

Designed for professionals on the fiscal management frontlines, the CNAP curriculum dives deep into a broad range of nonprofit financial topics.

Nationally Recognized

CNAP is a nationally-recognized designation certified by the Nonprofit CPAs Alliance. CNAP also earns CPE credits through the National Association of State Boards of Accountancy (NASBA).

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Questions?

Appendix A - Current FASB Project/Agenda

Current FASB Project/ Agenda

RECOGNITION & MEASUREMENT PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Board deliberations	Ongoing
Accounting for Environmental Credit Programs	Board deliberations	Ongoing
Accounting for Government Grants	Board deliberations	Ongoing
Codification Improvements (next phase)	Board deliberations	Ongoing
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Induced Conversions of Convertible Debt Instruments (EITF Issue No. 23-A)	Final ASU	3Q 2024
Topic 815—Derivatives Scope Refinements	Exposure Draft	3Q 2024
Topic 815—Hedge Accounting Improvements	Exposure Draft	3Q 2024

PRESENTATION & DISCLOSURE PROJECTS	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Board redeliberations	Ongoing
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	3Q 2024
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing

FRAMEWORK PROJECTS	Next Milestone	Expected Date
Conceptual Framework: Measurement	Final Concepts Statement	2Q 2024

Current FASB Project/ Agenda

RESEARCH PROJECTS
Accounting for and Disclosure of Intangibles
Accounting for Commodities
Consolidation for Business Entities
Definition of a Derivative
Financial Key Performance Indicators for Business Entities
Statement of Cash Flows

The Informed Nonprofit
A WEBCAST SERIES

Appendix B - CECL Disclosures

CECL Disclosure Requirements

- If an accounting policy election has been made, at the class of financing receivable or major security-type level, to present within another statement of financial position line item the accrued interest receivable balance, net of any allowance for credit losses, has the amount of the net accrued interest and the line item in the statement of financial position in which it is presented been disclosed? (FASB ASC 326-20-50-3A)
- If, as a practical expedient, the accrued interest receivable balance that is included in the amortized cost basis of financing receivables is excluded from the disclosures in Question Nos. 7 through 19, has the total amount of accrued interest excluded been disclosed? (FASB ASC 326-20-50-3B)
- If an accounting policy election has been made to not measure an allowance for credit losses for accrued interest receivables if uncollectible accrued interest receivable balances are written off in a timely manner, has disclosure been made of the accounting policy, including information about what time period(s), at the class of financing receivable level, are considered timely? (FASB ASC 326-20-50-3C)
- If an accounting policy election has been made to write off accrued interest receivables through a reversal of interest income or recognition of credit loss expense (or a combination of both), has disclosure been made of the accounting policy, along with the amount of accrued interest receivables written off by reversing interest income by portfolio segment? (FASB ASC 326-20-50-3D)

Credit Quality Information

- Is there disclosure of quantitative and qualitative information by class of financing receivable about the credit quality of financial assets (excluding off-balance-sheet credit exposures and repurchase agreements and securities lending agreements within the scope of FASB ASC 860), including:
  - A description of the credit quality indicator(s)?
  - Amortized cost basis by credit quality indicator?
  - For each credit quality indicator, the date or date range that the information was last updated.

Credit quality disclosure information is not required for trade receivables due in less than one year

- If internal risk ratings are disclosed, has qualitative information been provided on how such ratings relate to the likelihood of loss?
- If the disclosures in above are not sufficient to enable financial statement users to (a) understand how the credit quality of financial assets is monitored by management and (b) assess the quantitative and qualitative risks arising from the credit quality of such assets, has additional disclosure been made as necessary? (FASB ASC 326-20-50-4)

Click here for BDO Disclosure Examples

Allowance for Credit Losses Disclosures by Portfolio Segment ("Pool")

Description of the method used to develop expected loss estimates

Example: NFP separates A/R into risk pools based on their aging categories

Description of the accounting policies and methodology to estimate the allowance for credit losses

See BDO example HERE for example policy note

A description of the factors that influenced the current estimate of expected credit losses including (1) past events; (2) current conditions; (3) reasonable and supportable forecasts about the future

Discussion of the relevant risk characteristics for each segment of the portfolio (pool)

Example: The NFP develops a loss rate for each risk pool. The loss rate is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions. At December 31, 20XX, the NFP increased its historical loss rates for each aging category by 10% due to rising inflation and indicators of a potential recession.

Allowance for Credit Losses Disclosures by Portfolio Segment (“Pool”)

- Disclose the following amounts for each reporting period:
  - Significant purchases of financial assets
  - Significant sales of financial assets
  - Significant reclassifications of loans held for sale

- If the change in present value attributable to the passage of time is reported as interest income (versus reporting it as credit loss expense or reversal of credit loss expense), has the amount recorded to interest income representing the change in present value attributable to the passage of time been disclosed? (FASB ASC 326-20-50-12)

Purchased Financial Assets with Credit Deterioration

FASB Definition:

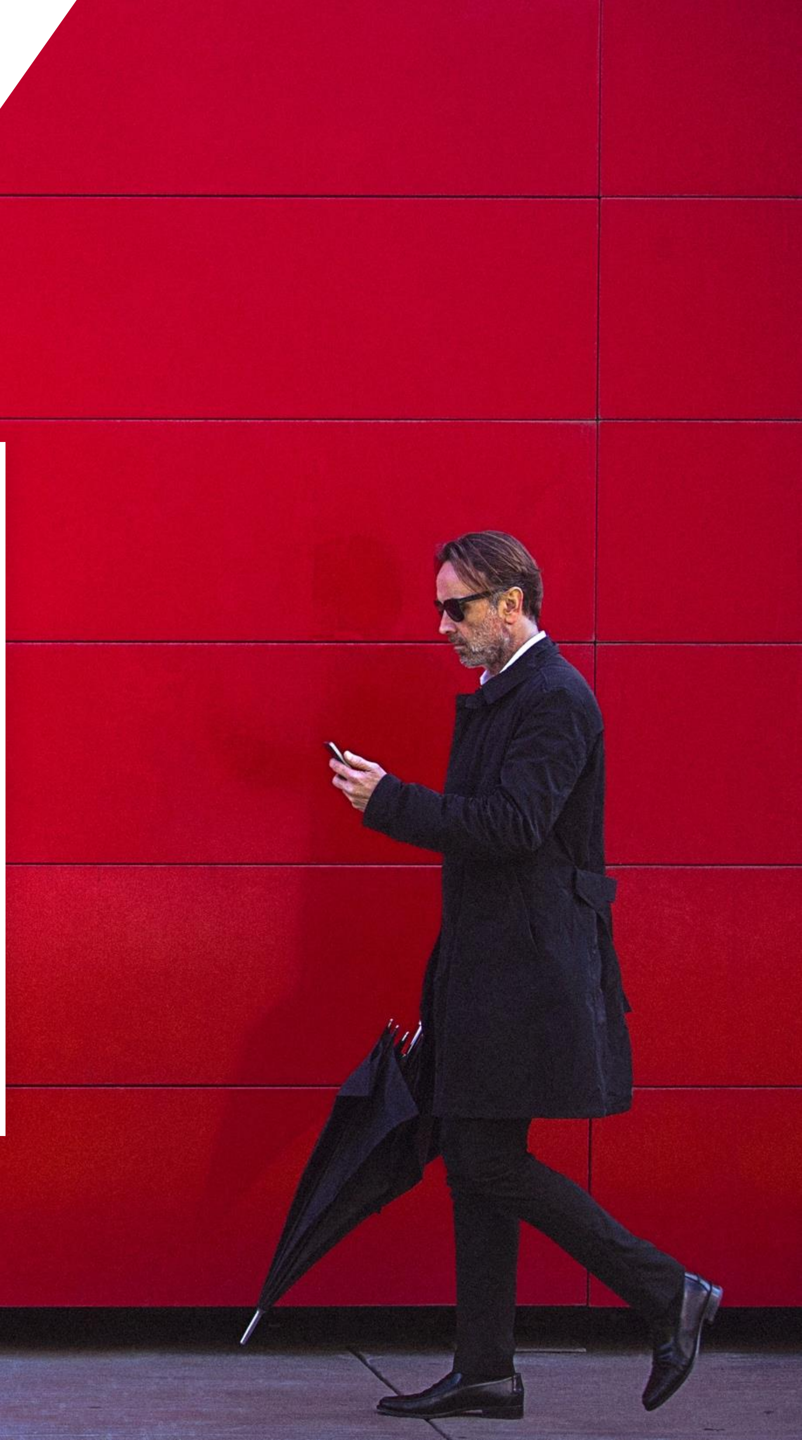
Acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment.

Past Due Status

Past Due Status disclosure information is not required for trade receivables due in less than one year.

Have the following been disclosed to allow financial statement users to understand the extent of past due financial assets?

- An aging analysis of the amortized cost basis, disaggregated by class of financing receivable, for financial assets that are past due as of the reporting date
- When a financial asset is considered to be past due
- Click here for BDO Disclosure Examples



Nonaccrual Status

Nonaccrual Status disclosure information is not required for trade receivables due in less than one year.

Have the following been disclosed, disaggregated by class of financing receivable, to allow financial statement users to understand the credit risk and interest income recognized on financial assets on nonaccrual status?

- The amortized cost basis of financial assets on nonaccrual status as of the beginning of the reporting period?
- The amortized cost basis of financial assets on nonaccrual status as of the end of the reporting period?
- The amount of interest income recognized on nonaccrual financial assets during the period?
- The amortized cost basis of financial assets that are past due 90 days or more, but are not on nonaccrual status as of the reporting date?
- The amortized cost basis of financial assets on nonaccrual status for which no allowance for credit losses has been established as of the reporting date?

Nonaccrual Status

Nonaccrual Status disclosure information is not required for trade receivables due in less than one year.

Does the summary of significant accounting policies for financial assets include the following?

- Nonaccrual policies, including those for discontinuing accrual of interest, recording payments received on nonaccrual assets (including the cost recovery method, cash basis method, or combination of those methods), and resuming interest accrual, if applicable?
- Policy for determining past due or delinquency status?
- Policy for recognizing write-offs in the allowance for credit losses?

Collateral-Dependent Financial Assets

For financial assets for which the repayment is anticipated to be substantially provided through the operation or sale of the collateral and the borrower is encountering financial difficulty, have the following been disclosed? (FASB ASC 326-20-50-20)

A

A description of the type of collateral by class of financing receivable?

B

A qualitative description, by class of financing receivable, of the extent to which collateral secures the collateral-dependent financial assets and significant changes in the extent to which collateral secures them, whether because of general deterioration or another reason?

CECL DISCLOSURE REQUIREMENTS

Off-Balance-Sheet Credit Exposures

Has a description been provided of the accounting policies and methodology used to estimate the liability for off-balance-sheet credit exposures and related charges, including the factors that affected management's judgment and a discussion of risk elements that pertain to particular categories of financial instruments?

(FASB ASC 326-20-50-22 describes the types of arrangements that may create off-balance-sheet credit exposures. The disclosure requirement does not apply to instruments within the scope of FASB ASC 815.) (FASB ASC 326-20-50-21).

Off-Balance-Sheet Credit Exposure – Credit exposures on off-balance-sheet loan commitments, standby letters of credit, financial guarantees not accounted for as insurance.

Year of Adoption

1 Explanation of the newly adopted accounting principle, including its nature

Example:

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for notes receivable, trade receivables and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized.

2 The method of applying the change

Example:

On January 1, 2023, ABC Organization adopted the guidance prospectively with a cumulative adjustment to beginning net assets without donor restrictions. ABC Organization has not restated comparative information for 2022 and therefore, the comparative information for 2022 is reported under the old model and is not comparable to the information presented for 2023.

TRANSITION DISCLOSURES

Year of Adoption

3 The effect of the adoption on any statement of financial position line item, if material, as of the beginning of the first period of application.

4 The cumulative effect of the change on net assets in the statement of financial position as of the beginning of the first period of application.

Example:

At adoption, ABC organization recognized an incremental allowance for credit losses on its accounts receivable of $75,000 and a decrease in net assets without donor restrictions of $75,000.

About BDO USA

Our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes and value for our people, our clients and our communities. BDO is proud to be an ESOP company, reflecting a culture that puts people first. BDO professionals provide assurance, tax and advisory services for a diverse range of clients across the U.S. and in over 160 countries through our global organization.

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