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NONPROFIT STANDARD

HOW NONPROFITS CAN TAP INTO EMERGING CORPORATE VOLUNTEERING TRENDS

By Adam Cole, CPA, and Andrea Espinola Wilson

Amid the early stages of the COVID-19 pandemic, many nonprofits saw an increase in goodwill as individuals and organizations were inspired to give back in a time of crisis. Now, nonprofit leaders are looking to understand how they can maintain that goodwill — and many are turning to corporate volunteers.

When COVID-19 was declared a pandemic, it marked the beginning of a tumultuous time in which uncertainty and confusion reigned. However, one bright spot did appear — people were inspired to give back to the world around them, and many nonprofits saw goodwill increase. According to a 2020 Gallup survey, more U.S. adults said they planned to increase (25%) rather than decrease (7%) the amount of money they gave to charity in the coming year.

Now, two years later, organizations have settled into an evolved landscape, pivoting operations in order to capture long-term success. Many nonprofit leaders are looking back at that initial increase in goodwill and considering how they can maintain or recapture high donation levels. One area these leaders are focusing on is the corporate sector as businesses consider volunteering and donations as a way to rebuild a feeling of teamwork among displaced staff members. Here are three ways that nonprofit leaders can use corporate volunteering and donation trends to their advantage.

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1. FOSTERING A FEELING OF TOGETHERNESS

Though employees have widely embraced remote working, some employers are eager to get staff back in the office to maintain and even rebuild a sense of community and teamwork that they feel has been lost in remote or hybrid work environments. Nonprofit leaders can tap into this desire for togetherness by finding companies to partner with by positioning volunteering as a team-building exercise. Doing good for the world comes with a plethora of benefits — and when in the workplace, can help employees create deeper connections with each other.

2. TAPPING INTO THE ESG FOCUS

As the business world slowly shifts toward **sustainable strategies to create long-term value**, there is an opportunity for nonprofit leaders to be a part of this change. Though traditional environmental, social and governance (ESG) efforts are focused more on internal operational changes to make a business more sustainable, public-facing action can also improve the business's reputation in the eyes of investors and stakeholders more broadly. Nonprofits whose mission is focused on sustainability and bettering the world can tap into this sustainability-driven mindset and work with corporate employers to build a better volunteer base while furthering their mission.

3. CATERING TO THE SOCIALLY CONSCIOUS GENERATION

Gen Z is now flooding into the workforce in droves, and its priorities are somewhat different from those of the generations they will coexist with in the workplace. Gen Z expects to feel a connection to work and wants a job to align with its members' values — a **LinkedIn Workforce Confidence Survey** found that 69% of Gen Z would switch jobs to one that better aligns with their interests or values, as compared to 59% of millennials, 45% of Gen X and 40% of Baby Boomers. Nonprofit leaders can tap into this need for organizations to cater to Gen Z job seekers by partnering with businesses looking to attract new talent. This helps the nonprofit ensure it has a steady flow of volunteers while also allowing the company to promote itself as community-focused and driven by more than just profit.

While COVID-19-related pressures still weigh on the nonprofit industry, new opportunities are on the horizon. Staying tapped into corporate volunteering trends can help nonprofit leaders build new and lasting relationships, ensuring they can continue to serve the communities they support and further their mission far into the future.

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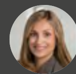
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HOW TO ENSURE YOUR FUNCTIONAL EXPENSE ANALYSIS ACCURATELY DEPICTS YOUR ACTIVITIES

By Amy Guerra, CPA

The financial statement presentation for not-for-profit entities (NFP) experienced an overhaul with Accounting Standards Update (ASU) 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." Prior to the ASU, only voluntary health and welfare organizations had a requirement to include the statement of functional expenses as part of a complete set of basic financial statements. ASU 2016-14, effective for fiscal years beginning after Dec. 15, 2017, required all NFPs to provide an analysis of expenses by their natural classification as well as their functional classification in one location in its financial statements.

Entities should periodically ensure their presentation of functional expenses they have chosen is still appropriate and accurately portrays the entity's activities. Discussed below are some best practices to keep in mind to ensure your functional expense analysis accurately portrays your entity.

CHOOSE THE PRESENTATION FORMAT

Entities first need to decide which presentation format is most advantageous to their financial statements. ASU 2016-14 permits the analysis of expenses to be presented on the face of the financial statements or in the footnotes. If the expenses are reported on the face of the financial statements, this can be done either on the statement of activities or a separate statement of functional expenses. For a simple entity, a description on the face of the statement of activities or a footnote disclosure might be sufficient. Entities with multiple programs may prefer to use a separate statement of functional expenses to give appropriate detail for how the natural classification of expenses is allocated across functions.

Whether your entity chooses to present the expenses by nature and function on the face of the statement of activities, as a separate statement of functional expenses, or as a schedule within the notes, keep the presentation simple.

KEEP THE PRESENTATION SIMPLE

Regardless of the presentation option chosen consider the following two questions:

- Who are the end users of your financial statements?
- What information is most beneficial to them?

When disaggregating your programs think about the mission and activities of your entity. What makes the most sense for your entity in terms of the number of programs to present? This will vary depending on the entity's mission and size. The users of your financials will look to the programs outlined to paint a picture of why the entity is in operation.

The presentation should show the natural expenses of the entity by program and supporting activities, but that doesn't mean every expense account within your general ledger needs its own line item. Focus on the information which will be useful to the reader and use that to drive the natural classifications that are presented. Having a functional expense analysis that fills a page with natural expense classifications can cause readers of the financial statements to lose sight of what is important.

DEVELOP A POLICY

There will likely be many facets to the entity's expense allocation method. Documentation to support the methodology is necessary. The first step is determining whether an expense follows a direct allocation or an indirect allocation. A direct allocation should occur when an expense is specifically identified with a particular program or funding source.

For indirect allocation, what is your allocation method and how does it apply to each natural classification? For the allocation of salaries and wages, you should understand and document the responsibilities of each position at the entity. At a smaller entity, the chief financial officer may have some program function, but focus primarily on finance. The finance portion must remain in management and general. Someone in the position of a program manager would likely have a larger

portion of salaries and wages expense allocated to program category rather than supporting services.

An entity has to look at what allocation methodology makes sense to its operations for each expense category. For example, for some entities it may make sense to allocate rent expense based on personnel headcount and for others it may make sense to allocate rent expense based on actual square footage. Each entity has to make these types of decisions based on the nature of their operations.

Maintaining documentation to support the allocation methodologies ensures the appropriate allocation methods are reasonable and consistently applied. Individuals with suitable knowledge, skill and expertise on the operations of the entity are critical in establishing the policy. If the entity is required to have an audit, this documentation will be requested as part of the audit process.

REVIEW THE POLICY REGULARLY FOR NEEDED UPDATES

Establishing the allocation policy is a start, but not the finish. NFPs are not static. Like other policies, a best practice is to review your entity's expense allocation policy on an annual basis. A new program could start up one year or a new source of funding may come into the NFP, and these may necessitate revisions to the allocation policy. The new program or funding source could change the role of a particular employee or how the space within a facility is used. Keep in mind, your allocation methodology is described in the footnotes of your financial statements. Will the user of your financials find the methodology appropriate?

An NFP's management has the responsibility to review the allocation policy, assess allocated activities, and ensure the allocation method for a particular activity is consistently applied in accordance with the documented policy.

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U.S. DEPARTMENT OF THE TREASURY ISSUES FINAL RULE FOR CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

By Stacey Powell, CPA, CFE, CICA

The U.S. Department of the Treasury (Treasury) released the **Final Rule** for Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) on Jan. 6, 2022. The Final Rule provides broader flexibility and greater simplicity in the program and is effective April 1, 2022. Until that time, the **Interim Final Rule** remains in effect. However, early implementation of Final Rule provisions is permitted.

BACKGROUND

CSLFRF, a part of the American Rescue Plan, provides $350 billion in emergency funding to eligible state, local and tribal governments to support their response to, and recovery from, the COVID-19 public health emergency.

The program ensures that governments have the resources needed to:

- fight the pandemic and support families and businesses struggling with its public health and economic impacts,
- maintain vital public services, even amid declines in revenue, and
- build a strong, resilient, and equitable recovery by making investments that support long-term growth and opportunity.

EARLY PROGRAM IMPLEMENTATION

In May 2021, the Treasury published the Interim Final Rule describing eligible and ineligible uses of funds (as well as other program provisions), sought feedback from the public on these program rules, and began to distribute funds. (See the **Summer 2021 Issue of the Nonprofit Standard** for an article on the Interim Final Rule.)

The Interim Final Rule immediately took effect in May and, since then, governments have used CSLFRF funds to meet their immediate pandemic response needs and begin building a strong and equitable recovery, such as through providing vaccine incentives, development of affordable housing, and construction of infrastructure to deliver safe and reliable water.

FINAL RULE ISSUED – KEY CHANGES & CLARIFICATIONS IN THE FINAL RULE

The much-anticipated Final Rule governs spending guidelines for CSLFRF. The Final Rule delivers broader flexibility and greater simplicity in the program, responsive to feedback in the comment process. Key changes from the Interim Final Rule to the Final Rule include:

Replacing Lost Public Sector Revenue. The Final Rule offers a standard allowance for revenue loss of $10 million, allowing recipients to select between a standard amount of revenue loss or complete a full revenue loss calculation. Recipients that select the standard allowance may use that amount – in many cases their full award – for government services, with streamlined reporting requirements.

Public Health and Economic Impacts. In addition to programs and services, the Final Rule clarifies that recipients can use funds for capital expenditures that support an eligible COVID-19 public health or economic response. For example, recipients may build certain affordable housing, childcare facilities, schools, hospitals and other projects consistent with Final Rule requirements.

The Final Rule also provides for:

- An expanded set of households and communities that are presumed to be "impacted" and "disproportionately impacted" by the pandemic, thereby allowing recipients to provide responses to a broad set of households and entities without requiring additional analysis,
- A broader set of uses available for these communities as part of COVID-19 public health and economic response, including making affordable housing, childcare, early learning and services to address learning loss during the pandemic eligible in all impacted communities and making certain community development and neighborhood revitalization activities are eligible for disproportionately impacted communities.
- A broader set of uses to restore and support government employment, including hiring above a recipient's pre-pandemic baseline, providing funds to employees that experienced pay cuts or furloughs, avoiding layoffs and providing retention incentives.

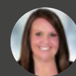
Premium Pay. The Final Rule delivers more streamlined options to provide premium pay by broadening the share of eligible workers who can receive premium pay without a written justification while maintaining a focus on lower-income and frontline workers performing essential work.

Water, Sewer & Broadband Infrastructure. The Final Rule significantly broadens eligible broadband infrastructure investments to address challenges with broadband access, affordability and reliability, and adds additional eligible water and sewer infrastructure investments, including a broader range of lead remediation and stormwater management projects.

EFFECTIVE DATE

The Final Rule takes effect on April 1, 2022. Until that time, the Interim Final Rule remains in effect; funds used consistently with the Interim Final Rule while it is in effect are in compliance with the CSLFRF program.

However, recipients can choose to take advantage of the Final Rule's flexibilities and simplifications now, even ahead of the effective date. Treasury will not take action to enforce the interim Final Rule to the extent that a use of funds is consistent with the terms of the Final Rule, regardless of when the CSLFRF funds were used.



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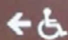

IRS TAX-EXEMPT AND GOVERNMENT ENTITIES DIVISION RELEASES FISCAL YEAR 2021 ACCOMPLISHMENTS LETTER

Marc Berger, CPA, JD, LLM

The IRS Tax-Exempt and Government Entities (TE/GE) Division released its "Fiscal Year 2021 Accomplishments Letter" on Jan. 6, 2022. The letter contains information about the TE/GE's contributions to the tax administration process and describes the division's accomplishments during the recently completed year.

In fiscal year 2021, TE/GE continued to identify tax compliance issues through its compliance strategy process. This process is based on the following six programs:

- **Compliance Strategies:** Issues approved by the TE/GE Compliance Governance Board to identify, prioritize and allocate resources within the TE/GE filing population.
- **Data-Driven Approaches:** Data and queries, based on quantitative criteria, used to identify high risk areas of noncompliance and focus on issues with the greatest impact.
- **Referrals, Claims and Other Casework:** Referrals of alleged noncompliance from internal and external sources, and claims for refunds, credits or adjustments.
- **Compliance Contacts:** Correspondence contacts, known as compliance checks, addressing potential noncompliance, and educational letters to limit costs and taxpayer burden.
- **Determinations:** Letters issued to exempt organizations on exempt status, private foundation classification and other determinations related to exempt organizations.
- **Voluntary Compliance and Other Technical Programs:** In addition to the Voluntary Correction Program for employee benefit plans, other technical programs, including

Knowledge Management, work to ensure the quality and consistency of technical positions, provide timely assistance to employees and preserve and share TE/GE's knowledge base.

IMPROVING PROCESSES

In fiscal year 2021, TE/GE continued its Lean Six Sigma (LSS) efforts in two significant areas. In the examination area, the LSS team continues to work through the recommendations to improve exam-related processes and should be completing these efforts in early 2022. In addition, a new LSS team was established to look for process efficiencies with the compliance check process.

COLLABORATIVE PARTNERSHIPS

TE/GE collaborated with a diverse group of stakeholders to strengthen its programs in fiscal year 2021. The division partnered with the IRS Information Technology function to drive key components of the IRS modernization plan. It continued its collaborative efforts with the deployment of Enterprise Case Management to its end users in the Exempt Organization's Correspondence Unit. In addition, TE/GE spent the year working with stakeholders across the IRS to strengthen its programs addressing fraud, promoter investigations and abusive transactions. TE/GE agents also received specialized training in various areas ranging from promoter/abusive transactions to virtual currency.

TE/GE also continued to partner with its Large Business & International (LB&I) and its Research, Applied Analytics & Statistics (RAAS) groups in the area of high income/high wealth taxpayers and the identification of linkages involving TE/GE organizations. Collaboration in this area is expected to continue throughout fiscal year 2022 with the expectation of participation in joint examinations between IRS divisions.

BDO INSIGHT: In recent years, examinations of exempt organizations have been targeted, generally focusing on one or two areas or issues. The potential for joint exams with other IRS divisions brings back memories of the Coordinated Examination Program (CEP), which was eliminated in 2000. CEP examinations often involved multiple divisions of the IRS and typically lasted several years. The Fiscal Year 2021 Accomplishments Letter does not mention reinstituting the CEP.

EXAMINATIONS

TE/GE's Exempt Organization division (EO) completed examinations of 3,249 filings in fiscal year 2021, including the Form 990 series (990, 990-EZ, 990-PF, 990-N and 990-T) and their associated employment and excise tax returns. Overall, 82% of closed examinations resulted in a tax change, and there were proposed revocations for 94 tax-exempt entities. The principal reasons for the revocations were: (1) failure to meet the organizational and/or operational tests, (2) inurement, (3) not operating for an exempt purpose, (4) not operating for an exempt purpose/commercial activity, (5) not operating for an exempt purpose/non-member income, (6) operational requirements, and (7) political activity.

Compliance Strategies

EO initiated and continued several compliance strategy examinations to address noncompliance, including:

- Hospital Organizations with Unrelated Business Income: Focused on unrelated business taxable income reported on Form 990-T where expenses materially exceeded gross income.
- Section 501(c)(7) Social Clubs: Focused on investment and nonmember income.
- Section 4947(a)(1) Non-Exempt Charitable Trusts: Focused on organizations that under-reported income or over-reported charitable contributions.
- Previous For-Profit: Focused on organizations that formerly operated as for-profit entities prior to their conversion to Section 501(c)(3) organizations.
- Private Benefit and Inurement: Focused on organizations that show indicators of potential private benefit or inurement to individuals or private entities by way of private foundation loans to disqualified persons.

The most prominent issues that were found in closed compliance strategy examinations related to miscellaneous excise taxes, unrelated business income, filing requirements and operational requirements.

Data-Driven Examinations

EO initiated and continued several data-driven compliance examinations, including:

- Tax-exempt organizations selected through compliance query sets based on information reported on Forms 990, 990-EZ, and 990-PF.
- Tax-exempt organizations identified with RAAS to research indicators of private benefit/inurement involving officer/business partnerships, under-reported credit card income and related employees in for-profit partnerships.

The most prominent issues found in these data-driven examinations related to filing requirements and unrelated business income.

Referrals, Claims and Other Casework

EO also examined entities that filed and received exemption using Form 1023-EZ, "Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code", and from referrals both inside and outside the IRS. These referrals included hospital examinations referred from reviews conducted by TE/GE for compliance with Section 501(r) and other noncompliance issues.

EO also pursued promoter investigations and supported examinations in partnership with the Small Business/Self-Employed group-led investigations. In addition, EO spent nearly 8,000 hours assisting the Criminal Investigations group with fraud investigations as cooperating agents.

The most prominent issues found in EO's Referrals, Claims and Other Casework examinations were unrelated business income, organizational requirements, abatements and excise taxes.

DETERMINATIONS

EO closed 94,466 determination applications in fiscal year 2021, including 81,589 approvals, 76,852 of which were approvals for 501(c)(3) status. A large majority of these 501(c)(3) determinations used Form 1023-EZ to apply. Use of 1023-EZ has grown since its introduction in 2014, and in fiscal year 2021 TE/GE updated its procedures for processing Form 1023-EZ.

BDO INSIGHT: While TE/GE continues its efforts to improve service for the tax-exempt community, IRS response time on applications for exemption is still inconsistent, raising the frustration level for applicants and their advisors.

SUMMARY

The Fiscal Year 2021 Accomplishments Letter reflects TE/GE's continued focus on addressing noncompliance in the tax-exempt organization sector. The hiring of additional revenue agents, combined with continued advancement in the use of technology, will likely result in increased examinations of tax-exempt organizations for the foreseeable future. Organizations should take the necessary steps to ensure they are operating within the rules.

For more information, contact Marc Berger, National Director Nonprofit Tax Services, at mberger@bdo.com.

IMPLEMENTATION OF GASBS 87, *LEASES*

By Sam Thompson, CPA

In 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement (GASBS) No. 87, *Leases* (GASBS 87). GASBS 87 represents a significant change in accounting and financial reporting for leases by governments. After an 18-month postponement provided by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, GASBS 87 is effective for fiscal years beginning after June 15, 2021. It is imperative for governments to proactively prepare prior to implementation to ensure a smooth and successful adoption.

BACKGROUND

GASBS 87 established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASBS 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Any contract meeting this definition should be accounted for under the lease guidance, unless specifically excluded per GASBS 87.

Lessee Accounting

At the commencement of the lease term, the lessee should recognize a lease liability and an intangible right-to-use lease asset, for all leases not considered short-term or that transfer ownership of the underlying asset. The lease liability should equal the present value of payments expected to be made during the lease term, less any lease incentives. The lease asset should equal the initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs.

The lease liability is reduced over the life of the lease as payments are made. Payments made by the lessee include both principal and interest portions. The lease asset is amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lessor Accounting

At the commencement of the lease term, the lessor should recognize a lease receivable, equal to the present value of lease payments expected to be received during the lease term, offset to a deferred inflow of resources, measured at the value of the lease receivable plus payments received at or before the commencement of the lease term that relate to future periods.

The lessor should recognize revenue (split between a base lease and interest component) in a systemic and rational manner over the term of the lease, from the deferred inflows of resources.

The lessor should not derecognize the asset underlying the lease. To the extent the asset underlying the lease is depreciable, the lessor should continue recognizing depreciation.

KEY CONSIDERATIONS

Multiple Components

It is common for lease contracts to contain both lease and nonlease components. To the extent possible, nonlease components should be separated from lease components and accounted for separately. If the contract does not include separate prices for individual components or the prices provided seem unreasonable, the entity should use professional judgment to allocate the contract price.

Discount Rates

Future lease payments should be discounted using the interest rate the lessor charges the lessee. In many contracts, the lessor's rate is not explicitly stated. If the interest rate cannot be readily determined by the lessee, the lessee should use its own estimated incremental borrowing rate. This incremental borrowing rate will not be universal across all leases and should be determined based on relevant characteristics (e.g., lease term, commencement date) of each lease.

Lease Modifications and Terminations

Amendments made to a lease contract subsequent to inception should be considered a lease modification, except in instances in which the lessee's right to use the underlying asset decreases. In such instances, the lease is considered to be a partial or full lease termination. In the event of a lease

termination, the lessee should reduce the carrying values of the lease liability and lease asset; the lessor should reduce the carrying values of the lease receivable and deferred inflows of resources, with any difference recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by a lessee by remeasuring the lease liability and lease asset; the lessor should remeasure the lease receivable and adjust the related deferred inflows of resources.

GASBS 87 VS. ACCOUNTING STANDARDS CODIFICATION (ASC) 842

While there are many similarities between GASBS 87 and its Financial Accounting Standards Board equivalent, ASC 842, there are key differences. The more significant differences are listed below:

- **Lease types –** Under ASC 842, leases are classified as either operating or finance leases. Under GASBS 87, no such distinction exists.
- **Lease definition –** GASBS 87's definition of a lease requires the underlying contract meet the definition of an "exchange or exchange-like transaction," whereas ASC 842's lease definition specifies only the "exchange for consideration." As such, a transaction in which consideration is exchanged, but done so at a value well below market rates, could meet the definition of a lease under ASC 842 but not under GASBS 87.
- **Transfer of ownership provisions –** GASBS 87 classifies contracts transferring ownership of the underlying asset to the lessee by the end of the contract without termination options not as a lease, but as a financed purchase of the underlying asset by the lessee and sale of the asset by the lessor. Per ASC 842, a contract transferring ownership meets the definition of a finance lease.
- **Discount rates –** GASB considered but ultimately rejected the use of a risk-free interest rate for discounting, as leases are not risk-free. ASC 842 provides lessees that are not public business entities with a practical expedient that allows them to make an accounting policy election to use a risk-free rate as the discount rate for all leases (later amended by Accounting Standards Update 2021-09 to allow for the risk-free rate election by asset class rather than at the entity-wide level).
- **Substitution –** Under GASBS 87 the right of substitution does not impact the control assessment for a lessee so long as the service capacity is unaffected. Under ASC 842, if the lessor maintains the right of substitution, and the lessee determines the lessor would benefit economically from the exercise of this right, then the contract is not considered a lease.

IMPLEMENTATION CONSIDERATIONS

Effective Date and Transition

Governments should recognize and measure leases using the facts and circumstances that existed at the beginning of the earliest period restated. An exception exists in which lessors should not restate the assets underlying existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying lease assets.

Preparation for Implementation

Although implementation of GASBS 87 is primarily the responsibility of accounting personnel, successful implementation requires the involvement of the entire organization. Establishing and maintaining open and timely communication between all stakeholders is essential. A realistic and robust timeline, working backward from the target completion date, will help ensure adequate progress is made in advance of implementation. To ease the burden of implementation, governments should look for opportunities to use technology whenever possible. This may include acquiring lease accounting software or developing internal tools and programs.

Governments should perform a complete inventory of lease agreements (both as a lessee and lessor) and analyze each lease to determine if the lease meets the definition of a lease in accordance with GASBS 87. For those leases, governments should compile relevant data to complete the calculations necessary to record the lease liability and lease asset (lessee) or lease receivable and deferred inflows of resources (lessor), including (but not limited to):

- lease term (start and end dates, as well as any options to extend or terminate the lease)
- payment terms (amounts, frequency, fixed vs. variable)
- initial direct costs or ancillary charges paid at or before the commencement of the lease term
- discount rate charged by lessor to the lessee
- description of the underlying lease asset
- residual value guarantees
- purchase options
- termination penalties

When performing an inventory of all lease agreements, governments should be especially vigilant for embedded leases, or leases found in existing contracts not previously identified as such. Embedded leases are often found in service contracts, vendor or supply contracts, or other agreements that on their face do not indicate a potential lease component. As a best practice to help ensure a complete inventory of all leases, accounting personnel should reach out to other departments within the government (such as purchasing/procurement, real estate, facilities, and legal) and inquire about any known contracts potentially containing a lease component.

Additionally, governments should begin preparing new general ledger accounts and updating financial statement templates and preparing new required note disclosures.

ITEMS TO COMMUNICATE TO THOSE CHARGED WITH GOVERNANCE

By requiring all leases (except for those excluded under GASBS 87) to be accounted for on the face of the basic financial statements, certain lease assets and lease liabilities not reported previously are now recognized. Whereas in the past lessees and lessors differed significantly in presentation of operating leases, GASBS 87 establishes a single model for lease accounting that is the same for both lessees and lessors.

For lessees, the addition of lease liabilities and lease assets may significantly impact debt covenant calculations and greatly increase noncurrent liabilities. Management needs to educate those charged with governance on the impacts of GASBS 87 and to also frame the recognition of lease liabilities and assets in its proper context (mainly that such obligations and resources existed in prior periods but were not visible on the face of the basic financial statements.)

The accounting and financial reporting requirements of GASBS 87 requires governments to devote substantial time and resources to leases not only during implementation but in subsequent periods indefinitely. To ease the burden, governments should consider making an investment in lease accounting software.

In conclusion, the time to implement GASBS 87 is upon us. The changes to lease accounting and financial reporting represent some of the more significant changes to generally accepted accounting principles in recent years. Proper planning and coordination is of paramount importance to ensure successful adoption of GASBS 87.

For more information, contact Sam Thompson, professional practice director, at sthompson@bdo.com

HOW UNIVERSITIES CAN NAVIGATE DECLINING STUDENT ENROLLMENT AND RETENTION

By David Clark, CIA, CFE, CRMA and LaShaun King, CPA

Like many organizations, colleges' and universities' worlds were flipped upside down when COVID-19 emerged in the spring of 2020. To maintain their mission of reshaping the future through educating future generations, colleges and universities had to reimagine their own operations and adapt to a digital environment. Organizations shifted to online or hybrid learning, engaged with new and legacy donors in new ways and diversified revenues, among other strategies to support the change. According to BDO's Nonprofit Standards benchmarking survey, a majority (69%) of education organizations even accelerated their investments in technology — a major shift, as the sector has traditionally relied on on-campus events, physical facilities and in-person learning.

While many institutions have successfully adopted technology and remote and/or hybrid operations, the financial impact of COVID-19 has been felt across campuses nationwide. Colleges and universities have weathered significant lost revenue as campus closures required the cancellation of revenue-generating events such as athletic programs and facility rentals, refund of room and board contracts, and decreases in student retention and enrollment. Despite their best efforts, 57% of education organizations maintain less than 12 months of operating reserves, and 42% expect declines in enrollment and student retention to be their biggest challenge in the year ahead.

While the headwinds are compounding, colleges and universities can consider pursuing the following strategies to encourage strong student enrollment and retention:

INTRODUCING CAMPAIGNS FOR ENROLLMENT

Job insecurity, overwhelming workplace pressures and reorganization have significantly contributed to employee dissatisfaction and, subsequently, "The Great Resignation" — a recent trend resulting in millions of Americans quitting their jobs. As a result, there's been a shift in the traditional career path, and Americans are searching for opportunities that support their interests and personal values, creating a pipeline of new applicants for colleges and universities — especially at the more lucrative graduate school level. Further, the industry continues to see declining freshman enrollment, making it more critical for institutions to be able to develop and capitalize on a pipeline of new applicants.

To connect with potential students, organizations should introduce campaigns that speak to this evolving environment. Organizations can differentiate themselves among the competition by showcasing their unique course offerings, industry and career partnerships, student resources and evolved operations that should include new digital solutions for remote and hybrid learning. With an effective campaign, colleges and universities can share a story that resonates with the next generation of students.

DISCOUNTING TUITION

On the list of COVID-19's impact is the disruption to personal and household finance. Since the spring of 2020, families have had to review their spending and prioritize costs as many Americans lost their jobs and worked fewer hours — whether due to business closures, COVID-19-related restrictions on in-person facilities or sick leave. As a result, students are comparing colleges' and universities' costs and financial aid packages more closely to find the most cost-effective path to higher education — or else risk staggering student loan debt. At the same time, there's opportunity for colleges and universities to rebrand higher education. While student expenses can be high, there's often available financial aid that applicants aren't aware of. By proactively communicating the full financial package — the costs and the full scope of available financial aid — colleges and universities can disprove perceptions that suggest organizations don't support the financial burden on students. Organizations that go the extra mile and introduce new opportunities for tuition discounting through grants, scholarships and other forms of gift aid are also in a better position to retain and attract students with these financial considerations in mind. When considering these options, higher education institutions should conduct analyses to weigh the tradeoff of increased enrollment at a lower cost and develop a strategy that will provide the maximum benefit to the school, while supporting students.

LEVERAGING NEW TECHNOLOGY

While assessing opportunities for digital capabilities has been a best practice for many organizations, COVID-19 has accelerated the timeline for new technologies. Colleges and universities are still working to find ways to operate as businesses in a remote environment and leverage technology for greater efficiencies, while also working to meet greater user experience expectations as students compare virtual learning to other aspects of their ever-more digital lives. To keep pace, colleges and universities can explore and introduce technologies that enhance process effectiveness and student and staff engagement. Some systems and tools include recruiting software that allows for a seamless experience when a candidate applies; online student portals that help manage existing students' workloads, documents and course information; and enhanced data analytics and visibility for management to monitor and oversee operations and make faster decisions. As more student data and sensitive information migrate online through these transformations, colleges and universities should also consider leveraging cybersecurity software to protect students and their organization from data breaches and cyberattacks.

FACING THE FUTURE

While the road ahead may pose challenges with retention and recruitment, there are strategies colleges and universities can leverage to support the evolving needs of prospective and existing students and help manage their institutions' finances. Introducing new campaigns that resonate with this landscape, discounting tuition and leveraging new technology can strengthen organizations' competitive advantage and sustain their mission for future generations.

Article adapted from the Nonprofit Standard blog.

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OTHER ITEMS TO NOTE

Office of Management and Budget (OMB) Issues Addenda to 2021 Compliance Supplement

OMB issued a **Federal Register notice** announcing the issuance of Addendum #1 to the 2021 Compliance Supplement (Supplement) on Dec. 3, 2021. Addendum #1 includes the following two programs: (1) the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF), and (2) an update to the Education Stabilization Fund (ESF).

On Jan. 19, 2022 OMB issued a **Federal Register notice** announcing the issuance of Addendum #2 to the 2021 OMB Compliance Supplement (Supplement). Addendum #2 includes seven programs as outlined below.

Addenda Location

The Addenda are located at **https://www.cfo.gov/2021-addendum-1/cfo.gov**. It is important to note that the Addenda are not posted to the **OMB web site** where the original 2021 Supplement is located.

CSLFRF in Addendum #1

Addendum #1 contains a new program section for CSLFRF (Assistance Listing 21.027). This new section outlines the U.S. Department of the Treasury's (Treasury) auditing expectations for this new program, which will likely be a major program for many recipients.

State and local governments are most often the direct recipients of this funding; however, many nonprofit organizations have received funding under this program from state and local governments.

Addendum #1 provides program objectives and the compliance requirements entities must adhere to as well as those subject to audit. In addition, Addendum #1 clarifies that the "beneficiary" concept introduced in the Coronavirus Relief Fund also applies to CSLFRF. Addendum #1 also notes that Treasury has proposed program requirements in an **interim Final Rule** and notes that auditors should test compliance with the requirements that existed at the time of the expenditure. Thus, entities should ensure they are in compliance with these requirements. Treasury released the **Final Rule** on Jan. 6, 2022. The Final Rule is effective April 1, 2022. Until that date, the Interim Final Rule remains in effect although early implementation of the Final Rule provisions is permitted. (See article on page 4 that discusses the Final Rule in more detail.)

The compliance requirements identified as being subject to audit for CSLFRF in the Addendum are as follows:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Period of Performance
- Procurement Suspension & Debarment
- Reporting
- Subrecipient Monitoring

Remember, as a recipient of federal funds an organization must comply with all compliance requirements, even those not identified as subject to audit, if they are outlined in the award agreement.

Addendum #1 also includes a discussion of the following facts related to revenue loss, which is an important component of the program:

- Revenue loss is not an eligible use; instead, recipients calculate it based on a formula to determine the limit for the amount of CSLFRF funds that can be used for the "provision of government services." Government services is one of the four eligible uses of CSLFRF funds.
- Revenue replacement calculations for expenditures covered under the Treasury's interim Final Rule are not subject to audit in the single audit of this program for fiscal year 2021.
- For the schedule of expenditures of federal awards (SEFA) reporting purposes, the aggregate expenditures for all four eligible use categories are reported on the SEFA and not the result of the revenue loss calculation.

ESF in Addendum #1

As a reminder the original Supplement for ESF is divided into 2 sections:

- Section 1 – Elementary and Secondary Education
- Section 2 – Higher Education

Only Section 1 was updated in Addendum #1 to address American Rescue Plan Act (ARPA) funding implications in

OTHER ITEMS TO NOTE

subprograms 84.425U and 84.425X. Please note that Section 2 of ESF was not included in Addendum #1 since it was already updated for ARPA implications in the original release of the 2021 Supplement. As a result, if your organization has significant funding under subprograms 84.425U or 84.425X and also funding under ESF Section 2 subprograms you will use Section 1 in Addendum #1 and Section 2 in the original 2021 Supplement to ascertain the program objectives and compliance requirements.

If Section 1 applies to your organization but you did not have funding under subprograms 84.425U or 84.425X, you can utilize the original release of the ESF program in the Supplement to identify the requirements your organization must comply with.

Implications of Timing of Addendum #1 Release

The cfo.gov page states that "For audits with report dates prior to the issuance of the guidance in Addendum #1, auditors are not required to go back retroactively to review these two programs based on the newly issued guidance." For example, if your entity had already completed its audit of CSLFRF as a major program in advance of Addendum #1's release by using Part 7 of the Supplement, the organization would not have to go back and refer to Addendum #1 as long as the audit report was issued with a date prior to Dec. 3, 3021.

Programs Included in Addendum #2

The following programs were included in Addendum #2:

10.542 – Pandemic Electronic Benefits Transfer (EBT) Food Benefits

This is a new U.S. Department of Agriculture program that provides school-age children with nutrition assistance. Funding was provided to state governments.

10.649 – Pandemic EBT – Administrative Costs Grants

This is a new U.S. Department of Agriculture program that is provided primarily to defray administrative cost of executing the pandemic EBT initiative. Funding was provided to state governments.

14.871 – Section 8 Housing Choice Vouchers

This is an existing U.S. Department of Housing and Urban Development program with changes made primarily to address new ARPA funding provisions.

20.315 – National Railroad Passenger Corporation Grants

This is a new Department of Transportation program that has only one recipient (i.e., Amtrak).

93.499 – Low-Income Household Water Assistance

This is a new Department of Health and Human Services (HHS) program that targets assistance to those households with the lowest incomes that pay a high proportion of household income for water and wastewater services.

93.558 – Temporary Assistance for Needy Families (TANF)

This is an existing HHS program which is part of the TANF Cluster with changes made primarily to address ARPA funding provisions.

93.575 – Child Care and Development Block Grant

This is an existing HHS program which is part of the Child Care and Development Fund cluster. In addition to changes to address ARPA funding provisions, auditors should note that Addendum #2 makes the reporting type of compliance requirement subject to audit (which includes testing of a financial report and special reporting requirements associated with the Federal Funding Accountability and Transparency Act). HHS received approval from OMB to add this requirement and to exceed the six-requirement mandate.

Action to be Taken

Organizations with funding sources that are included in these Addenda should familiarize themselves with the requirements related to these programs. It is important to ensure that your organization has complied with the requirements in the Supplement and Addenda even if you are not subject to a Single Audit.

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