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Not-for-Profit Accounting and Auditing Supplement No. 3–2020





Chapter 1

Not-for-Profit Accounting and Auditing Supplement No. 3–2020

Introduction

This update includes the more significant accounting and auditing developments affecting the not-for-profit industry from June 30, 2020, through September 30, 2020. Included in this update are standard-setting and project activities of the Auditing Standards Board, Accounting and Review Services Committee (ARSC), Professional Ethics Executive Committee (PEEC), and FASB.

These developments, although believed to be complete at the date at which they were prepared for this course material, may not cover all areas within accounting and auditing relevant to all users of this material.

This update may refer you to other sources of information, in which case, you are strongly encouraged to review that information if relevant to your needs.

Audit and accounting final and proposed standards

Final standards, interpretations, and regulations

AICPA

Auditing Standards Board

Statements on Auditing Standards

Statement on Auditing Standards No. 142, *Audit Evidence*

Issue date
July 2020

Main provisions and significant changes

Statement on Auditing Standards (SAS) No. 142 explains what constitutes audit evidence in an audit of financial statements and sets out attributes of information that are taken into account by the auditor when evaluating information to be used as audit evidence.

Effective date

This SAS is effective for audits of financial statements for periods ending on or after December 15, 2022.

SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*

Issue date
July 2020

Main provisions and significant changes

SAS No. 143 addresses the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates and related disclosures, in an audit of financial statements. Specifically, it includes requirements and guidance that refer to or expand how the following AU-C sections, and other relevant AU-C sections, are to be applied with regard to accounting estimates and related disclosures:

- AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- AU-C section 450, *Evaluation of Misstatements Identified During the Audit*
- AU-C section 500, *Audit Evidence*

It also includes requirements and guidance related to the evaluation of misstatements of accounting estimates and related disclosures and indicators of possible management bias.

Effective date

This SAS is effective for audits of financial statements for periods ending on or after December 15, 2023.

Statement on Standards for Attestation Engagements

Statement on Standards for Attestation Engagements (SSAE) No. 21, *Direct Examination Engagements*

Issue date

September 2020

Main provisions and significant changes

AT-C section 206, *Direct Examination Engagements*, is a new AT-C section added by SSAE No. 21. The new section enables practitioners to perform an examination engagement in which the practitioner obtains reasonable assurance by measuring or evaluating underlying subject matter against criteria and expressing an opinion that conveys the results of that measurement or evaluation. SSAE No. 21 also amends AT-C section 105, *Concepts Common to All Attestation Engagements*, and supersedes extant AT-C section 205, *Examination Engagements*, and changes the title of that section to *Assertion-Based Examination Engagements*.

Effective date

SSAE No. 21 is effective for reports dated on or after June 15, 2022.

Accounting and Review Services Committee

There were no Statements on Standards for Accounting and Review Services (SSARS) issued during the third quarter of 2020.

Technical Questions and Answers (Nonauthoritative)

Following are summaries of Technical Questions and Answers (Q&As) issued in the third quarter of 2020. The full text of recently issued Q&As can be accessed using the link in the audit and attest area of the page “Financial Reporting Center” at aicpa.org.

Q&A section 6400 – Health Care Entities

Issue date

August 2020

.55 “Background to Sections 6400.56–.62 – Accounting for Lease Components in Type A Life Care Contracts by Continuing Care Retirement Communities”

As indicated by the title, this technical question and answer (TQA) provides background information to Sections 6400.56–.62.

.56 “Embedded Lease Component Within Type A Life Care Contracts”

This TQA addresses considerations in determining whether Type A life care contracts offered by Continuing Care Retirement Communities (CCRCs) contain a lease (or leases) under FASB Accounting Standards Codification (ASC) 842, *Leases*.

.57 “Determination of the Lease Term When an Embedded Lease Component for an Independent Living Unit Is Present Within Type A Life Care Contracts”

This TQA addresses considerations that should be made in determining the lease term if a CCRC determines that a Type A life care contract contains a lease for an independent living unit.

.58 “Classification of an Embedded Lease Component Within Type A Life Care Contracts”

This TQA addresses considerations regarding how the lease should be classified if the CCRC determines that there is an embedded lease for the independent living unit in its resident agreements.

.59 “Non-Lease Components Within the Resident Agreement of Type A Life Care Contracts”

This TQA addresses factors to consider in determining if the practical expedient in FASB ASC 842-10-15-42A can be applied if the resident agreement contains non-lease components.

.60 “Measurement of Lease Payments if a Lease for an Independent Living Unit Exists in a Type A Life Care Contract”

This TQA addresses how the CCRC should consider advance fees and periodic fees when determining the measurement of the lease payments if the CCRC determines that an embedded lease for the independent living unit exists in its resident agreements.

.61 “Reassessment of Lease Term Within the Resident Agreement of Type A Life Care Contracts”

This TQA addresses circumstances under which the CCRC would reassess the lease term related to an embedded lease for an independent living unit in its resident agreements.

.62 “Impact on a Lease Component Within the Resident Agreement of Type A Life Care Contracts When a Resident Transitions to Assisted Living or Skilled Nursing”

This TQA addresses the applicable accounting treatment when a lease for an independent living unit is terminated, for example, when a resident makes a permanent move to an assisted living or skilled nursing facility as specified in the terms of their resident agreement.

Issue date

September 2020

.63 “Background to Sections 6400.64–.70 – CARES Act Provisions Specific to Health Care Entities”

As indicated in the title, this TQA provides background to sections 6400.64–.70 – CARES Act Provisions Specific to Health Care Entities.

.64 “Accounting for Provider Relief Fund Phase 1 General Distribution Payments”

This TQA addresses how nongovernmental health care entities account for general distribution payments from the Provider Relief Fund.

.65 “Recognition Uncertainties Associated With Provider Relief Fund General Distribution Payments”

This TQA addresses uncertainties associated with aspects of the general distribution payment terms and conditions that would need to be considered when evaluating the extent to which conditions have been substantially met (for nongovernmental health care entities that apply the FASB ASC 958-605 model) or that compliance with conditions is reasonably assured (for nongovernmental health care entities that apply the IAS 20 model).

.66 “Period of Accounting for Provider Relief Fund General Distribution Payments”

This TQA addresses whether nongovernmental health care entities should begin to account for income arising from the general distribution payments in the reporting period the CARES Act was signed into law (March 27, 2020) or when information regarding the recipients and payment amounts became available from HHS.

.67 “Accounting for Uninsured Pool Portion of Provider Relief Funds”

This TQA addresses whether nongovernmental health care entities’ payments are accounted for as patient service revenue or as nonexchange transactions for services provided to uninsured COVID-19 patients that are billed to the federal government under the HRSA COVID-19 Uninsured Program.

.68 “Accounting for Payments Received Under the Medicare Accelerated and Advance Payment Program”

This TQA addresses how nongovernmental health care entities account for payments received under the Medicare Accelerated and Advance Payment Program.

.69 “Accounting for Temporary Increases in Medicare and Medicaid Payments”

This TQA addresses how changes to Medicare and Medicaid payment rules affect recognition of patient service revenue by nongovernmental health care entities.

.70 “FEMA Public Assistance Payments to NFP Health Care Entities for Emergency Protective Measures During the COVID-19 Pandemic”

This TQA addresses eligible NFP health care entities’ accounting for reimbursements received from FEMA for costs associated with eligible emergency medical care activities.

Q&A section 2130 – Paycheck Protection Program

Issue date

August 2020

.45 “Accounting for Loan Repayment or Forgiveness by the SBA”

This Q&A addresses a lender’s accounting for the portion of the loan that is eligible for forgiveness during the settlement process, including the time period subsequent to the lender’s determination that the borrower is eligible for forgiveness and through the receipt of payment from the Small Business Administration.

Professional Ethics Executive Committee

PEEC did not issue any new or revised standards or interpretations during this period.

FASB

Accounting Standards Updates

ASU No. 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity

Issue date
August 2020

Major provisions and significant changes
This Accounting Standards Update (ASU) simplifies the accounting for convertible instruments by removing certain separation models in FASB *Accounting Standards Codification (ASC) 470-20, Debt – Debt with Conversion and Other Options*. In addition, the ASU amends disclosure requirements for convertible instruments and guidance on earnings per share.

Effective dates

Public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC	Effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.
All other entities	Effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.

ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

Issue date
September 2020

Major provisions and significant changes
The amendments in this ASU provide new presentation and disclosure requirements about contributed nonfinancial assets for NFPs, including additional disclosure requirements for recognized contributed services.

Effective date
Effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. See ASU No. 2020-07 for application and transition guidance.

Proposed standards, interpretations, and regulations

AICPA

Auditing Standards Board

Statement(s) on Auditing Standards

Exposure Draft: Proposed Statement on Auditing Standards, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*

Issue date

August 27, 2020

Major provisions and significant changes

This proposed SAS would supersede SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and amend various AU-C sections in *AICPA Professional Standards*.¹ As described in the press releases section of aicpa.org, the proposal, which is based on the International Standard on Auditing (ISA) 315, *Identifying and Assessing the Risks of Material Misstatement*, is intended to enhance the requirements and guidance on identifying and assessing the risks of material misstatement, especially those risks which relate to the entity's system of internal control and information technology (IT). The proposed SAS would also revise the definition of *significant risk*; the current definition focuses the auditor on the response to the risk and the definition discussed in the proposal focuses the auditor on "those risks for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk." The comment period for this exposure draft ends on November 25, 2020.

Effective date

If issued as final, the proposed SAS will be effective for audits of financial statements for periods ending on or after December 15, 2023.

Statement(s) on Standards for Attestation Engagements

No proposed statements on standards for attestation engagements were issued in this period.

Accounting and Review Services Committee

SSARS

ARSC did not issue any proposed standards or interpretation in this period.

¹ All AU-C sections can be found in *AICPA Professional Standards*.

Professional Ethics Executive Committee

PEEC did not propose any new or revised standards or interpretations during this period.

FASB

Proposed Accounting Standards Updates

FASB Proposed ASU: *Financial Services – Insurance (Topic 944): Effective Date and Early Application*

Issued date

July 9, 2020

Comment deadline

August 24, 2020

Main provisions

This proposed ASU would defer the effective date of amendments in ASU No. 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-duration Contracts*, due to implications of the COVID-19 pandemic on insurance entities’ ability to implement the new guidance.

Proposed effective dates

Public business entities that meet the definition of an SEC filer and are not smaller reporting companies Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.

All other entities Effective for fiscal years beginning after December 15, 2024, including interim periods within fiscal years beginning after December 15, 2025.

FASB Proposed Statement of Financial Accounting Concepts: *Concepts Statement 8 – Conceptual Framework for Financial Reporting – Chapter 4: Elements of Financial Statements*

Issue date

July 16, 2020

Comment deadline

November 13, 2020

Main provisions

As described in the preface to the proposed statement of financial accounting concepts, this exposure draft would become Chapter 4 of Concepts Statement 8, which addresses matters relating to elements of financial statements.

FASB Proposed ASU: *Compensation – Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards (a proposal of the Private Company Council)*

Issue date

August 17, 2020

Comment deadline

October 1, 2020

Main provisions

This proposed ASU would amend FASB ASC 718, *Compensation – Stock Compensation*, to add paragraph 20C to FASB ASC 718-10-30. The new paragraph provides that, as a practical expedient and on an award-by-award basis, a nonpublic entity may use a valuation performed in accordance with Treasury Regulation Section 1.409A-1(b)(5)(iv)(B)(2) to determine the current price of its underlying share for purposes of determining the fair value of a share option at grant date or upon a modification that is classified as equity in accordance with paragraphs 6 through 18 of FASB ASC 718-10-25.

FASB Proposed ASU: *Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*

Issue date

September 21, 2020

Comment deadline

November 5, 2020

Main provisions

This proposed ASU would add a new subtopic, FASB ASC 952–606, *Franchisors – Revenue from Contracts with Customers*, to introduce a new practical expedient for revenue recognition for a franchisor that is not a public business entity. The practical expedient would permit the franchisor to account for pre-opening services provided to a franchisee as a single separate performance obligation if the services are consistent with those included in pending content in FASB ASC 952-606-25.

