



LOCAL COUNCIL ACCOUNTING UPDATE 2022

Contributed Nonfinancial Assets
(Gifts-in-Kind), Leases, and more...

Presenters: Ken Moran, CPA, CGMA

Michelle Swoboda, CPA





About the presenters.....

Ken is a CPA and CGMA, licensed in Virginia and North Carolina, with over 20 years' experience in not-for-profit accounting and taxation. Ken audited local councils with McGladrey & Pullen (now RSM) and served as CFO of the Heart of Virginia Council in Richmond, VA for 8 years on a contract basis as managing principal of his own CPA firm in Richmond. Ken authors both the *Local Council Guide to the Audit* and *Local Council Guide to IRS Form 990*, among other publications, and can be reached at ken.moran@scouting.org.

Note: The following information is being provided for educational purposes only and should not be acted upon before consulting your council's locally licensed professionals.





About the presenters.....

Michelle is a CPA and partner with Wipfli, LLP and has over 22 years of experience in public accounting. Her audit and accounting expertise is in the nonprofit industry, and includes local Boy Scout councils, community-based organizations, and grant-funded entities, including those subject to the 2 CFR Part 200, Uniform Guidance. She uses this knowledge in analyzing financial statements to help management and the board of directors to comply with generally accepted accounting principles, to understand the current financial picture of the organization, and plan for the future.

Michelle is currently the audit partner on 19 local council audits and Wipfli's partner for the BSA Audit Referral Program.

Wipfli, LLP

Michelle Swoboda – CPA, Partner

1502 London Road, Suite 200

Duluth, MN 55812

mswoboda@wipfli.com

(218)740-3928





Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07, Issued September 2020)





ASU 2020-07 Overview

- Objective is to increase transparency about contributed nonfinancial assets through enhancements to presentation and disclosure.
- Applies to not-for-profit organizations (NFPs) that receive *contributed nonfinancial assets* (also known as gifts-in-kind).
- Effective for 2022 financial statements (audits in 2023).





What are Nonfinancial Assets?

- Fixed assets such as land, buildings, and equipment
- Use of fixed assets or utilities
- Materials and supplies, including those used in program activities
- Items to be auctioned
- Intangible assets (copyrights, patents)
- Services
- Unconditional promises of those assets
- Cryptocurrency





What are not Nonfinancial Assets?

(for purposes of ASU 2020-07)

- Investments
 - Stocks
 - Bonds
 - Mutual Funds
- Accounts Receivable
- Contributions Receivable
- Notes Receivable
- Beneficial Interests





Changes to Statement of Activities Required

- ASC 958-605-45-7A—An NFP shall present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.
- Applies to contributions with and without donor restrictions
- Will mean new account number(s) in PeopleSoft : Account 4531 – *from Contributions-Other Direct-CS to Contributions of nonfinancial assets.*
- ***If you already have a balance in the account—analyze!***





Changes to Statement of Activities Required

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support			
Contributions, primarily from individuals:			
Cash and other financial assets	67,920	74,330	142,250
In-kind	528,140	-	528,140
Government grants	52,600	-	52,600
Other income	66,580	-	66,580
Net assets released from restrictions	19,200	(19,200)	-
Total revenues, gains, and other support	734,440	55,130	789,570
Expenses			
Animal shelter operations	212,960	-	212,960
Supporting services:			-
Management and general	20,385	-	20,385
Fundraising	21,570	-	21,570
Total expenses	254,915	-	254,915
Change in net assets	479,525	55,130	534,655





Changes to Statement of Activities Required

Local Council	SAMPLE						Boy Scouts of America	
Statements of Activities and Changes in Net Assets								
Years Ending December 31, 2022 and 2021								
	Operating Fund		Capital Fund		Endowment Fund		Total of All Funds	
	2022	2021	2022	2021	2022	2021	2022	2021
Changes in net assets without donor restrictions:								
Support and revenue:								
Direct support:								
Contributions of cash and other financial assets:								
Direct mail	0	0	0	0	0	0	0	0
Friends of Scouting	2,033,864	1,705,244	0	0	0	0	2,033,864	1,705,244
Project sales	0	0	0	0	0	0	0	0
Capital campaign	0	0	815,493	145,140	0	0	815,493	145,140
Special events - gross	1,135,724	1,360,881	0	0	0	0	1,135,724	1,360,881
Less cost of direct benefit	(337,934)	(391,962)	0	0	0	0	(337,934)	(391,962)
Net special events	797,791	968,919	0	0	0	0	797,791	968,919
Legacies and bequests	0	0	0	111,159	0	0	0	111,159
Foundations and trusts	481,920	594,332	0	0	0	0	481,920	594,332
Other direct support	172,932	243,947	83,352	63,119	12,838	18,725	269,122	325,791
Total contributions of cash and other financial assets	3,486,506	3,512,441	898,845	319,418	12,838	18,725	4,398,190	3,850,585
Contributions of nonfinancial assets	50,000	100,000	250,000	200,000			300,000	300,000
Total direct support	3,536,506	3,612,441	1,148,845	519,418	12,838	18,725	4,698,190	4,150,585





New Disclosures Required Under ASU 2020-07

- ASC 958-605-50-1A—A not-for-profit entity (NFP) shall disclose in the notes to financial statements a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. For each category of contributed nonfinancial assets, an NFP also shall disclose the following:





Disclosures Under ASU 2020-07 (continued)

- Qualitative information about whether contributed nonfinancial assets were either monetized (sold) or utilized during the reporting period.
- If utilized, a description of the programs or other activities in which those assets were used shall be disclosed.
- The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.





Disclosures Under ASU 2020-07 (continued)

- A description of the valuation techniques and inputs used to arrive at a fair value measure.
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.





Disclosures Under ASU 2020-07 (continued)

Table Format

	20X2	Usage in Programs/ Activities	Donor-imposed Restrictions	Valuation Techniques & Inputs
Building	\$ 400,380	All Activities	None	Estimated fair value on the basis of recent comparable sales prices in the real estate market of the metropolitan area in which the building is located.
Veterinary Supplies	70,640	Animal Shelter	None, except for \$15,000 restricted for Animal Rescue Program	Estimated fair value on the basis of estimates of wholesale values that would be received for selling similar products in the US.
Food	57,120		None	
	<u>\$ 528,140</u>			





Disclosures Under ASU 2020-07 (continued)

Narrative

For the year ending June 30 20X2, GIK recognized within the statement of activities included:

	<u>20X2</u>
Building	\$400,380
Veterinary Supplies	70,640
Food	<u>57,120</u>
	<u>\$528,140</u>

GIK Valuation Techniques & Inputs: The fair value of the contributed building was estimated on the basis of comparable sales prices in the real estate market of the metropolitan area in which the building is located.

Contributed veterinary supplies and food items are valued at the estimated fair value on the basis of estimates of wholesale values that would be received for selling similar products in the US.

Donor Restrictions: No GIK was restricted, except for \$15,000 of veterinary supplies restricted for use in Animal Rescue Programs.

The NFP does not sell donated GIK and only distributes goods for program use, including the Animal Rescue and Adoption Programs.





Disclosures Under ASU 2020-07 (continued)

Monetization

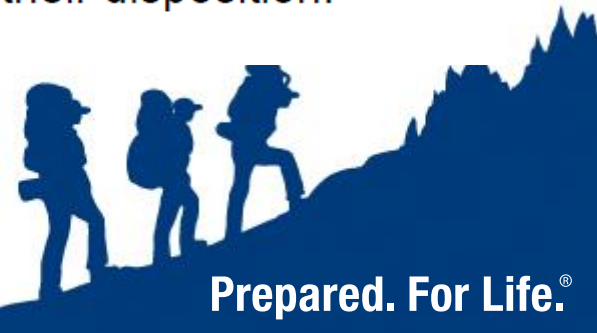
For the year ending June 30 20X2, GIK recognized within the statement of activities included:

	20X2
Vehicles	\$127,900
Veterinary Services	73,890
Veterinary Medicine	11,876
	<u>\$213,666</u>

Vehicles Donor Restrictions and GIK Use:

It is policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor.

No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.





Disclosures Under ASU 2020-07 (continued)

How to prepare for ASU 2020-07:

- Ensure there are adequate reporting systems and processes to provide disaggregation of contributed nonfinancial assets in the statement of activities and footnotes
 - Tracking of contributed nonfinancial assets and documentation of type, usage, valuation techniques
- Determine whether the Council has or should consider adopting a policy to sell (monetize) rather than utilize contributed nonfinancial assets. If a policy exists, determine whether treatment of contributed nonfinancial assets aligns with the current policy.
- Ensure there is a process for determining which contributed nonfinancial assets are subject to donor-imposed restrictions





Leases

(ASC 842)





Leases Defined Under ASC 842

Definition of a lease under ASC 842

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration

All of the following must be present:

- Identifiable asset
 - Physically distinct
 - No supplier substitution rights
- Control over the underlying asset
 - Right to direct the use of the asset
 - Right to obtain substantially all of the economic benefits
- Spans a period of time
 - Contract term
- Consideration
 - Payment for use of asset





Leases Defined Under ASC 842

Main impact of ASC 842 is to present ALL leases as defined by the new standard on the balance sheet

- Finance Leases (capital lease under 840)
 - Already on the balance sheet
 - New terminology = ROU Asset – Finance Lease and Lease Liability – Finance Lease
 - Mainly equipment leases
- Operating Leases
 - Will need to be presented on the financial statements
 - Shown as ROU Asset – Operating Lease and Lease Liability – Operating Lease
 - Mainly real estate leases

Short-term leases with a term of less than 12 months are exempt and no longer based on maximum possible term, now aligned with definition of lease term





Finance Leases Under ASC 842

Finance leases have four similar criteria as capital leases under ASC 840, with an additional criterion to consider:

1. Transfer of ownership
2. Purchase option reasonably certain to exercise (generally, less than FV)
3. Majority of the useful life (no longer 75%)
4. PV of future minimum lease payments is substantially all of the FV (no longer 90%)
5. Specialized nature





Financing Leases Under ASC 842

Lease Liability

- Liability is measured first, and consists of:
 - The present value of the lease payments not yet paid, discounted using the discount rate for the lease
 - Variable rent (variable payments) are not included, unless there is a required minimum
- Discount rate is the rate implicit in the lease
 - If the rate implicit in the lease is unknown, the lessee should use its incremental borrowing rate for a comparable amount for a comparable term
 - That is, you cannot use the borrowing rate on a 12-month LOC as a discount rate on a 5 year equipment lease
 - A 5-year lease should use the rate for a 5-year loan
 - A 15-year building lease, should use the rate for a 15-year loan rate
 - **Risk-free rate is an allowable expedient** most nonpublic entities will elect
 - Still needs to be for a comparable period (but US Treasury provides relevant info)





Financing Leases Under ASC 842

Right-of-Use Asset

- ROU assets are measured starting with the lease liability
 - Initial direct costs are costs directly attributable to negotiating and arranging the lease that would not have been incurred had the lease not been executed (commissions, payments to an existing tenant to incentivize that tenant to terminate its lease, etc.)
 - Prepaid lease payments – prepaid rent on the books will be subsumed into the ROU asset
 - Lease incentives include both payments made by the lessor to or on behalf of the lessee (tenant improvement allowances, for example) and any losses incurred by the lessor as a result of assuming a lessee's





Operating Leases Under ASC 842

Operating Lease

- The lease liability is equal to:
 - The present value of the lease payments not yet paid, discounted using the rate established at commencement
 - No interest portion
- The ROU asset is:
 - Lease liability plus or minus those few items (IDC, prepaid rent, lease incentives)
- Lease expense is recorded straight-line





Lessee Accounting Under ASC 842

Type A – Financing, Type B – Operating

Type
A

Balance Sheet

Right of use asset
Lease liability

Income Statement

Amortization expense
Interest expense

Cash Flow Statement

Cash paid for principal
and interest payments

Type
B

Right of use asset
Lease liability

Single lease expense
on a straight-line basis

Cash paid for lease
payments





Lessor Accounting Under ASC 842

Type A – Financing, Type B – Operating

Type
A

Balance Sheet

Net investment in
the lease

Income Statement

Interest income and
any profit on the lease

Cash Flow Statement

Cash received for
lease payments

Type
B

Continue to recognize
underlying asset

Lease income, typically
on a straight-line basis

Cash received for
lease payments





Lessee Presentation Under ASC 842

- A **lessee** shall either present in the statement of financial position or disclose in the notes all of the following:
 - **Finance lease right-of-use assets** and **operating lease right-of-use assets** separately from each other and from other assets
 - **Finance lease liabilities** and **operating lease liabilities** separately from each other and from other liabilities.





Lessee Presentation Under ASC 842

Noncurrent assets:									
Contributions receivable	1,235,011	-1	705,443	1,210,207	4,488,501	2,058,700	6,428,955	3,268,907	
Unallocated asset acquisition									
Land, buildings and equipment			47,720,043	39,152,555			47,720,043	39,152,555	
ROU assets-operating leases	100,000						100,000		
ROU assets-finance leases - net			400,000				400,000		
Long-term investments			18,971	28,229	70,565,225	75,617,088	70,584,196	75,645,317	
Other noncurrent assets	26,000	0	4,995,467	4,995,467	199,055	212,591	5,220,523	5,208,058	
Total noncurrent assets	1,361,011	-1	53,839,924	45,386,458	75,252,782	77,888,380	130,453,717	123,274,837	
Total assets	8,119,237	8,223,819	66,858,829	65,987,233	75,428,579	79,802,989	150,406,646	154,014,041	
Current liabilities:									
Accounts payable	201,736	217,461	581,263	54,032			782,999	271,494	
Accrued expenses	488,449	891,124	233,077	0			721,526	891,124	
Taxes and benefits withheld	309	24					309	24	
Custodial accounts	1,448,907	1,671,408	140,585	140,585			1,589,492	1,811,993	
Operating lease liab-current	50,000						50,000		
Finance lease liab-current			50,000				50,000		
Deferred activity revenue	30,319	20,908					30,319	20,908	
Deferred camp revenue	9,899	8,690					9,899	8,690	
Deferred special event revenue									
Other deferred revenue	42,867	35,338	10,000				52,867	35,338	
Other current liabilities	28,496	28,552					28,496	28,552	
Total current liabilities	2,300,982	2,873,504	1,014,926	194,618			3,315,907	3,068,122	
Op lease liab-noncurrent	50,000						50,000		
Fin lease liab-noncurrent			350,000				350,000		
Total noncurrent liabilities	50,000		350,000				400,000		



Lessee Presentation Under ASC 842

- If a lessee does not present finance lease and operating lease right-of-use assets and lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those right-of-use assets and lease liabilities.
- In the statement of financial position, a lessee is prohibited from presenting both of the following:
 - Finance lease right-of-use assets in the same line item as operating lease right-of-use assets
 - Finance lease liabilities in the same line item as operating lease liabilities.





Lessee Presentation Under ASC 842

PeopleSoft General Ledger considerations:

-Because standards prohibit combining Finance and Operating ROU assets and liabilities on the same line in the SOFP, the BSA is working on the following solutions:

NEW	1/2-1835-XXX-00	ROU assets-operating leases
CHANGE EXISTING DESCRIP TO:	2-1836-XXX-00	ROU assets-finance leases
CHANGE EXISTING DESCRIP TO:	2-1886-XXX-00	Accum amort-finance leases
NEW	1/2-2435-XXX-00	Operating lease liab-current
CHANGE EXISTING DESCRIP TO:	2-2436-XXX-00	Finance lease liab-current
NEW	1/2-2935-XXX-00	Op lease liab-noncurrent
CHANGE EXISTING DESCRIP TO:	2-2936-XXX-00	Fin lease liab-noncurrent
CHANGE EXISTING DESCRIP TO:	1/2-8536-XXX-XX	Lease exp-operating leases
CHANGE EXISTING DESCRIP TO:	2-9202-XXX-XX	Interest exp-finance leases
CHANGE EXISTING DESCRIP TO:	2-9536-XXX-XX	Amort exp-finance leases





Lessee Accounting Under ASC 842

- Disclosure requirements for the Lessee:
 - The lessee is required to disclose qualitative and quantitative information about:
 - Its leases (general description, basis and terms on which variable lease payments are determined, the existence and terms of options to extend, the existence and terms of residual value guarantees, and restrictions or covenants).
 - The significant judgments made in applying the requirements to those leases
 - The amounts recognized in the financial statements related to those leases.





Lessor Accounting Under ASC 842

- Disclosure requirements for the Lessor:
 - The lessor is required to disclose qualitative and quantitative information about:
 - Its leases (general description, basis and terms on which variable lease payments are determined, the existence and terms of options to extend, the existence and terms of residual value guarantees, and restrictions or covenants).
 - The significant judgments made in applying the requirements to those leases
 - The amounts recognized in the financial statements related to those leases.





Impact of Lease Standards on NFPs: Recording Donated and Below Market Rent

- Don't underestimate value of free space
- What do we need for a lease?
 - Contract with right to control use
 - Specified period of time
 - Exchange of consideration
- No contract, Topic 842 doesn't apply
- No lease payments, Topic 842 doesn't apply





Impact of Lease Standards on NFPs: Recording Donated and Below Market Rent

Contract w/ right to control use	No	Yes	Yes	Yes	Yes
Specified period of time	-	No	Yes, > 1-year	Yes	Yes
Exchange for consideration at below-market rent	No	No	No	Yes	Yes
Operating or Finance lease	-	-	-	Operating	Financing (transfer of ownership, option to purchase)
	Topic 842 doesn't apply. Recognize revenue and expense in period facilities used.	Topic 842 doesn't apply. Recognize revenue and expense in period facilities used.	Topic 842 doesn't apply. Recognize PTG at present value in period contributed. Amortize over contribution period.	Contribution guidance and Topic 842 apply. Cash payments are consideration for the lease, recognize ROU asset and liability. Remaining difference is PTG. Cash payment of lease reduces the lease liability. Amortize asset over lease period.	Contribution guidance and Topic 842 apply. Cash payments are consideration for the lease, recognize ROU asset and liability. Remaining difference is PTG. Cash payment of lease reduces the lease liability, portion is interest related. Amortize asset over lease period.





How to prepare for ASC 842

- Collect lease agreements, review and document terms
- Determine if lease is operating or finance
- Determine interest rate if not stated in the lease agreement
- Determine the amount of the lease liability and right of use asset





Local Council Accounting for Contributions to the Settlement Trust





LC Contributions to Settlement Trust - Overview

- New GL account 9600
- Form varies widely – unique to your council
- Be sure to involve attorneys, audit committee, and auditors
- May involve real property
- Accrual may be necessary
- May involve multiple funds/transfers





LC Contributions to Settlement Trust – Accounting Matters

- Contribution is like an expense, but is actually a loss
- Losses are not reported in the functional expense matrix
- See ***Local Council Guide to the 2021 Audit*** for detailed discussion and sample journal entries. Download a copy here:
- <https://www.scouting.org/council-support/finance-impact/local-council-financial-audits/>
- Or just Google “*Council Funding and Finance BSA*”, follow the *first result and click “Local Council Financial Audits”*





LC Contributions to Settlement Trust – Accounting Matters (continued)

- New GL account: **9600—Contribution to Settlement Trust**

Total support and revenue	11,349,291	12,568,287	9,949,256	10,256,711	-973,914	-317,773	20,324,633	22,507,225
Expenses and losses:								
Program services	9,493,150	10,696,817	1,368,598	1,426,162	49,500	49,500	10,911,248	12,172,479
Support services:								
Fundraising	1,005,529	1,014,603	162,041	81,996	6,786	6,786	1,174,356	1,103,385
Management and general	566,108	571,069	39,258	36,030	16,314	13,014	621,680	620,114
Total support services	1,571,637	1,585,673	201,299	118,026	23,100	19,800	1,796,036	1,723,499
Total functional expenses	11,064,787	12,282,489	1,569,897	1,544,188	72,600	69,300	12,707,284	13,895,977
Charter and national service fee	82,028	82,028	0	0	0	0	82,028	82,028
Loss on disposal of fixed assets	0	0	0	18,446	0	0	0	18,446
Contribution to settlement trust	1,000,000						1,000,000	
Total expenses and losses	12,146,815	12,364,517	1,569,897	1,562,634	72,600	69,300	13,789,312	13,996,451
Incr (decr) in net assets without donor restrictions	-797,524	203,770	8,379,359	8,694,077	(1,046,514)	(387,073)	6,535,322	8,510,774





Resources Available to Local Councils

- *Local Council Guide to the 2022 Audit*
 - *Illustrative financial statements, footnotes and implementation guidance for GIK sand Leases*
 - *Will include downloadable sample footnotes (MS Word format)*
 - *Available in December 2022*
- *Local Council Guide to the 2021 Audit*
 - *Available now*
 - *Sample journal entries for multiple scenarios under contributions to the Settlement Trust*





Resources Available to Local Councils

<https://www.scouting.org/council-support/finance-impact/local-council-financial-audits/>

Or— Google “Council Funding and Finance BSA”, follow the first result and click “Local Council Financial Audits”

- ***Copy of this presentation will be posted there***

BSA Member Care (972) 580-2489

Ken.moran@scouting.org





Thank you!

