



Latest Accounting Updates

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Discussion Outline

- ▲ **1** Accounting Standards Codification Topic 842 – Leases
- ▲ **2** Provider Relief Funds and Reporting Requirements
- ▲ **3** Accounting Standards Update 2020-07 *Not-for-Profit Reporting of Gifts-in-Kind*



Learning objectives



- ▲ Provide an overview of ASC Topic 842 – understand the basic concepts and terminology to apply and implement the new lease standard and gain an understanding of BerryDunn lease implementation tools
- ▲ Review Provider Relief Funding reporting and insights from an auditor’s perspective
- ▲ Provide an overview of ASU 2020-07 Not-for-Profit Reporting of Gifts-in-Kind

Topic 842 – Leases

- ▲ Effective for fiscal years beginning after December 15, 2021 for private companies and private not-for-profits (calendar year 2022, fiscal year 2023)
- ▲ Does not need to be adopted for interim periods
- ▲ Resources:
 - BerryDunn’s lease implementation guide and calculation templates
 - Podcasts



Polling question #1



Topic 842 – Leases

Example – Real estate lease



- ▶ Beginning 7/1/2021 for 36 months with two one-year extensions
- ▶ Monthly rent year one \$10,000, year two \$11,000, and year three \$12,000
- ▶ Improvement allowance of \$15,000 paid prior to start of the lease
- ▶ Monthly rent includes CAM charges

Topic 842 – Leases

Determining the Payment Amount

- ▲ Included in lease payments
 - Payment amount indicated in the lease agreement, less any lease incentives paid or payable to lessee
 - Exercise price to purchase the underlying asset by the lessee
 - Payments for penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease
 - Amounts being owed under a residual value guarantee



Topic 842 – Leases

Determining the Payment Amount

- ▲ Not included in lease payments
 - Certain other variable lease payments
 - Real estate taxes
 - Building insurance
 - Increase in payments as a result of increases in index or rate since commencement date
 - Lease payments determined based on a percentage of sales
 - Guarantee by the lessee of the lessor's debt
 - Amounts allocated to non-lease components, such as
 - Common area charges
 - Service agreements



Topic 842 – Leases

Example – Real estate lease



- ▲ Beginning 7/1/2021 for 36 months with two one-year extensions
- ▲ Monthly rent year one \$10,000, year two \$11,000, and year three \$12,000
- ▲ Improvement allowance of \$15,000 paid prior to start of the lease
- ▲ Monthly rent includes CAM charges

Polling question #2



Topic 842 – Leases

Lease Term

- ▲ Included in lease term:
 - Noncancelable periods
 - Options that a lessee is reasonably certain to exercise
 - Options to extend or terminate controlled by lessor
- ▲ May require reassessment, if the following apply:
 - Change in circumstances affects lessee's level of certainty about future action (e.g., exercise or not exercise an option to extend, or to purchase underlying asset)
 - An event written into the contract occurs that obliges the lessee to exercise (or not to exercise) an option to extend or terminate
 - Lessee elects to exercise an option to extend, even though they had previously determined that they were not reasonably certain to do so (and the converse)



Topic 842 – Leases

Example – Real estate lease



- ▲ Beginning 7/1/2021 for 36 months with two one-year extensions
- ▲ Monthly rent year one \$10,000, year two \$11,000, and year three \$12,000
- ▲ Improvement allowance of \$15,000 paid prior to start of the lease
- ▲ Monthly rent includes CAM charges

Polling question #3



Topic 842 – Leases

Discount Rate

- ▶ Discount rate: rate indicated in the lease agreement or the incremental borrowing rate
- ▶ Discount rate for lessees that are not public business entities
 - Practical expedient allows to elect to use a risk-free rate as the discount rate for all leases
 - Election by class of underlying asset rather than at entity-wide level
 - Need to disclose which asset class the entity has elected to apply a risk-free rate
 - If rate implicit in the lease is readily determinable, lessee must still use that rate



Topic 842 – Leases

Example – Real estate lease



- ▲ Beginning 7/1/2021 for 36 months with two one-year extensions
- ▲ Monthly rent year one \$10,000, year two \$11,000, and year three \$12,000
- ▲ Improvement allowance of \$15,000 paid prior to start of the lease
- ▲ Monthly rent includes CAM charges
- ▲ Additional information:
 - No rate implicit in the lease
 - Incremental borrowing rate – 6%, risk-free rate – 3%

Polling question #4



Topic 842 – Leases

Lease Classification – Three types of leases for a lessee

1. Finance lease

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease contains a purchase option that the lessee is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset.
- The present value of the lease payments and residual value guaranteed by the lessee equals or exceeds substantially all the fair value of the underlying asset.
- The underlying asset is specialized and expected to have no alternative use to the lessor at the end of the lease term.

2. Operating lease

3. Short-term lease



Topic 842 – Leases

Type of Lease Example 1 – Real estate lease



- ▶ Beginning 7/1/2021 for 36 months with two one-year extensions
- ▶ Monthly rent year one \$10,000, year two \$11,000, and year three \$12,000
- ▶ Improvement allowance of \$15,000 paid prior to start of the lease
- ▶ Monthly rent includes CAM charges
- ▶ Additional information:
 - No rate implicit in the lease
 - Incremental borrowing rate – 6%, risk-free rate – 3%
 - Economic life of the asset = 30 years
 - FMV of the asset = \$2.3M
 - No transfer of ownership or purchase of the asset

Topic 842 – Leases

Type of Lease Example 2 – Real estate lease



- ▲ Beginning 7/1/2021 for 300 months (25 years through 6/30/2046)
- ▲ Monthly rent year one \$10,000, year two \$11,000, and year three and after \$12,000
- ▲ Improvement allowance of \$15,000 paid prior to start of the lease
- ▲ Monthly rent includes CAM charges
- ▲ Additional information:
 - No rate implicit in the lease
 - Incremental borrowing rate – 6%, risk-free rate – 3%
 - Economic life of the asset = 30 years
 - FMV of the asset = \$2.3M
 - No transfer of ownership or purchase of the asset

Demo – BerryDunn Lease Classification Tool



Topic 842 – Leases

Lease Recognition and Measurement – Initial measurement

- ▲ Lease liability at present value of lease payments discounted using discount rate of lease
- ▲ Right of use asset – initial lease liability, plus any lease payments made to lessor at or before commencement date, minus any lease incentives received
- ▲ Any initial direct costs such as incentive payments and commissions



Topic 842 – Leases

Example 1 – Real estate lease operating



- ▲ Beginning 7/1/2021 for 36 months with two one-year extensions
- ▲ Monthly rent year one \$10,000, year two \$11,000, and year three \$12,000
- ▲ Improvement allowance of \$15,000 paid prior to start of the lease
- ▲ Monthly rent includes CAM charges
- ▲ Additional information:
 - No rate implicit in the lease
 - Incremental borrowing rate – 6%, risk-free rate – 3%

Topic 842 – Leases

Example 2 – Real estate lease financing



- ▶ Beginning 7/1/2021 for 300 months (25 years through 6/30/2046)
- ▶ Monthly rent year one \$10,000, year two \$11,000, and year three and after \$12,000
- ▶ Improvement allowance of \$15,000 paid prior to start of the lease
- ▶ Monthly rent includes CAM charges
- ▶ Additional information:
 - No rate implicit in the lease
 - Incremental borrowing rate – 6%, risk-free rate – 3%

Demo- BerryDunn Operating and Finance Lease Calculation Tools



Topic 842 – Leases

Presentation – Balance Sheet

| Separate Presentation Acceptable | | Presentation with Other Assets and Liabilities and Disclosed Separately Acceptable | | Combined Presentation Not Acceptable | |
|---|--------|--|--------|---|--------|
| Balance Sheet Period Ended December 31, 20X1 | | Balance Sheet Period Ended December 31, 20X1 | | Balance Sheet Period Ended December 31, 20X1 | |
| ROU assets—operating leases | 25,000 | ROU assets—operating leases | 25,000 | ROU assets | 25,900 |
| ROU assets—finance leases | 900 | Property, plant and equipment | 2,000 | Property, plant and equipment | 1,100 |
| Property, plant and equipment | 1,100 | | | | |
| Operating lease liabilities | 25,150 | Operating lease liabilities | 25,150 | Lease liabilities | 26,000 |
| Finance lease liabilities | 850 | | | | |
| Other liabilities | 1,000 | Other liabilities | 1,850 | Other liabilities | 1,000 |
| | | Disclosure For the period ended December 31, 20X1, right-of-use assets from finance leases of \$900 are included in property, plant and equipment. For the period ended December 31, 20X1, lease liabilities from finance leases of \$850 are included in other liabilities | | | |



Topic 842 – Leases

Presentation

- ▲ Statement of operations
 - Operating leases – present a single lease cost consistent with prior standards
 - Finance leases – include with depreciation/amortization and interest expense
- ▲ Statement of cash flows
 - Operating – payments from operating leases and variable and short-term lease payments not included in lease liability
 - Investing – payments to bring another asset to the condition and location necessary for its intended use
 - Financing – repayment of the principal portion of the finance lease liability



Topic 842 – Leases

Disclosures

Accounting policy

The Company determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Company determines these assets are leased because the Company has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because the Company determines it does not have the right to control and direct the use of the identified asset. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, the Company separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings, apartments, and vehicles. The Company has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease agreement.

SAMPLE



Topic 842 – Leases

Disclosures

SAMPLE

Accounting policy (concluded)

Leases result in the recognition of ROU assets and lease liabilities on the balance sheet. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Company determines lease classification as operating or finance at the lease commencement date. ROU assets for finance leases are included in property and equipment in our balance sheet.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Company uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the secured-debt yields the Company would receive to finance each lease transaction or needed to borrow the amount of the undiscounted future payments over the term of the lease.

The lease term may include options to extend or to terminate the lease that the Company is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Company has elected not to record leases with an initial term of 12 months or less on the balance sheet. Lease expense on such leases is recognized on a straight-line basis over the lease term.



Topic 842 – Leases

Disclosures – Nature of leases

SAMPLE

The Company has entered the following lease arrangements:

▲ Finance Leases

- These leases mainly consist of equipment for the use of operations. One finance lease includes an escalating fee schedule, which range from a 25 to 33 percent increase for specific years. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

▲ Operation Leases

- The Company has two leases for office space that expire in 2027. These leases generally contain renewal options for periods ranging from two years to five years and require the Company to pay all executory costs (property taxes, maintenance and insurance). One operating lease includes an escalating fee schedule, which range from a 25 to 33 percent increase for specific years. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

▲ Short-Term Leases

- The Company has certain leases that are for a period of 12 months or less or contain renewals for periods of 12 months or less. The Company does not include short-term leases within the statements of financial position since it has elected the practical expedient to included these leases within the operation right of use asset and lease liabilities. The Company did not have any short-term leases during the years ending December 31, 2022 and 2021.



Topic 842 – Leases

Disclosures – Lease cost

| | | |
|------------------------------------|----|----------------|
| Finance lease | | |
| Amortization of right-of-use asset | \$ | 58,957 |
| Interest on lease liabilities | | 31,837 |
| Operating lease cost | | <u>80,000</u> |
| Total lease cost | \$ | <u>170,794</u> |



Topic 842 – Leases

Disclosures – Cash flow and other information

| | |
|--|------------|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from finance leases | \$ 31, 837 |
| Financing cash flows from finance leases | 38, 163 |
| Operating cash flows from operating leases | 70,000 |
| Right-of-use assets obtained in exchanged for new finance lease liabilities | 353, 743 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 353,743 |
| Weighted-average remaining lease term | |
| Finance leases | 5.0 years |
| Operating leases | 5.0 years |
| Weighted-average discount rate | |
| Finance leases | 6.0% |
| Operating leases | 9.0% |



Topic 842 – Leases

Disclosures – Future minimum lease payments and reconciliation to the balance sheet

| | Finance Leases | Operating Leases |
|--|-----------------------|-------------------------|
| 2023 | \$ 70,000 | \$ 70,000 |
| 2024 | 80,000 | 80,000 |
| 2025 | 80,000 | 80,000 |
| 2026 | 90,000 | 90,000 |
| 2027 | 90,000 | 90,000 |
| Thereafter | <u>-</u> | <u>-</u> |
| Total future undiscounted lease payments | 410,000 | 410,000 |
| Less present value discount | <u>(94,420)</u> | <u>(94,420)</u> |
| Lease liabilities | \$ 315,580 | \$ 315,580 |



Topic 842 – Leases

Transition Methods

- ▲ Retrospectively to each prior reporting period presented, referred to as the modified retrospective approach
- ▲ Retrospectively at the beginning of the period of adoption, referred to as the additional (and optional) transition method





Provider Relief Funds and Reporting Requirements

Polling question #5



Provider Relief Funding

| | Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received) | Deadline to Use Funds | Reporting Time Period | Applicable Yearend for Uniform Guidance (assuming a year-end of September 30) |
|-----------------|---|--------------------------|---|---|
| Period 1 | April 10, 2020 to June 30, 2020 | June 30, 2021 | July 1, 2021 to September 30, 2021 | 2021 |
| Period 2 | July 1, 2020 to December 31, 2020 | December 31, 2021 | January 1, 2022 to March 31, 2022 | 2022 |
| Period 3 | January 1, 2021 to June 30, 2021 | June 30, 2022 | July 1, 2022 to September 30, 2022 | 2022 |
| Period 4 | July 1, 2021 to December 31, 2021 | December 31, 2022 | January 1, 2023 to March 31, 2023 | 2023 |
| Period 5 | January 1, 2022 to June 30, 2022 | June 30, 2023 | July 1, 2023 to September 30, 2023 | 2023 |



Provider Relief Funding

What we learned from Period 1 reporting audits

- ▲ The importance of maintaining a current inventory of federal grants
- ▲ Early discussions with audit team if the entity is expected to expend more than \$750,000 in the fiscal year
- ▲ Emphasis on controls around grants and reporting
 - Add in a level of review of the inputs specifically for Provider Relief reporting to avoid audit findings
 - Establish policies and procedures for federal compliance



Provider Relief Funding

The information needed for the Schedule of Expenditures of Federal Awards (SEFA)

- ▲ The Catalog of Federal Domestic Assistance (CFDA) now referenced as the Assistance Listing number (AL)
 - If applicable, include pass-through agency
- ▲ Granting agency
- ▲ Grant name
- ▲ Grant number
- ▲ Copy of grant (if applicable)
- ▲ Amount awarded
- ▲ Amount expended, reconciled to the general ledger





Accounting Standards
Update (ASU) 2020-07
*Not-for-Profit Reporting
of Gifts-in-Kind*

Polling question #6



▲ Objective

- Increasing transparency about contributed nonfinancial assets through enhancements to presentation and disclosure

▲ Scope

- Contributions of nonfinancial assets (fixed assets, use of fixed assets, materials and supplies, intangibles and services)

▲ Transition and Effective Date

- Retrospective transition is required
- Effective years beginning after June 15, 2021



ASU 2020-07

For each category of contributed nonfinancial assets, an NFP also shall disclose the following:

- ▶ Qualitative information about whether contributed nonfinancial assets were either monetized 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.
- ▶ 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.



ASU 2020-07

Revenues and gains without donor restrictions:

| | |
|---|---------------------|
| Contributions | \$ 8,640 |
| <u>Contributions of cash and other financial assets</u> | <u>\$ 6,790</u> |
| <u>Contributions of nonfinancial assets</u> | <u>1,850</u> |
| Fees | 5,200 |
| Investment return, net | 6,650 |
| Gain on sale of equipment | 200 |
| Other | <u>150</u> |
| Total revenues and gains without donor restrictions | 20,840 |



Questions?

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