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# 2023 AICPA & CIMA governmental and not-for-profit program Takeaways

January 2024



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# Conference overview

The annual American Institute of Certified Public Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA) Governmental and Not-for-Profit Training Program was held Oct. 18-20, 2023, in Las Vegas, with a focus on accounting, auditing, compliance, and industry issues. The program included remarks from leaders at the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), which provided insight into the evolving accounting and regulatory landscape faced by entities in the public sector.

As in the past, the program offered several distinct learning tracks – state and local government, not-for-profit, and single audit – as well as several presentations that were universal to most participants. The conference’s format included a variety of single topic sessions and expert roundtable discussions.

Program chair, AICPA Not-for-Profit Entities Expert Panel chair, and Crowe partner Pete Ugo kicked off the program with welcoming remarks and an introduction of the keynote speaker, Megan Odell from Magnet Culture, who spoke on employee retention considerations. Odell focused on trends in current employee turnover and future staffing projections as well as elements contributing to turnover and employee retention tactics. She highlighted the state of the current workforce, which includes more choices for employees regarding new job opportunities, a heightened sense of employee confidence to make changes (meaning increased flight risk), and callouts for employers. These callouts included awareness of views of professionalism, turnover preparedness, understanding of retention patterns in organizations (that is, why employees leave), and the need to develop leaders as a key for retention. Odell also discussed implementing strong onboarding tactics, providing growth opportunities, and demonstrating appreciation of efforts with use of feedback from employees, check-ins, and recruiting tactics.

To conclude the program, Ugo and other speakers walked through the key highlights and takeaways from each session.

The 2024 program is tentatively scheduled for Oct. 28-30, 2024, online and on-site, at Caesars Palace in Las Vegas.

We hope that you find this summary useful.

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# State and local government topics

The state and local government (SLG) learning track included a variety of accounting and auditing topics. Highlights included:

## **GASB update**

GASB representatives, including chair Joel Black, highlighted upcoming GASB pronouncements with future implementation dates, as well as items on the GASB technical agenda and research agenda. Black also said that the GASB continues to consider the cost-benefit of GAAP implementation for smaller SLG entities and whether it remains reasonable. These considerations are necessary to ensure costs don't drive entities away from using GAAP presentation when alternatives are available while also being cognizant of resource constraints in the industry.

While separate sessions included details on current pronouncements such GASB Statement 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements"; GASB Statement 96, "Subscription-Based Information Technology Arrangements"; GASB Statement 100, "Accounting Changes and Error Corrections"; and GASB Statement 101, "Compensated Absences," this update session focused on a refresh of recently implemented standards including GASB Statement 91, "Conduit Debt Obligations," and GASB Statement 99, "Omnibus 2022."

Upcoming projects on the GASB technical agenda include:

- The revenue and expense recognition project (which was also detailed in a separate session)
- A reexamination of going concern guidance that initially was outlined in GASB Statement 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards"
- Infrastructure assets
- Certain risk disclosures
- Classification of nonfinancial assets
- Subsequent events

Pre-agenda research included the GAAP structure and the consideration of the effectiveness of the current dual structure for level A and level B GAAP. Finally, presenters discussed post-implementation review projects, which are focused on multiple topics including pensions, other post-employment benefits, fair value measurements, fiduciary activities, and leases. The post-implementation review process is an evaluation of whether GASB standards are achieving their objectives, including whether they provide financial statement users with relevant information in ways that justify the cost. The process includes soliciting stakeholder input and conducting other research to evaluate the issued standards and whether they present areas for improvement the GASB should address.

The certain risk disclosures project was scheduled to be completed by the end of 2023 with the issuance of a new GASB statement. This project provides additional disclosure requirements in the notes to the financial statements regarding risks and uncertainties as they pertain to concentrations and constraints and how these two items might affect an entity's resources and ability to provide services. The classification of nonfinancial assets project is currently in exposure draft status, and comments were due to the GASB by Jan. 5, 2024. The project proposes changes in the disclosures of certain capital assets within the notes to the financial statements that affect items such as capital assets held for sale, intangible assets, lease assets, and subscription assets from subscription-based information technology arrangements.

**Crowe takeaway:** In January 2024, Crowe published “[GASB Updates Disclosure Requirements for Certain Risks.](#)”

In October 2023, Crowe published “[GASB Reconsiders Classification of Certain Capital Assets.](#)”

For updates on current GASB projects, please visit the Crowe [Take Into Account](#) accounting and financial reporting knowledge hub.

### **Reporting entity considerations**

AICPA State and Local Government Expert Panel Chair and Crowe partner Tony Boras and other industry specialists highlighted the requirements of GASB Statement 14, “The Financial Reporting Entity,” and other subsequently issued statements that outline reporting entity guidance. The presenters described the financial reporting entity and delved into the numerous criteria that determine whether legally separate entities should be included and how they should be presented. These criteria include updates from recently issued GASB Implementation Guides as well as the provisions of GASB Statement 97, “Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,” that are currently effective and GASB Statement 100, “Accounting Changes and Error Corrections,” which provides changes to presentation and disclosure requirements when there are changes in the reporting entity.

The presenters defined the reporting entity, including component units, fiduciary component units, special purpose governments, and majority equity interests. They detailed the process of evaluating potential component units for inclusion, focusing on the primary government’s financial accountability of these separate legal entities. The presenters emphasized being aware of the complexity in the financial accountability assessments, with reevaluations needed on an annual basis. In addition, they recommended use of the GASB codification for this topic as opposed to the individual GASB statements, as the codification has all the guidance in a single location, which makes the research easier.

### **GASB Statement 87 implementation debrief**

Industry experts discussed some lessons learned from the implementation of GASB Statement 87, “Leases,” including accounting requirement reminders and implementation hurdles observed in practice.

The application of GASB Statement 87 doesn’t stop with year one implementation. With most governments now in year two of the statement’s applicability, a continual focus on contract population is required, using existing contract populations and reevaluation of contracts as needed, in addition to new contracts. The presenters emphasized that governments should not “set it and forget it” when it comes to existing leases. They should conduct a periodic assessment of whether the lease terms and assumptions used in the initial lease measurement are still accurate and applicable. This includes a process to reevaluate contracts for modifications, including procedures for modification assessment and proper updates to accounting considerations. Specifically, if the modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease and the increase in lease payments for the additional lease asset does not appear to be unreasonable, the government should account for the amendment as a separate lease. If either of these criteria is not met, then the government should remeasure the lease liability.

Additionally, the same contract population used for GASB Statement 87 should be reviewed to determine the impact, if any, of the current year implementation of GASB Statements 94 and 96.

### **GASB revenue and expense recognition project update**

Panelists from the GASB, Boras, and Crowe senior manager and former GASB Practice Fellow Hollis Hanson-Pollock provided an update on the status of the GASB revenue and expense recognition project.

They presented an overview of why the project was undertaken, which was to improve and expand existing revenue and expense guidance due to lack of clarity in areas and complexity in other areas. Key aspects of the project include the consideration of a performance obligation approach to

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recognition, similar to the framework in FASB Accounting Standards Codification (ASC) Topic 606, “Revenues From Contracts With Customers.” The GASB project’s proposed guidance would include similar objectives to ASC 606 but instead classify items as category A (revenues and expenses with performance obligations) or category B (revenues and expenses without performance obligations). The guidance proposes that in order to categorize a transaction, the government first would identify the binding arrangement and the parties involved in that binding arrangement. The government then would determine if there are identifiable rights and obligations that are substantive in the binding arrangement and if those rights and obligations are interdependent. If the transaction consists of substantive rights and obligations that are interdependent, then it is a category A transaction. If either of these two characteristics is not present, then the transaction is a category B transaction.

The presenters also commented on how the proposals in this project would affect grant recognition. Feedback received by the GASB has indicated that government financial statement preparers and auditors have difficulty applying current nonexchange revenue guidance pertaining to grants, specifically when it comes to differentiating between expenditure-driven grants (that is, those with eligibility requirements) and grants with purpose restrictions. This project originally proposed that grants subject to eligibility requirements would be classified as category A transactions and grants subject only to purpose restrictions would be classified as category B transactions. However, stakeholder feedback disagreed with treating eligibility requirements as performance obligations. The board redeliberated and preliminarily decided that grants generally would be classified as category B transactions with certain exceptions for research grants.

Additional project topics that have yet to be deliberated include measurement and the effects of fair value, types of consideration, and allocation methodology. An exposure draft is tentatively scheduled to be issued in 2025.

**Crowe takeaway:** Crowe recommends entities monitor the progress of the GASB’s deliberations on this project and provide responses to future documents released for public comment to ensure any concerns are addressed during the GASB’s standard creation process.

### **GASB financial reporting model update**

Industry experts and GASB staff provided financial reporting model reexamination project status and discussed the GASB’s tentative decisions to date, including significant changes related to the governmental funds component of the project.

During the redeliberation process this past summer, the board tentatively decided to remove the proposed governmental funds recognition and presentation changes from the scope of the project. For the proposed changes to provide more meaningful information, the project would need to include exceptions for certain transactions. The board believes the result of the project as proposed would lack a conceptually consistent foundation, which was a primary objective of project. The GASB still sees opportunities to improve items in the current reporting model such as the availability periods in the current financial resources measurement focus and plans to explore these in the near term. The related conceptual framework for recognition project also was removed from the GASB technical agenda in August 2023.

The remaining aspects of the project are on track for completion and include the following proposals:

- Management’s discussion and analysis enhancements such as moving budgetary analysis to the relevant section of required supplementary information as well as emphasizing the reduction of boilerplate language and unnecessary duplication
- Updates to the presentation of operating and nonoperating revenues and expenses in proprietary funds with enhanced definitions along with new subtotals for noncapital subsidies, which is a new section based on a new definition of nonoperating items
- Limitation of the presentation of major component unit financial statement information either to the reporting entity’s statement of net position and activities or to combining statements after the reporting entity’s fund financial statements

- Presentation of unusual or infrequent items (replacing extraordinary and special items) individually as the last presented flow of resources prior to the net change in resource flows in the governmentwide, governmental funds, and proprietary funds statements of resource flows
- Presentation of budgetary comparison information as required supplementary information only as opposed to including it as part of the basic financial statements

A final GASB statement is expected in spring 2024.

**Conference takeaway:** GASB staff members reminded attendees that in addition to potential changes to the availability periods in the current financial resources measurement focus, a significant change in the governmental funds reporting model is a topic that still could develop into a future project.

### **GASB Statements 100 and 101**

Black and other industry experts presented the requirements of GASB Statement 100 and GASB Statement 101.

GASB 100 was intended to clarify the guidance found in GASB Statement 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” and expand the applicability of the change in reporting entity concept. Black said that the statement was the result of previous guidance on accounting changes and error corrections that was based on several different sources of accounting standards and that guidance had not been reviewed by GASB for decades. Additionally, practice issues had been noted in the following areas:

- Changes in accounting principles versus error correction
- Changes in accounting principles versus changes in accounting estimates
- Inclusion of required note disclosures

The GASB also was receiving a significant volume of questions regarding how entities should account for certain reporting entity related changes as well as how to address reporting changes in the management’s discussion and analysis.

GASB 101 was the result of a GASB post-implementation review of the existing compensated absences literature, which concluded that there were opportunities for improvement and additional guidance for certain types of leave that are now present in industry. Black noted that compensated absences can be complex since there needs to be a robust assessment of estimate determinations. A government’s historical data and reports could be used to aid in certain assumption setting, and the process of assessment can be started now as opposed to in the year of implementation.

**Crowe takeaway:** In August 2022, Crowe published “[GASB Clarifies Accounting for Compensated Absences.](#)”

### **Governmental financial statement accounting issues**

SLG industry experts presented a question-and-answer session on a variety of complex accounting and financial reporting topics. The session included discussions in topics such as ethics and independence, the financial reporting entity, and certain financial statement reporting items related to capital assets. Highlights include:

- **Independence considerations for financial preparation services.** Auditees need to possess the skills, knowledge, and experience to properly supervise and accept the results of nonaudit services provided by an auditor. Additionally, this concept of skills, knowledge, and experience applies when assisting clients with adoption of new accounting standards.
- **Component unit reporting topics.** Component unit cash flow presentations may be required in the reporting entity’s financial statements if a component unit does not issue separate financial statements. In addition, reporting a component unit in multiple financial entities is prohibited,

and including component units as major funds when the definitions of a major fund are met is required.

- **Capital asset capitalization thresholds.** Items that are below a dollar threshold individually but that are significant in the aggregate may require capitalization. An example would be a group of student computers purchased by a school district that individually are below the district's capitalization threshold but in aggregate are above the threshold and are placed into service at the same time with the same useful life. Presenters reminded attendees that useful life determinations are based on available information on the government's plans for the assets as opposed to a specific schedule of generally accepted useful lives.
- **Grant revenue reporting.** Presenters noted that purpose restrictions and eligibility requirements are two separate definitions and affect revenue recognition in different manners.
- **Pension and other post-employment benefit considerations.** Actuarial assumptions need to be reviewed annually by management and auditors for appropriateness. Cost projections by actuaries also should be reviewed to ensure proper consideration of employer costs versus those that are expected to be paid by inactive employees.

Presenters recommended the GASB Governmental Accounting Research System (GARS) as a reference because it includes all applicable guidance free of charge. In addition, they recommended the GASB implementation guides as strong sources of information, keeping in mind that these guides are considered category B GAAP guidance.

**Conference takeaway:** The GARS can be accessed directly on the GASB website by navigating to [gars.gasb.org](https://gars.gasb.org).

### **GASB Statements 94 and 96**

GASB staff and industry experts discussed the accounting requirements of public-public partnerships, public-private partnerships, and subscription-based IT arrangements as defined in GASB Statements 94 and 96.

GASB 94 was issued to fill a gap left by GASB Statement 60, "Accounting and Financial Reporting for Service Concession Arrangements," which did not include as many transactions in its guidance as the board originally intended. GASB 94 (which supersedes GASB 60) also provides guidance for arrangements that do not fit into the reporting model of GASB 87. The GASB reminded attendees that providing public services in the arrangement was a critical component of the GASB 94 guidance.

GASB staff explained that all subscription-based IT arrangements as described in GASB 96 meet the definition of a lease, but GASB 96 also includes guidance for implementation costs, which is an added component compared to the GASB 87 lease guidance. This guidance is similar to the implementation cost guidance found in GASB Statement 51, "Accounting and Financial Reporting for Intangible Assets." Disclosures in the summary of the significant accounting policies should be updated to describe the government's subscription-based IT arrangements policy, and new footnotes or modifications to existing notes for capital assets, long-term debt, and commitments are required.

**Crowe takeaway:** In April 2023, Crowe presented a webinar titled "[Implementing GASB 96: Navigating Subscription-Based Information Technology Arrangements \(SBITAs\)](#)."

### **GASB impacts on tribal governments**

Industry experts discussed the application of recent GASB pronouncements on tribal governments and their related businesses, as well as the impact of federal grant programs provided to tribes.

Although tribes have the same GAAP reporting requirements as other SLG entities, GASB 96 was noted to have more of an impact than other recently issued pronouncements due to the types of arrangements and business transactions tribes tend to enter into. Tribes should specifically note how SBITAs can be present in a tribe's casinos and clinical operations. This can include subscriptions that are used for:



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- Program-specific or department-specific reporting
  - Tribal clinic operations including patient information and electronic health records
  - Tribal enrollment in certain governmental and educational programs
  - Casino operations such as inventory balances, point-of-sales systems, player tracking, and other gaming aspects

Additionally, the panel recommended continual monitoring of the GASB financial reporting model project with its impacts on how items are reported in the financial statements and the effects those potential changes will have on debt covenants.

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# Not-for-profit topics

The not-for-profit (NFP) learning track included a variety of accounting and auditing topics.

## Legal and tax update

Industry experts focused on legal and tax topics for NFPs, which included a discussion on COVID-19 governmental relief programs, communications with the IRS, and recent court decisions and political topics and their impacts on NFPs.

The panelists discussed the recent IRS suspension of processing new employee retention credit (ERC) claims through the end of 2023 and said the IRS is expected to increase auditing and enforcement actions on ERC claims. This served as a reminder to attendees of the need for documentation retention and ensuring only legitimate claims are filed so as to not expose the NFP to undue IRS action. Panelists also mentioned that the IRS is still using data metrics in Form 990s to determine entities to audit, so it is important to make sure information in these filings is correct. Finally, panelists encouraged attendees to understand local and national political activity as it relates to their program missions to see how certain issues on the national and local scene could affect operations.

**Crowe takeaway:** In June 2021, Crowe published “3 Things You Don’t Want to Miss With the ERC.”

## Communications within NFPs

Ugo and other panelists discussed the various types of reporting within NFPs (including financial reporting, fundraising, and program operations) and how these distinct reporting paths can be aligned for more beneficial collaboration within these entities.

The panelists highlighted the need for integrated data systems to house a single source of information for accounting departments and development departments within NFPs. Organizations should consider developing a gift acceptance policy or a gift acceptance task force to help to maintain donor relations and consistent practices for accounting and use of donor funds.

**Conference takeaway:** Year-round communication and technology are key to sharing useful information among departments.

## FASB update

FASB Assistant Director Jeff Mechanick highlighted the impacts of recent standards such as ASC 326, “Financial Instruments – Credit Losses” as well as items on the FASB technical agenda and research agenda.

While the FASB considers the current environment to be a period of calm in the NFP space, attendees were reminded that topics like current expected credit losses (CECL) still affect NFPs and their requirements still require attention for accurate accounting and financial reporting. Other projects include digital assets (with a final ASU issued in December 2023) and software development costs that might have an impact on NFPs.

The FASB continues its post-implementation review of CECL, noting that feedback from smaller institutions in 2022 highlighted concerns about the resources needed to implement CECL and data requirements. FASB staff at the conference added that the CECL standard was intentionally designed to be flexible and scalable, with no requirement to use an econometric model if the data derived from a model would not yield relevant results.

The project on accounting for crypto assets is a major focus of the FASB, as investors want an accounting outcome that reflects the fair value of these assets; furthermore, investors desire more disclosures regarding the types of crypto assets held. On Dec. 13, 2023, in response to these investor concerns, the FASB issued ASU 2023-08, “Intangibles – Goodwill and Other – Crypto Assets (Subtopic

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350-60): Accounting for and Disclosure of Crypto Assets.” The standard identifies characteristics of crypto assets that are in the scope of the guidance while noting certain crypto assets such as non-fungible tokens (NFTs), utility tokens that provide the holder thereof with rights to goods or services, or stablecoins that meet the definition of a financial instrument are excluded. Crypto assets in the scope of the final standard must be measured at fair value at each reporting period, with changes in fair value recorded through net income. Required disclosures include the number of units held and any restrictions on disposal. A reconciliation of activity from beginning to end of the reporting period for crypto assets also is required, although a tabular format is optional. The standard is effective for reporting periods beginning after Dec. 15, 2024, using a modified retrospective approach with early adoption permitted.

The project on software costs aims to improve the accounting for costs of both internally developed and acquired software. FASB deliberations on this topic indicated the current model does not reflect modern software development practices, and stakeholders have provided diverse feedback through mechanisms such as the agenda consultation. The FASB is considering a single model for software capitalization.

Finally, the FASB has planned a follow-up agenda consultation in 2024 where NFPs can weigh in on relevant issues for FASB consideration in its rulemaking processes.

**Conference takeaway:** FASB staff members in attendance used the term “period of calm” as it pertains to new pronouncements for NFPs.

**Crowe takeaway:** Crowe recommends that entities continually monitor FASB meetings and agenda projects for changes to current guidance and other industry topics that might yield guidance changes based on the current economic environment and practice issues.

In December 2023, Crowe published “[CECL Standard Considerations for Nonbanking Companies](#)” and “[FASB Issues Final Fair Value Guidance for Crypto Assets](#).”

For updates on current FASB projects, please visit our [Take Into Account](#) accounting and financial reporting knowledge hub.

### **NFP industry update**

Industry experts held a panel discussion on industry, regulatory, and economic developments for NFPs. They also discussed peer review issues, ethics interpretation issues, and accounting concerns.

The panel highlighted how inflation is gradually declining to more manageable levels, with projections that the Federal Reserve is nearing the end of its monetary tightening cycle. Investment returns were positive in recent periods, with recoveries noted in financial statement results. Endowment spending trends have declined as noted in historical data, with erosion of spending each year since the adoption of the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) due to market trends giving endowments caution. However, endowment spending was keeping pace with rising costs noted in the overall industry (that is, cost of services). Giving trends also declined from prior years.

Guidance topics included AICPA updates on ethics interpretations that provide clarity on existing guidance as well as new frameworks such as noncompliance with laws and regulations (NOCLAR). Panelists also noted development of updates to Government Auditing Standards (the Yellow Book); an exposure draft currently in review includes proposed updates that should be in effect for next year’s audit cycle. Attendees were reminded to obtain continual professional education (CPE) on the new Yellow Book when it is released.

In addition, panelists discussed changes in the Uniform Guidance, which include proposed revisions released in the fall of 2023 that are part of the normal five-year revision cycle. The proposals include raising the single audit threshold up to \$1 million as well as increasing the de minimis indirect cost rate

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from 10% to 15%. Comments to the proposed changes were due to the Office of Management and Budget no later than Dec. 4, 2023.

Finally, panelists reminded attendees about the 2023 AICPA NFP Audit and Accounting Guide that is now available with updates through Statement on Auditing Standards (SAS) 145 and ASU 2017-04, as well as ethic interpretation updates and new NOCLAR guidance.

### **NFP worker issues**

Industry experts discussed evaluating factors considered for worker classification as employee versus independent contractor, taxation impacts on fringe benefits, and trends in tax regulator activity including recommendations for best practices.

They noted that federal and state regulators are looking at worker classifications for NFPs, which include registrations for payroll and sales tax purposes, as well as charitable solicitations, since tax-related questions are increasing related to this topic. Panelists recommended entities adopt an accountable reimbursement plan for employee benefits to help mitigate risks in employee classification and taxation of benefits.

### **NFP board governance and state's attorney investigations**

Legal experts discussed the process for a state's attorney investigation of a variety of accounting and other issues affecting NFPs.

Panelists discussed how states approach legal issues and provided guidance on action NFPs should take when contacted during an investigation, as well as when they should engage legal counsel. NFPs should carefully consider what actions might jeopardize availability of privileges and engage legal counsel as soon as possible. NFPs also should work with clients and their counsel to ensure proper governing practices are in place to avoid triggering investigations.

### **UBIT and unrelated business tax updates**

Tax experts highlighted NFP unrelated business income tax (UBIT) topics such as corporate sponsorships, advertising, cost allocations, and reporting on Form 990-T.

Panelists gave a history of UBIT and noted how it can be present but not obvious in an NFP's operations. They also discussed changes in regulations and ramifications of new items when it comes to UBIT calculations. Specific issues related to an NFP's operations that could trigger UBIT include:

- Partnership income
- Rental income
- Dual-use property
- Cell towers
- Sports tournaments
- Casino nights
- Coffee shops located on an NFP's property but not open to the public

Changes to Form 990-T, including condensing Form 990-T into a summary format, were deemed important to review and understand in order to accurately report UBIT. Schedule A of Form 990-T was expanded to include items that previously were reported directly on the Form 990-T. Panelists reminded attendees that information on prior year forms might be located in direct parts of the new filings and that additional time might be needed to gather the data and accurately prepare the forms. They also provided reminders regarding COVID-19 funding opportunities and how those might also give rise to UBIT.

### **NFP accounting and reporting issues**

Industry panelists discussed unique accounting issues facing NFPs, including situations requiring increased technical research and where authoritative guidance indicates a need for professional judgment. Advisers might be needed to assist with certain aspects of these issues.

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This session highlighted unique situations that NFPs can encounter in applying existing accounting and reporting guidance, including NFP consolidation rules (considering items like ownership, funders and sponsors, voting rights, contract control, and economic interest). Panelists noted that documentation of analysis and decisions is key. They highlighted mergers and acquisitions of other NFPs and for-profit entities, noting mergers are rare and require due care to ensure the correct accounting model is used, because items like valuations can affect transaction timing. They added that split interest agreements have multiple types of trusts requiring evaluation of the correct accounting and reporting, regulatory reporting, and tax considerations. Lease accounting remains a focus for many NFPs with entities needing to stay current on activity as it's not a "set it and forget it" type of accounting standard. Lease modifications also can occur, and the accounting guidance needs to be applied carefully and consistently. Gifts in kind need to be thoroughly assessed to recognize and account for specific frequently missed items, such as contributed ad and radio time, facility use, free rent, personnel costs, below-market interest rates on financial instruments, and more. Other topics discussed included agency, fiscal sponsorship, and variance power; joint costs; related-party disclosures; going concern; intermediate and operating measures; contributions and the definition of unconditional versus conditional; revenue recognition; and digital assets.

### **Donor advised funds**

Industry experts discussed certain legislative proposals affecting donor advised funds as well as projected changes and strategies to compensate for legal changes.

The panelists provided a history of donor advised funds and their formation within NFPs as well as some recent case studies on their operations. They discussed other impacts in the legal space, including an example of litigation that affected how certain donor advised funds were operated. NFPs were reminded how certain donor advised funds can affect how the entities use technology as well as technology's related costs and administrative costs. Donors to NFPs and their donor advised funds also might observe cost increases to protect donor anonymity, which could lead to lower amounts provided to NFPs and their programs.

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# Single audit topics

The single audit learning track included a number of sessions on pressing accounting and auditing issues affecting both SLGs and NFPs as well as industry compliance with regulatory requirements.

## **Single audit and 2023 Compliance Supplement updates**

Industry experts described updates to the 2023 Compliance Supplement, highlighting unique attributes of higher risk programs and how the Compliance Supplement is to be used for single audits.

Attendees received information on new funding sources, including the *Infrastructure and Jobs Act*. Panelists also discussed new data collection form (DCF) submission requirements, with feedback on the new system use and some workarounds regarding perceived system shortfalls (such as spreadsheet pull-downs and snapshots). Finally, they noted that proposed Uniform Guidance changes were released in October, including a single audit threshold increase to \$1 million but no proposed change to the current type A program threshold of \$750,000. No official timing exists on the release of final guidance.

The presentations included overviews of the Compliance Supplement and how auditors should be using all sections. Attendees were reminded to use the correct Compliance Supplement period and how program requirements can change from year to year. Finally, changes due to new programs identified in the Compliance Supplement were discussed, as was *Build America Buy America Act* guidance that is now included as a test for the procurement, suspension, and debarment attributes. The program changes include various updates to guidance for more than 100 programs in the Compliance Supplement as well as changes to clusters of programs (new clusters and decoupling of programs that are no longer considered to be clusters). Within specific programs, changes include compliance requirements now to be considered for audit as well as specific programmatic changes. Certain programs were added to the list of programs identified as “higher risk.”

**Conference takeaway:** Auditees also can benefit by looking at the auditor’s playbook that the Compliance Supplement represents.

**Crowe takeaway:** Crowe recommends that entities carefully review the changes in the Compliance Supplement for audit impacts, including determinations of clusters, programs that might now be higher risk and subject to audit, and decoupling of clusters that can affect major program determinations.

## **Single audit reminders, including the major program determination process, internal control over compliance, sampling, the findings life cycle, and efficiency suggestions**

A series of industry expert panels covered multiple refreshers on the execution of single audits.

The Schedule of Expenditures of Federal Awards (SEFA) is essential for making sure major program determinations are accurate. Panelists reminded auditors and auditees about the differences between preliminary SEFAs and final SEFAs as well as how updates are required for preliminary SEFAs. Auditors need to be careful if programs on a final SEFA now fall into Type A categorization when they might not have per the preliminary SEFA.

Panelists discussed the internal control over compliance testing requirements per the Uniform Guidance, as well as common mistakes and best practices with practical applications. They advised attendees that if internal controls were not documented, they cannot be considered to be in place and operating effectively. A low level of control risk is required to be obtained by the auditors. If controls are tested and are deemed to be not effective, a finding must be reported. Inquiry alone is not enough to achieve a low level of control risk.

A multipart session on single audit sampling included discussion of key concepts underlying a proper sample selection, sample size calculations, and situations where sampling might not be appropriate.

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Discussion also included how to determine which compliance requirement is tested and what controls need to be sampled, as well as reminders on determination of population completeness and sample sizes based on risk. Exceptions need to be assessed for more testing or reporting. Various AICPA audit guides are available to assist in determinations for minimum sample sizes.

Panelists discussed important facets of the finding life cycle, as well as the reporting of findings in the single audit report and DCF and the importance of management's corrective action plan. Complex grant programs often can have findings, especially with the large increase in entities subject to the single audit due to increased funding related to COVID-19. Resource constraints at NFPs and SLGs are also causing increases in findings as entities can struggle with understanding program requirements and monitoring performance. The panelists discussed how the required elements of a finding are defined, with federal desk reviews noting issues on finding language in auditor reports. Auditors need to make sure that reported finding language is consistent with the documentation in the audit file. Additionally, auditees need to understand the finding life cycle so they can navigate the process if a finding is reported, including response and remediation.

Finally, one panel discussion was dedicated to recognizing the link between audit planning and audit efficiency and provided practical tips for engagement management. The panelist noted that auditors need to remember that single audits can be efficient but must be effective. Planning efforts are the key, including provided-by-client (PBC) considerations such as a clearly defined PBC listing and understanding of the major program requirements. Auditees have a role to make sure clear documentation is available, which can make audits more efficient.

### **Federal quality control reviews**

Industry panelists discussed federal quality control reviews and the most common quality control findings identified by federal agencies as well as best practices and improvement opportunities and an overview of the federal quality control review process.

Federal oversight agencies can audit the auditors, similar to an internal inspection or peer review. Panelists advised attendees to be prepared, confident, and cooperative when these reviews occur. Quality considerations in engagements are critical to help head off issues, so when federal quality control reviews occur, auditors can be prepared to respond with support to address any concerns.

### **Program-specific audits**

Certain entities can meet compliance requirements through the performance of a program-specific audit. Industry panelists discussed when a program-specific audit can be elected in lieu of a single audit, as well as the requirements of such an engagement.

Program-specific audits can be elected for entities when:

- Entities have awards under only one program
- Audit of an entity's financial statements is not required (noting that single audits include an audit of an entity's financial statements and federal program compliance)

Historically, very few audits have been program-specific, but that trend has been increasing, including for those with Coronavirus State and Local Fiscal Recovery Funds programs.

Aside from the basic requirements of a program-specific audit and when it can be used to meet compliance requirements set by federal entities, attendees were reminded that due diligence is needed to make sure an auditee qualifies for a program-specific audit and how management of the auditee ultimately is responsible for engaging the auditors to meet the auditee's compliance engagement needs. Auditors should be familiar with federal agency program-specific audit guides before accepting an engagement.

### **Updates to the data collection form**

This session focused on the transition of the Federal Audit Clearinghouse from the U.S. Census Bureau to the General Services Administration (GSA), including the new requirements for submission of DCFs.

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The GSA calls the current DCF submission system an MVP (minimum viable product) and says it is a starting point for continual improvement. Transparency on the system ramp-up is critical, with frequently asked questions being posted and progress reports displayed on how current issues with submissions are being addressed. Industry experts recommended entities start the DCF filing process early and reminded attendees that the 30-day requirement is waived for Jan. 1, 2023, through Sept. 30, 2023, year-ends, but the nine-month requirement is still applicable.

**Crowe takeaway:** The current DCF submission system does not allow for outputs of submissions that many auditors and auditees have used for review processes. This includes printouts of draft submissions as well as notifications regarding the submission, completion, and acceptance of filings.

Crowe recommends that entities plan for additional time to complete DCF filings to ensure timely submission ahead of the nine-month requirement, which has not been waived by the Office of Management and Budget.



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# Other topics

## Going concern considerations

Crowe partner Jennifer Richards and other industry panelists discussed the financial reporting and auditing requirements for a going concern assessment as well as the critical information, such as management's plans and forecasts, used in the assessment.

The concept of a going concern assessment is not limited to for-profit organizations. The accounting and auditing requirements also apply to governments and NFPs. Assessing whether substantial doubt exists for the entity to continue as a going concern is management's responsibility and should not be evaluated only during periods of economic challenges and performance issues or as a year-end exercise as part of the audit process. Rather, the assessment is an opportunity for management to evaluate key performance indicators on a regular basis to aid in the budgeting process and monitoring. This should be incorporated into the standard operations of an entity.

Certain going concern analysis outcomes include auditor report modifications and additional financial statement disclosures. Auditor reports can no longer be held for going concern situations to be resolved due to recent changes in the going concern model guidance. Entities need to be able to support assertions in the going concern analysis, recognizing the differences between how offers and agreements affect the analysis. Financial projections should be anchored with documentation, recognizing that reliance purely on past performance might not always be accurate. Applying the guidance in ASC 205-40, "Going Concern," or GASB 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards," is not always an easy process. Similar to reporting entities, auditors should apply professional skepticism and note that past performance is not always indicative of future results.

For both entities and auditors, financing arrangements and liquidity considerations are critical to understand, as are internal controls and applicable regulatory items that affect operations (for example, UPMIFA and other legislative priorities that impose program requirements).

## Auditing Standards Board update

Industry experts discussed the current activities of the Auditing Standards Board (ASB) of the AICPA, including the recently released suite of standards affecting audit procedures and reporting practices.

Recent updates that have an impact on auditors include conceptual updates and documentation requirements for key audit components such as risk assessments, incorporation of quality standards, and documentation of group audits. Additional updates include terminology changes with certain items in effect for 2023. Other upcoming ASB projects relate to fraud and sustainability considerations. Panelists reminded attendees of the resources available on the AICPA website, including practice aids, that can be used for auditor assistance.

## SAS 145 and audit risk assessment considerations

Industry experts discussed SAS No. 145, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement," which includes changes in requirements for auditors as part of their risk assessment documentation.

The panelists discussed the basic premises of the standard along with practical considerations for risk assessment methodologies. SAS 145 has new risk requirements for considering inherent risk separately from control risk as well as maximum risk considerations when controls are not tested for operating effectiveness. The standard also includes significant risk definitions and points out the need for a "stand-back" risk assessment, which might be a new concept for certain practitioners.

**Conference takeaway:** A "stand-back" risk assessment is already performed in audit engagements of public companies (and has been for several years). The AICPA has recently adopted this provision for entities under audit within its guidance.

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### **Inflation Reduction Act funding**

Tax professionals discussed the green energy provisions of the *Inflation Reduction Act*, including qualifying projects for government and not-for-profit entities, tax credit enhancements, and IRS provisions and regulations.

Two major opportunities for SLG and NFP entities include investment tax credits and production tax credits. The *Inflation Reduction Act* has a 10-year life span of incentives that could be worth up to \$1 trillion according to some estimates (currently the programs are funded for \$370 billion). These are not considered grants. Tax-exempt entities can receive these benefits as can governments via the direct pay option, which is also known as elective pay. Entities can file Form 990-T and can claim only one type but not both. The credits require registration of projects that can qualify for the tax credits. Registration must occur before the Form 990-T is filed. Additionally, grant funding previously received can limit funding from the tax credits, but this funding doesn't disqualify entities from the tax credit application process.

**Crowe takeaway:** In August 2023, Crowe published "[EOs Must Register for Direct Payments of Energy Credits.](#)"

Crowe recommends entities contact their external auditor to discuss the revenue recognition accounting considerations of these programs, as delineated in ASC 958-605 or GASB Statement 33.

### **Federal grants 101**

This informational session was a discussion on how to locate grants available through the federal government, including guidance on applications, Uniform Guidance considerations, and introductions to grants management and procedures.

The session informed attendees about how to search for funding opportunities on grants.gov, and it reminded attendees of the requirements for registering entities on SAM.gov as well as for registering for certain programs that must be completed before applying for grant funding.

**Crowe takeaway:** Crowe recommends entities contact their external auditor to discuss the auditing requirement of these federal fundings sources, as entities that have never been subject to the single audit requirements might now be subject upon execution and expenditure of these funds.

### **Mississippi welfare fraud**

Representatives from the state of Mississippi presented an overview of a 2020 scandal involving misappropriation of federal grant funds at the Mississippi Department of Human Services over a multiyear period that also involved several NFP entities.

The case study covered the misappropriation of federal Temporary Assistance for Needy Family (TANF) funds by executives of the Mississippi Department of Human Services (MDHS) over a three-year period. The MDHS used two NFPs that were intended to serve in a reorganization of the TANF program in Mississippi. The NFPs in turn misappropriated the funding and colluded with executives from MDHS to hide the fraud. Auditors from the state uncovered the fraud over several months after a tip from a whistleblower, resulting in multiple guilty pleas from participants and others still facing litigation. The case study emphasized the need for professional skepticism in audits, how collusion can conceal fraud, and the need for subrecipient monitoring for grant programs.

### **Digital assets**

Crowe partner Sean Prince and other industry specialists introduced crypto assets and blockchain technology and led a discussion on related current accounting and tax developments.

The panel discussed how certain entities could use NFTs, with revenue flows from fundraising as a possibility (that is, an NFP creates an NFT, with resale in the market generating cash flow). Digital assets could also be accepted as a form of consideration in certain financial transactions. Crypto assets

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require caution as well as policy considerations and contemplation of an entity's mission versus use of digital assets, due to the volatility of these assets and the exposure to loss they can present. Environmental, social, and governance considerations of digital assets also might come into play when considering their use.

Valid use cases exist for digital assets for SLGs and NFPs, but they also require consideration of volatility and risks that can be present, including market risks, operational risks, compliance risks, reputational risks, and human error. Internal controls over financial reporting of digital assets also are required.

**Crowe takeaway:** In December 2023, Crowe published "[FASB Issues Final Fair Value Guidance for Crypto Assets](#)."

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## Learn more

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