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ACCOUNTANTS AND ADVISORS

Nonprofit Notes

Accounting & Auditing Update for Not-for-Profit Entities

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The not-for-profit (NFP) community is still experiencing a period of relative stability when it comes to new accounting and auditing standards. Even so, several recent standards and updates have been issued and are taking effect. While not intended as a comprehensive guide, this article highlights key takeaways relevant to NFPs.

Overview of the Changes to the Uniform Guidance

For those NFPs that previously expended more than $750,000 of federal funds and are subject to the various requirements of the Uniform Guidance, there are some significant changes in effect for those awards issued on or after October 1, 2024. Several of these changes are as follows:

- Equipment threshold: increased from $5,000 to $10,000.
- Modified total direct costs subawards threshold: increased from $25,000 to $50,000.
- Supplies threshold: increased from $5,000 to $10,000.
- Requirements for establishment and maintenance of internal controls of federal awards: enhanced for both recipients and subrecipients. As part of the internal control maintenance, NFPs must ensure that personally identifiable information is being safeguarded.
- De minimis indirect cost rate: raised from 10% provision to 15%.
- Single audit and major program threshold: raised from $750,000 to $1,000,000 for those federal awards expended that are equal to or exceed $1,000,000 but are less than or equal to $34,000,000.

New Jersey Treasury Changes Affecting Grant Recipients

The New Jersey Department of the Treasury has announced changes under New Jersey Circular 25-12-OMB (the Circular) that directly affect recipients of state grant funding. Changes include:

- The federal threshold discussed above was adopted under the Circular.
- The Circular established revised responsibilities for state cognizant agencies and allows alternative audit options for certain grant recipients.
- NFPs must continue to file detailed grant expenditure schedules and meet the nine-month audit report deadline after the fiscal year-end.
- For those recipients that expend less than $1,000,000, but more than $350,000 in federal or New Jersey funds, there are two options available: (1) the financial statement audit may be performed in accordance with *Government Auditing Standards* or (2) the auditor may perform a program-specific audit.

Simplified Credit Loss Standard for Private Companies and Certain NFPs

The Private Company Council (PCC) collaborated with the Financial Accounting Standards Board (FASB) on Accounting Standards Update (ASU) No. 2025-05, Measurement of Credit Losses for Accounts Receivable and Contract Assets. This standard becomes effective for fiscal years beginning after December 15, 2025, with early adoption permitted. The intention of this standard is to provide a simple way to value accounts receivable and contract assets based on feedback received from the Current Expected Credit Losses standard (ASU 2016-13), which became effective for NFPs without public debt for fiscal years beginning after December 15, 2022. The summary of changes is as follows:

- **For all entities:** Practical expedient for current conditions. Allows an entity to assume that current economic conditions at the balance sheet date will persist throughout the life of the asset when making a reasonable and supportable forecast, thereby removing the need for a detailed forecast of future economic conditions.

- **For private companies and certain NFPs:** Accounting policy election for subsequent collections, which permits these types of entities to consider subsequent collections received after the balance sheet date when estimating expected credit losses for current accounts receivable and contract assets.

Quality Management (QM) Standards

These standards will take effect by December 15, 2025, transitioning from a rule-based approach to risk-based. Certified public accounting (CPA) firms need to design their QM system based on the size and nature of clients being serviced, industry risk factors and overall environment. The risk-based approach has several steps to consider, including the:

- Establishment of quality objectives, which need to encompass governance and leadership, relevant ethical requirements, acceptance and continuance of client relationships, engagement performance, resources and information and communication.
- Identification and assessment of quality risks.
- Development and implementation of responses to items 1 and 2 above.

Accounting for and Disclosure of Crypto Assets

ASU No. 2023-08 becomes effective for fiscal years beginning after December 31, 2024, and requires a cumulative effect adjustment to net assets as of the beginning of the period of adoption. The standard now replaces the historical cost/impairment model and requires that crypto assets be reported separately from other intangible assets and measured at fair value. Any related changes in the carrying value should be recognized in net income separately from other intangible assets. The notes to the financial statements should include significant crypto asset holdings, restrictions (if any), a reconciliation of period activity and the method of determining the cost basis.

Staying Ahead

While the not-for-profit community is in a period of relative stability, recent federal and state updates signal important changes that require attention. By understanding and implementing these standards, organizations can remain compliant and position themselves for continued success in today's regulatory environment.

Contact Us

If you have any questions, please contact your PKF O'Connor Davies client service team or:

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