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ACCOUNTANTS AND ADVISORS

Nonprofit Notes

Financial Reporting Updates for Not-for-Profit Entities

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The not-for-profit (NFP) community continues to benefit from a relatively stable period for new accounting guidance. Still, 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.

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*. The standard is effective for fiscal years beginning after December 15, 2025.

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, which 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. This eliminates 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.

Targeted Improvements to the Accounting for Internal-Use Software

ASU 2025-06 impacts software costs incurred to purchase, internally develop or modify software for internal use only and excludes external-use software costs, which can be used to develop software to be leased or sold. This will be effective for fiscal periods beginning after December 15, 2027, with early adoption permitted.

The summary of changes for when costs may be capitalized is as follows:

- Management has authorized and is committed to funding the software project.

- It is probable that the project will be completed, with the software being used to perform the function intended, often referred to as probable-to-complete threshold.

- If management determines that significant development uncertainty exists, then costs should be expensed.

Income Tax Disclosures

While most NFPs are not subject to taxes, there are those subject to taxes on certain unrelated business activities or those with a for-profit subsidiary. The new standard under ASU 2023-09 is effective for annual fiscal periods beginning after December 15, 2025.

The changes primarily require entities to disclose the:

- Amount of income taxes paid, disaggregated by federal, state and foreign jurisdictions.
- Amount of income taxes paid, disaggregated by individual states comprising 5% or more of total income taxes paid.
- Income or loss from continuing operations before income tax expense between domestic and foreign.
- Income tax expense from continuing operations by federal, state and foreign.

Current Risk Environment

Besides being aware of the above accounting updates, NFPs must also be cognizant of changes in the current risk environment. These would be defined as follows (although not totally inclusive):

- **Funding volatility:** Given the level of funding NFPs receive, this may require a shift in how programs are maintained and administered.
- **Impact of Artificial Intelligence (AI):** With the increased use of AI, NFPs must maintain data reliability and ensure cybersecurity and privacy issues are being maintained.
- **Resource constraints:** Most NFPs are also facing resource constraints, which include a shortage in the talent pool coupled with budget reductions.
- **Governance:** Board members and executives need to expect clearer risk prioritization. This also needs to encompass resilience planning as well in light of the above considerations.

Staying Ahead

While NFPs remain in a period of relative stability, there are some accounting standards which could impact the way financial reporting is presented. By understanding and implementing these standards, organizations can remain compliant and transparent to the stakeholder community.

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