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FASB Update

August 12, 2025



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Learning Objectives

Explain changes related to the implementation of recent FASB standards issued in the past several years

Identify hot topics and areas of complexity in nonprofit accounting and their potential impact on nonprofit financial statements



Session Sections

Audit considerations
for alternative
investments

Considerations for
recording gifts of
nonfinancial assets

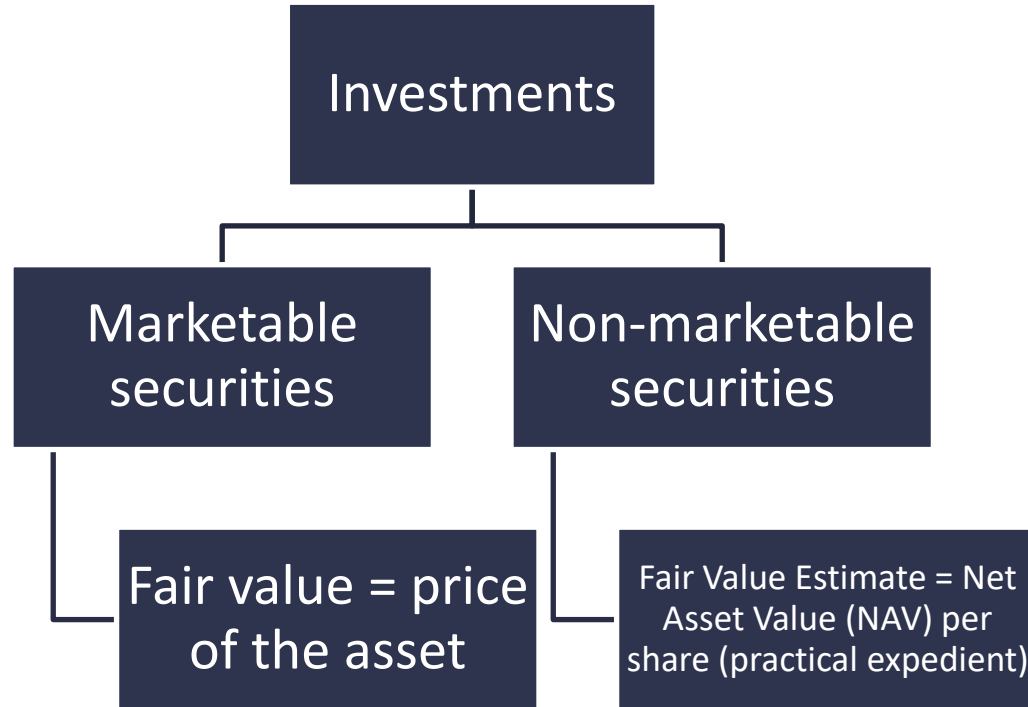




Auditing Alternative Investments



Investment Valuation



Investment Valuation

NAV per share defined:

- The amount of net assets attributable to each share of capital stock outstanding at the close of the period

	Investment
	Fund
	12/31/2024
Assets	
Investments	199,000,000
Cash	1,000,000
	200,000,000
Liabilities	
Loan Payable	9,500,000
Accrued Expenses	500,000
	10,000,000
Net Assets	190,000,000
Outstanding Shares	180,952
Net Asset Value per Share	\$ 1,050



Primary Audit Assertions

Existence

- **Risk:** do investments exist at the date of the statement of financial position?
- **Audit procedure:** confirm investment shares with fund manager.

Valuation

- **Risk:** are investments valued under U.S. GAAP at the date of the statement of financial position?
- **Audit procedure:** verify NAV per share value via audit of investment fund.



Scenario 1

Same year-end: NFP and Investment Fund
Investment Fund Audit available

NFP = 12/31/2024

Investment Fund = 12/31/2024



Same Year-End: NFP and Investment Fund

NFP financial statements

	NFP	NFP's	
	12/31/2024	Number of Shares	Value per Share
Assets			
Cash	200,000		
Prepays	50,000		
Alternative Investment	1,050,000	1,000	\$ 1,050
	1,300,000		
Liabilities			
Accounts Payable	20,000		
Accrued Expenses	80,000		
	100,000		
Net Assets	1,200,000		

*NFP's investment activity
– # of shares confirmed*

	Date	NFP's Investment Activity	NFP's Number of Shares	Value per Share
Opening Capital Account	1/1/2024	\$ -		
Capital Contributions		1,000,000	1,000	\$ 1,000
Capital Distributions		(10,000)		
Expenses		(5,000)		
Allocation of Income/(Loss)		65,000		
Closing Capital	12/31/2024	\$ 1,050,000	1,000	\$ 1,050

Audited Fund financial statements

	Investment Fund
	12/31/2024
Assets	
Investments	199,000,000
Cash	1,000,000
	200,000,000
Liabilities	
Loan Payable	9,500,000
Accrued Expenses	500,000
	10,000,000
Net Assets	190,000,000
Outstanding Shares	180,952
Net Asset Value per Share	\$ 1,050



Same Year-End: NFP and Investment Fund



Existence

Confirm number of NAV shares with fund manager



Valuation

Verify NAV share price via audit of investment fund

Scenario 2

Different year-end: NFP and Investment Fund

NFP = 6/30/2025

Investment Fund = 12/31/2024



Different Year-End: NFP and Investment Fund

Audited Fund financial statements

NFP's investment activity

	Date	NFP's Investment Activity	NFP's Number of Shares	Value per Share
Opening Capital Account - Audited	12/31/2024	\$ 1,050,000	1,000	\$ 1,050
Capital Contributions		441,000	420	
Capital Distributions		-		
Expenses		(3,000)		
Allocation of Income/(Loss)		(28,000)		
Closing Capital - Unaudited	6/30/2025	\$ 1,460,000	1,420	\$ 1,028

	Investment Fund 12/31/2024
Net Assets	190,000,000
Outstanding Shares	180,952
Net Asset Value per Share	\$ 1,050

NFP financial statements

	NFP 6/30/2025	NFP's Number of Shares	Value per Share
Assets			
Cash	410,000		
Prepays	20,000		
Alternative Investment	1,460,000	1,420	\$ 1,028
	<u>1,890,000</u>		

Unaudited



Different Year-End: NFP and Investment Fund Roll Forward Procedures

NFP's investment activity

		NFP's	NFP's	
	Date	Investment Activity	Number of Shares	Value per Share
Opening Capital Account - Audited	12/31/2024	\$ 1,050,000	1,000	\$ 1,050
Capital Contributions		441,000	420	
Capital Distributions		-		
Expenses		(3,000)		
Allocation of Income/(Loss)		(28,000)		
Closing Capital - Unaudited	6/30/2025	\$ 1,460,000	1,420	\$ 1,028

Cashflow activity

- Investment statements
- Disbursements and receipts

Investment gain/loss prediction

	1/1/25 - 6/30/25
	Return (%)
REIT Benchmark Index	-2.05%
Average Capital Balance from 1/1/25 - 6/30/25	\$ 1,270,500
Predicted Return	(26,045)
Actual Return	(28,000)
Difference - \$	(1,955)
Difference - %	8%



Different Year-End: NFP and Investment Fund

Existence

- Confirm number of NAV shares with fund manager
- Confirm cashflow activity with fund manager

Valuation

- Verify NAV share price via audit of investment fund
- Compare unaudited investment return per fund manager to predicted return using relevant benchmark



Scenario 3

Same year-end: NFP and Investment Fund
3-mo reporting lag and audit lag

NFP = 12/31/2025

Investment Fund = 12/31/2025



Same Year-End: NFP and Investment Fund With Lag

NFP's investment activity

Unaudited fund statements and
investment gain prediction

Disbursements and receipts
and investment gain prediction

	Date	NFP's Investment Activity	NFP's Number of Shares	Value per Share
Opening Capital Account - Audited	12/31/2024	\$ 1,050,000	1,000	\$ 1,050
Capital Contributions		700,000	667	
Capital Distributions		(10,000)		
Expenses		(6,000)		
Allocation of Income/(Loss)		(50,000)		
Closing Capital - Unaudited	9/30/2025	\$ 1,684,000	1,667	\$ 1,010
NFP Adjusted				
Capital Contributions		300,000	297	
Capital Distributions		-		
Expenses		-		
Allocation of Income/(Loss)		-		
Estimated Closing Capital	12/31/2025	\$ 1,984,000	1,964	\$ 1,010

NFP financial statements

	NFP 12/31/2025	NFP's Number of Shares	Value per Share
Assets			
Cash	296,000		
Prepays	20,000		
Alternative Investment	1,984,000	1,964	\$ 1,010
	<u>2,300,000</u>		



Lookback Analysis (12 Months Unaudited)

Number of Shares	Price Per Share as of PY1 Audit Date	Valuation as of PY1 Audit Date	(PY1) Audited FS YE Date	Estimated Valuation As of PY1 Audit Date	\$ Difference (audited FS - client)	% Difference
1,000	\$ 1,040	1,040,000	12/31/2024	1,050,000	(10,000)	-0.95%

Number of Shares	Price Per Share as of PY2 Audit Date	Valuation as of PY2 Audit Date	(PY2) Audit Date	Estimated Valuation As of PY2 Audit Date	\$ Difference (audited FS - client)	% Difference
500	\$ 1,030	515,000	12/31/2023	500,000	15,000	3.00%

Number of Shares	Price Per Share as of PY3 Audit Date	Valuation as of PY3 Audit Date	(PY3) Audit Date	Estimated Valuation As of PY3 Audit Date	\$ Difference (audited FS - client)	% Difference
400	\$ 950	380,000	12/31/2022	380,000	-	0.00%



Different Year-End, No Audit: NFP and Investment Fund

Existence

- Confirm number of NAV shares with fund manager
- Confirm cashflow activity with fund manager
- Vouch cashflow activity to supporting documentation

Valuation

- Verify NAV share price via audit of investment fund
- Compare unaudited investment return per fund manager to predicted return using relevant benchmark
- Evaluate reliability of year-end value estimate by reviewing prior year estimates – a lookback analysis



Disclosures

Requirements

Nature and risks of the investments

Fair value of the investments by fund type

Description of the significant investment strategies

Unfunded commitments related to the investment funds

Description of the redemption terms

Any other significant restriction on the ability to sell the investment

Example

	Number of Investments	Fair value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<u>December 31, 2024</u>					
Global Equity Funds	1	\$ -	\$ -	Quarterly	30 Days
Long/Short Hedge Funds	9	-	-	Daily, Monthly	None, 30 Days
Private Equity Funds	5	-	-	Annually, Limited (1)	30 Days
Real Estate Funds	13	-	-	Liquid	None
Total		<u>\$ -</u>	<u>\$ -</u>		

Long/Short Hedge Funds – Funds that can invest long and short, primarily in common stock. Fund managers may invest in value, growth, or event-driven equity opportunities and typically are not restricted by market capitalization, industry sector, or geography. Leverage may be utilized, which can magnify changes in the values of the underlying securities.



Management's Controls Over Valuation

Summary of alternative investments

Holdings

Year-end date

Audit
availability

Reporting lag

Roll forward
and estimate
procedures

Lookback
analysis





Presentation and Disclosures by Nonprofit Entities for Contributed Nonfinancial Assets

ASU 2020-07

ASC 958-605 Refresher



Recap of ASU 2020-07

Adopted June 30, 2022
and thereafter

Intended to enhance
the presentation
and disclosures of
nonfinancial assets or
contributed services

Did not change
the recognition and
fair value measurement
requirements for
contributed nonfinancial
assets

Contributed securities
and other financial assets
are outside the scope of
ASU 2020-07



Purpose of ASU 2020-07

Nonprofits were improperly valuing donated goods to increase their revenues and program expenses

Program revenue and expenses are used as inputs into overhead ratio, a metric commonly used to judge the efficiency of a nonprofit's operations

If program expenses are overestimated, a nonprofit's overhead ratio could be understated causing the nonprofit to appear to be more operationally efficient than it is in reality



Definition of Gifts of Nonfinancial Assets

- Gifts of assets that are NOT:
 - Cash
 - Ownership interests in another entity, or
 - Contracts that conveys to one entity a right to receive cash or exchange financial instruments
- Recognition and measurement requirements are the same as for cash contributions:
 - Measured at fair value
 - Recognized as contributions when received



Categories of Nonfinancial Assets

Contributed goods

- Gifts-in-kind
 - Tangible personal property
 - Intangible
- Real property
 - Use of land and building
 - Utilities

Contributed services

- Volunteer services
 - Accounting and legal services
 - Assistance in fundraising activities
 - Participation in program activities, etc.
- Are personal services, and may or may not qualify for recognition as contributions



Contributed Goods Versus Contributed Services

Contributions do not relate
to *personal* services are considered
contributed “goods” and should be treated as
gifts-in-kind vs contributed services



Contributed Services Recording Criteria

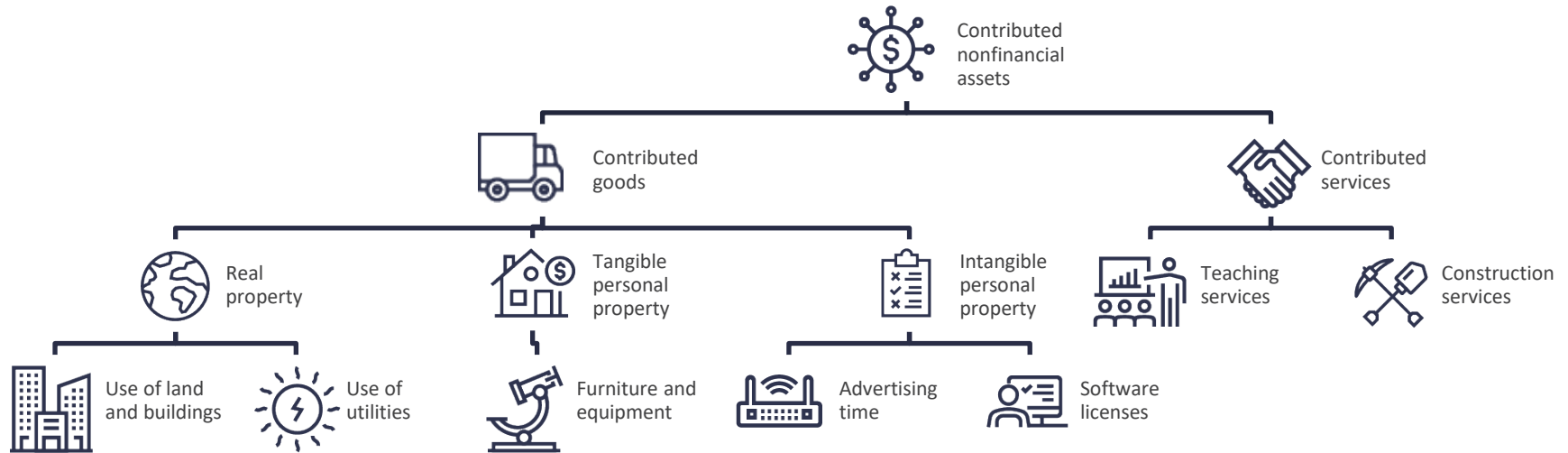
Contributed services should be recorded if either:

- They create or enhance nonfinancial assets, or
- They require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.
 - Specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen

Contributed services and commitments to give services that do not meet these criteria shall not be recognized



Categories of Nonfinancial Assets



Accounting Guidance Specifically States:



Gifts of nonfinancial assets should be measured at fair value



Inappropriate to have unrecorded noncash gifts because:

- difficulty in tracking and valuing gifts,
- it is impracticable to estimate the value,
- there is no objective means of valuing them



A good faith attempt to determine value results in better information in financial statements about an organization's level of contributions and programs than no value at all

Major Uncertainty of Existence of Value

If no future economic benefit or service potential, the asset may have little value or no value

If assets cannot be used or sold, the donation should generally not be recognized as a contribution

If a major uncertainty exists about asset value, it may indicate that the item should not be recorded

Existence of value is not the same as difficulty in determining a value

Item only accepted for its potential future use in scientific or educational research that has no alternative use may have uncertain or no value and it should not be recognized as a contribution (photos, flora, fauna, or historical objects)



Fair Value Concepts

(Exit) Market

- Prefer principal market (greatest volume, activity)
- Most advantageous market
- Highest and best use asset

Inputs

- Level 1, 2, or 3

Restrictions

- Asset vs entity restrictions

Adjustments

- Consider wholesale, obsolescence adjustments



Valuation Example #1 – Donated Vehicle



Exit market?

- Used car market

Inputs?

- CarMax
- Kelley Blue Book

Adjustments?

- Mileage
- Damage
- Rust



Valuation Example #2 – Use of Space



Exit market?

- Current rental market
 - Office, retail, industrial, residential

Inputs?

- LoopNet (commercial)
- Zillow (residential)

Adjustments?

- Year built
- Renovations
- Location

Valuation Example #3 – Donated Art



Exit market?

- Secondary art market

Inputs?

- Independent Appraiser
- Art Brokers

Adjustments?

- Artist
- Damage
- Rarity

Restrictions

- Fair value should include the effects of restrictions on sale or use only if market participants would take those restrictions into account when pricing the asset or liability
 - A conservation easement, which is recorded like a deed and is binding upon future owners of the property, would be considered in pricing the asset if a donor places that restriction on use of the property
- Donor restrictions that limit only the organization's use of the gift-in-kind are reflected in the classification of net assets, not in the measurement of fair value



Example – Restrictions and Highest Best Use

- A shelter received a fur coat
 - Using animal fur to make coats is against the shelter's mission and principles
 - However, the shelter did not want to perpetuate the wearing of the fur coat and accepted the donation
 - The shelter use of the fur coat was to cut it up and use it as lining for pet cages
- Record and valuation method?
 - Recognize the fair value of the fur coat and then expense the same amount as a program cost related to their advocacy efforts
 - Fair value is a market-based measurement, not an entity-specific one
 - A fair value measurement should be based on the assumptions that a market participant would use in determining a price for the asset



Example 1 – Contribution of Real Property

Mission A: a religious NFP, receives a building and land to be used as an education and training center or for other purposes consistent with Mission A's plans

Record?

- Mission A would recognize as an asset and revenue

Valuation Method?

- At fair value:
 - Amounts recently paid for similar properties in the locality, and
 - Estimates of replacement cost adjusted to reflect the price that would be received for the property



Example 2 - Contribution of Work of Art

Museum B, which preserves its collections, receives a gift of a valuable painting

Donor obtained an appraisal of the fair value of the painting

Museum staff determined painting's authenticity and worthiness

Staff recommended that the gift be accepted, adding that it was not aware of any evidence contradicting the fair value provided by

Record?

- If Museum B capitalizes its collections, it would record an asset and revenue
- If Museum B does not capitalize its collections, it would not record the transaction and would provide information in the footnotes

Valuation method?

- Fair value using the appraisal



Example 3 – Contribution of Historical Objects

Historical Society C receives gifted old photos that depict a particular area as it was 75 years ago

Society staff concluded the photos should be accepted solely because of their potential historical and educational use; that is, the photographs may be of interest to future researchers, historians, or others interested in studying the area. The photographs are not suitable for display and no alternative use exists.

Record?

Regardless of collections capitalization policy, Society would not recognize the contributed photos because there is major uncertainty about the existence of value and no alternative use exists



Example 4 – Contribution of Utilities

- Foundation D operates from a building it owns
- A holding company of a local utility contributes electricity on a continuous basis subject to the donor's cancellation
- Record?
 - Recognize revenue and expense in the period it is received and used
- Valuation method?
 - Estimate the fair value of the electricity received by using rates normally charged to a consumer of similar electricity usage



Example 5 – Contribution of Use of Property

Charity E receives the free use of 10,000 square feet of office space for daily admin activities

Donor has informed Charity E that it intends to continue providing the space, it may discontinue providing the space at any time

Donor normally rents similar space for \$14 to \$16 annually per square foot, the going market rate for office space in the area

Record?

- Recognize revenue and expense in the period it is received and used

Valuation Method?

- Estimate the fair value of the use of space received by using rates normally charged to a consumer

What if donor explicitly and unconditionally confirms the use of the facility for five years?

- Recognize asset and revenue (time restricted) for 5-year period in year 1 using current rental rates
- Reduce asset and recognize expense and release donor restrictions annually in years 1 thru 5



Example 6 – Contribution of Teaching Services

- Faculty salaries are a major expense of University H
- The faculty includes both compensated faculty members (80%) and uncompensated faculty (20%) who are associated with religious orders and contribute their services
- Compensated and uncompensated faculty perform the same services

Record?

- Recognize revenue and expense for the services of uncompensated faculty members
- Teaching requires specialized skills;
- The religious personnel are qualified and trained to provide those skills; and
- University H typically would hire paid instructors if the religious personnel did not donate their services

Valuation Method?

- University H could refer to the salaries it pays similarly qualified compensated faculty members to determine fair value of the services received.

What if the uncompensated faculty members were given a nominal stipend?

- Recognize revenue and expense for the services contributed
- Contribution measured at the fair value of the services received less the amount of the nominal stipend paid



Example 7 – Contribution of Board Trustee Services

Board member of Civic Organization I is a lawyer and provides advice on general business matters

The advice provided on legal matters is provided as a board member, not a lawyer, and the opinions generally are routine matters

Board member suggests that Civic Organization I seek the opinion of its attorneys on substantive legal questions

All of Civic Organization I's trustees serve without compensation, and most trustees have specialized skills (e.g. chief executive officer, a public accountant, etc.) that makes their advice valuable to Civic Organization I

Record?

- Civic Organization I would not recognize the contributed services it receives from its trustee-lawyer
- Not recorded because substantive legal questions that require the specialized skills of a lawyer are referred to outside attorneys, or
- Because the advice provided by trustees typically would not be purchased if not provided by donation



Frequent Presentation Issues

Volunteer time and costs

- Unallowed value recorded, or amounts disclosed that are unaudited

Gross vs net

- If operational, gross
- If peripheral, net is a sometimes allowed

Fundraising gifts

- Record at fair value when received and adjust based on amount received at fundraising event



Commonly Missed Contributions of Nonfinancial Assets



Advertisement and
radio time



Use of facilities



Use of utilities



Personnel costs
from an affiliate



Contributions for
fundraisers



Collection items



Below-market
interest rates on
loans



Below-market lease
rates



Questions?





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