

# Not-for-Profit Accounting Update

June 2, 2026

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## About Your Instructor



**Melisa Galasso**  
CPA, CGMA, CSP, CPTD

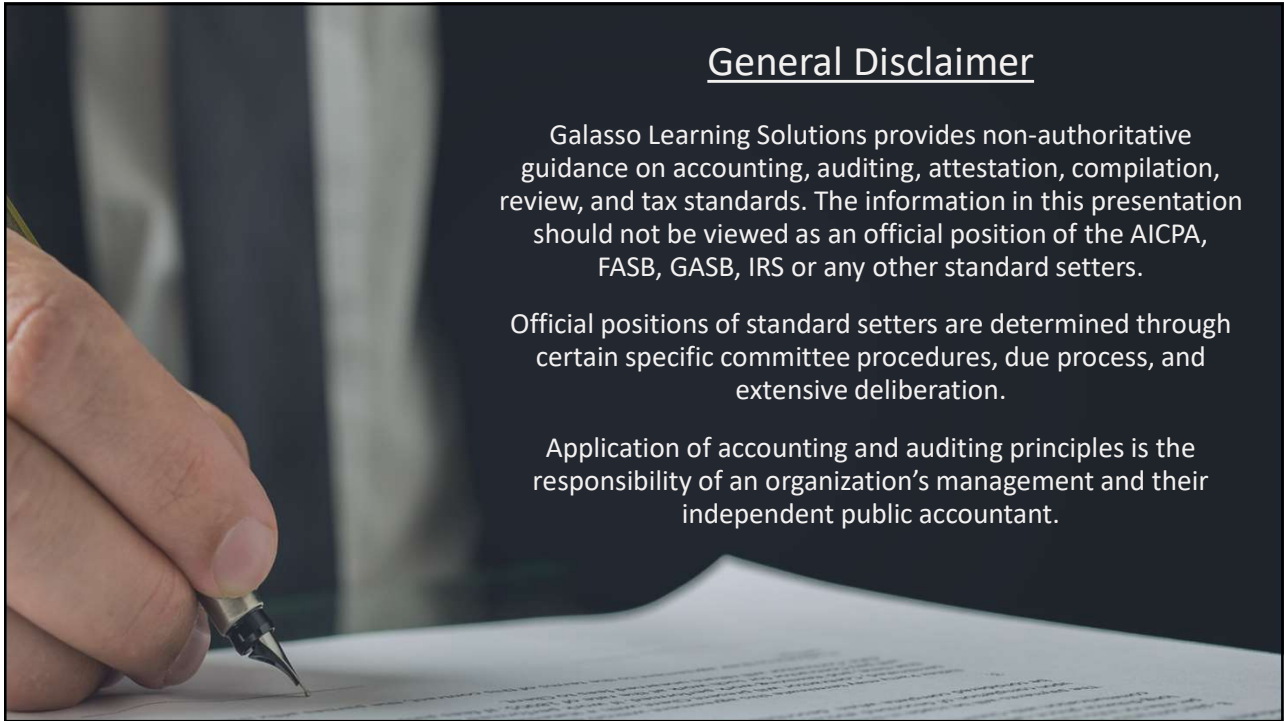
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# Agenda

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NFP GAAP Update

Common Deficiencies





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# NFP GAAP Update



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# FASB Effective



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## ASU 2025-05

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### **Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets**

- Issued: July 2025
- Background:
  - Private companies experienced challenges when applying Topic 326 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606

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## Main Provisions

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- Practical Expedient
  - An entity that elects the practical expedient would be able to assume that current conditions as of the balance sheet date persist throughout the forecast period
- Accounting Policy Election
  - An entity that elects the accounting policy election would be able to consider subsequent cash collection activity after the balance sheet date but before the date the financial statements are available to be issued as part of its estimate of expected credit losses

## Scope

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- The Board decided that **all entities** should be eligible to elect the practical expedient
  - Includes PBEs and ALL nonprofits
- The Board decided that entities, **other than public business entities**, should be eligible to elect the accounting policy election
  - Includes ALL nonprofits

## Scope Cont'd

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- Current accounts receivable and/or current contract assets arising from transactions under **Topic 606**, including those assets acquired in a transaction accounted for under **Topic 805**, Business Combinations

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## Annual Disclosure

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- Disclose when the practical expedient and accounting policy election have been applied, along with a requirement to disclose the date through which subsequent cash collections were evaluated

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## Effective Date

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- For interim and annual periods beginning after December 15, 2025, with early adoption permitted for financial statements that have **not yet been made available for issuance**
  - PBEs electing the practical expedient must do so in the first interim or annual period the amendments are effective
  - All others may elect the practical expedient and, if applicable, the accounting policy election in any period after the effective date

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## Income Tax Disclosures



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## ASU 2023-09

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### **Income Taxes (Topic 740): Improvements to Income Tax Disclosures**

- Issued: December 2023
- Background:
  - ITC Agenda Consultation
  - Investor request

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## Non-PBEs

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- Requires qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate

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## All Entities – Annual

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- The amount of income taxes **paid** (net of refunds received) disaggregated by federal (national), state, and foreign taxes
- The amount of income taxes **paid** (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received)

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## All Entities – Annual Cont'd

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- **Income** (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
- Income tax **expense** (or benefit) from continuing operations disaggregated by federal (national), state, and foreign

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## Remove

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- Eliminates the requirement for all entities to
  - Disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or make a statement that an estimate of the range cannot be made
  - Disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures

## Terminology

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- Replaces the term public entity in Topic 740 with the term public business entity

## Effective Date

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- For public business entities: For annual periods beginning after December 15, 2024
- For other than PBEs: For annual periods beginning after December 15, 2025
- Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance

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Down the Pike



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# Software



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## ASU 2025-06

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### **Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software**

- Issued: September 2025
- Objective:
  - Targeted improvements and modernization to the accounting for internal-use software

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## Who is Affected

All entities applying  
Subtopic 350-40  
*(internal-use software)*

Entities accounting for  
website development costs  
under Subtopic 350-50  
*(now incorporated into 350-40)*

Does NOT apply to software  
within Subtopic 985-20  
*(external-use software)*

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## Main Provisions

Eliminates references to “project stages” and introduces a probable-to-complete threshold

Capitalization begins when both conditions are met

- Management authorizes & commits to funding the project
- It is probable the project will be completed and the software used as intended

Introduces assessment of significant development uncertainty

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## Disclosures

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- Entities must provide disclosures consistent with Subtopic 360-10 (PP&E)
- Clarifies that intangibles disclosures under 350-30-50-1 through 50-2 are **not required** for capitalized internal-use software costs

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## Differences from Prior GAAP

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Old model required capitalization based on prescriptive stages

New approach is method-neutral and focuses on probability and uncertainty rather than development stages

Improves operability and alignment across entities developing software internally or through cloud solutions

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## Effective Date

- Effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods
  - Earlier adoption is permitted as of the beginning of an annual reporting period



## Derivatives



## ASU 2025-07

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### **Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract**

- Issued: September 2025
- Background:
  - Stakeholders' concerns about the application of derivative accounting to contracts with features based on the operations or activities of one of the parties to the contract and the diversity in accounting for a share-based payment from a customer that is consideration for the transfer of goods or services

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## Issue 1 – Derivatives Scope Refinements

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- The broad and evolving interpretation of the derivative definition
- The complexity of applying scope exceptions to certain contracts with variables (referred to as “underlyings”) based on operations or activities specific to one of the parties to the contract

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## Update

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- The amendments **exclude** from derivative accounting nonexchange-traded contracts with underlyings that are based on operations or activities specific to one of the parties to the contract

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## Exclusion

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- Does **not** apply to
  1. Variables based on a market rate, market price, or market index
  2. Variables based on the price or performance of a financial asset or financial liability of one of the parties to the contract
  3. Contracts (or features) involving the issuer's own equity that are evaluated under the guidance in Subtopic 815-40
  4. Call options and put options on debt instruments

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## Update Cont'd

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- Contracts with multiple underlyings for which some are excluded from derivative accounting and some are not would be evaluated on the basis of the **predominant characteristics** of the contract to determine whether the entire contract (or embedded feature) is subject to the requirements of Topic 815
  - Would change the predominant characteristics assessment to require that an entity assess which underlying is expected to have the **largest expected effect** on changes in the fair value of the contract (or embedded feature)

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## Issue 2: Scope Clarification

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- Scope Clarification for a Share-Based Noncash Consideration from a Customer in a Revenue Contract
  - Lack of clarity about which guidance an entity should apply to recognize share-based noncash considerations, such as warrants or shares, received from a customer that is consideration for the transfer of goods or services

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## Example

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- If an entity receives share-based noncash consideration from a customer that is contingent on the satisfaction of performance obligations, it was unclear whether that consideration
  1. Should be recognized at contract inception as a derivative asset under Topic 815 or an equity security under Topic 321, Investments—Equity Securities, or
  2. Should not be recognized until the entity satisfies its performance obligations under Topic 606, Revenue from Contracts with Customers

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## Update Cont'd

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- Clarifies that an entity should apply the guidance in Topic 606, including the guidance on noncash consideration, to a contract with a share-based noncash consideration from a customer that is consideration for the transfer of goods or services
  - Under Topic 606, the share-based payment should be recognized as an asset measured at the **estimated fair value at contract inception** under Topic 606 when the entity's right to receive or retain the share-based payment from a customer is **no longer contingent** on the satisfaction of a performance obligation

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## Update Cont'd

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- The guidance in other Topics (including Topic 815 and Topic 321) does **not apply** to share-based noncash consideration from a customer for the transfer of goods or services unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Topic 606

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## Effective Date

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- Effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods
  - Early adoption is permitted



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# Interim Reporting



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## ASU 2025-11

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### **Interim Reporting (Topic 270): Narrow-Scope Improvements**

- Issued: December 2025
- Background:
  - Improves the navigability of the required interim disclosures and clarifies when that guidance is applicable
  - Provide clarity on current interim reporting requirements

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## Background

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- Stakeholder feedback has centered around the challenges faced when applying Topic 270 and complexity of the Topic

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## Scope

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ASU 2025-11 applies to all entities that provide interim financial statements and notes in accordance with GAAP

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## Main Provisions

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- Provides a comprehensive list of interim disclosures that are required by GAAP
  - Clarifies current requirements, does not expand or reduce interim disclosure requirements

## Disclosure Principles

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- Adds disclosure principle that requires entities to disclose events since the end of the last annual reporting period that have a material impact on the entity
  - To help determine if disclosures not in Topic 270 should be provided in interim reporting

## Application

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- Can be applied either:

Prospectively

or

Retrospectively

to any or all prior periods presented in the FS

## Effective Date

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- PBEs: For interim reporting periods within annual reporting periods beginning after December 15, 2027
- For Non-PBEs: For interim reporting periods within annual reporting periods beginning after December 15, 2028
- Earlier application is permitted for all entities

# What's Going on at the NAC



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## NAC Background

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- The Not-for-Profit Advisory Committee (NAC) was established in October 2009
- The NAC is a standing committee that works closely with the FASB in an advisory capacity to ensure that perspectives from the NFP sector are effectively communicated to the FASB on a timely basis in connection with the development of financial accounting and reporting standards

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## Current Members

- **Ms. Rebecca Bloch**, Associate Professor of Accounting and Vice Chair, Fairfield University
- **Mr. Richard Cole**, Partner and Northeast Regional Sector Leader - Nonprofit and Education, Forvis Mazars
- **Ms. Jeanne M. Dee**, Partner, Anders CPAs + Advisors
- **Mr. Robert Dobbins**, Managing Director, S&P Global Ratings
- **Ms. Christina Dutch**, Partner, National Office, PwC US
- **Ms. Susan Eickhoff**, Partner, KPMG LLP
- **Ms. Mai-Anh Fox**, Chief Financial Officer, The Ford Foundation
- **Mr. Andy Gutierrez**, Chief Financial Officer, ProHealth Care, Inc.
- **Ms. Jennifer Hoffman**, Partner and National Leader, NFP & Higher Education Audit Practices, Grant Thornton LLP
- **Ms. Anat Kendal**, Chief Financial and Business Operations Officer, Pancreatic Cancer Action Network
- **Ms. Sheryl M. Madden**, Deputy CFO and Controller, The Kresge Foundation
- **Ms. Diane Manning**, Northeast Industry Lead, Not-for-Profit and Higher Education, Capital One
- **Mr. Vincente Milianti**, CFO and COO, Lyric Opera of Chicago
- **Ms. Dawn Stark**, Partner, Plante Moran
- **Ms. Kerri Tricarico**, Senior Associate Vice President Financial Operations & Controller, New York University
- **Mr. Pete Ugo**, Partner and National Leader, Not-for-Profit and Higher Education Audit Practices, Crowe LLP
- **Ms. Amy West**, Executive Vice President and CFO, AHRC New York City

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## October 7, 2025 Meeting

**Topic 1:** • Emerging Financial Reporting Issues in the NFP Sector

**Topic 2:** • FASB Agenda Consultation

**Topic 3:** • Accounting for and Disclosure of Intangibles (Research)

**Topic 4:** • Select Projects & Other Research

**Topic 5:** • Recently Issued/ Forthcoming ASUs

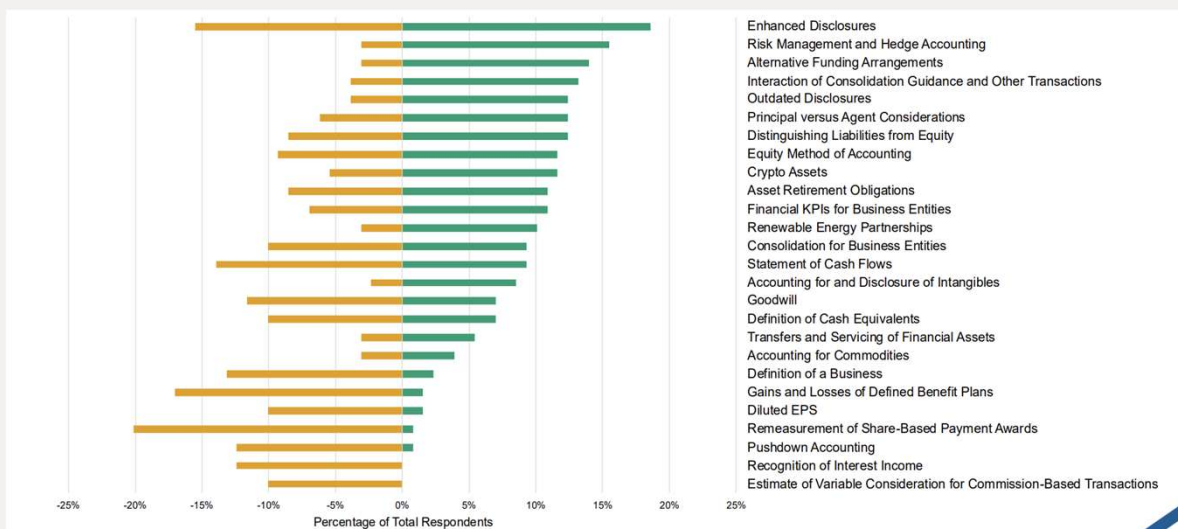
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## Emerging Issues

- Risks and uncertainties related to the collection of grants and how practice has handled the accounting for measurement uncertainty when applying the contribution model, which does not specifically address it
- The level of disclosures about risks and uncertainties in an NFP's financial statements
- Diversity in practice related to cash flow classification of programmatic loans as operating or investing activities
- Diversity in practice regarding net versus gross presentation of endowment cash flows
- The issue of whether stablecoins should be classified as cash equivalents
- The reporting challenges for certain NFPs that are included in the various public entity definitions in GAAP

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## Top Priorities vs. Low Priorities



Not-for-profit Advisory Committee (NAC) Meeting Agenda, Thursday, March 19, 2026

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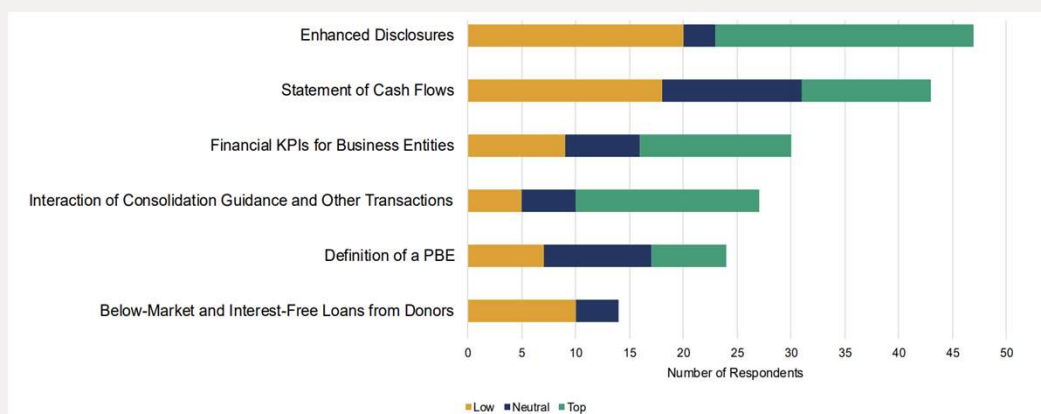
## Most Frequently Identified Top Priorities

Investors and Investor Advocate Groups	Preparers	Practitioners
<ul style="list-style-type: none"> <li>Enhanced disclosures</li> <li>Asset retirement obligations</li> <li>Financial key performance indicators (KPIs)</li> <li>Accounting for and disclosure of intangibles</li> <li>Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>Principal versus agent considerations</li> <li>Alternative funding arrangements</li> <li>Outdated disclosures</li> <li>Risk management and hedge accounting</li> <li>Equity method of accounting</li> </ul>	<ul style="list-style-type: none"> <li>Distinguishing liabilities from equity</li> <li>Interaction of consolidation guidance and other transactions</li> <li>Consolidation for business entities</li> <li>Troubled debt restructurings by borrowers</li> <li>Definition of common control</li> </ul>

*Not-for-profit Advisory Committee (NAC) Meeting Agenda, Thursday, March 19, 2026*

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## NAC Priorities



*Not-for-profit Advisory Committee (NAC) Meeting Agenda, Thursday, March 19, 2026*

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INPAS



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INPAS

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## **International Non-Profit Accounting Standard**

- Launched: October 21, 2025
- **Background:**
  - INPAS is the primary output of the International Financial Reporting for Non-Profit Organizations (IFR4NPO) project
  - IFR4NPO was established in 2019 to improve the transparency, consistency, comparability, credibility, and reliability of NPO financial statements by developing internationally applicable financial reporting guidance for NPOs

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## Issue

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- No common international accounting standards for NPOs

### Goal

Strengthen governance and financial management through standardized guidance

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## Three Objectives

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### Objective 1:

To improve quality, transparency and credibility of NPO financial reports.

### Objective 2:

To support the provision of NPO financial info that is useful for decision making and accountability, balancing the needs of preparers and users.

### Objective 3:

To address specific NPO issues, which will promote the comparability of NPO financial reports.

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## INPAS

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- What is it?
  - Guidance for nonprofits to prepare complete financial reports, published by International Non-Profit Reporting Foundation
- What does it cover?
  - Principles-based framework for presenting NPO's financial position and performance
  - Accrual-based accounting treatments (recognition, measurement, presentation, and disclosures) and accompanying narrative reports
- Who will adopt it?
  - Each country decides if INPAS is required for registered NPOs. Nonprofits may also voluntarily adopt if permitted

## Basis

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- IFRS for SMEs was the foundational framework for this model:
  - Provides a shorter, simplified standalone Standard with reduced disclosure requirements
  - Is aligned with the full IFRS Standards including the conceptual framework and developed in compliance with the IFRS Foundation's due process requirements
  - May have an acceptable level of familiarity and acceptance amongst regulators, preparers, auditors and users internationally
  - Is the most feasible solution as it would require the lowest level of initial and ongoing resource to develop and maintain the Guidance

## Process

ED1

- Framing (Q4 2022)

ED2

- Accounting (Q3 2023)

ED3

- Details & Transition (Q2 2024)

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## Summary of Proposals

Annex B – Main content of each Exposure Draft

ED1			ED2			ED3		
Section	Title	Change made	Section	Title	Change made	Section	Title	Change expected
	Preface	Modified (Major)	11	Financial instruments	Editorial	12	Fair value measurement	Editorial
1	NPOs	Modified (Major)	13	Inventories	Updated (Minor)	14	Investment in associates	Editorial
2	Concepts and pervasive principles	Modified (Major)	21	Provisions and contingencies	Editorial	15	Joint arrangements	Editorial
3	Financial statement presentation	Updated (Minor)	23 Part I	Revenue from grants and donations	New	16	Investment property	Editorial
4	Statement of Financial Position	Modified (Major)	23 Part II	Revenue from contracts with customers	Editorial	17	Property, plant and equipment	Editorial
5	Statement of Income and Expenses	Modified (Major)	24 Part I	Expenses on grants and donations	New	18	Intangible assets other than goodwill	Editorial
6	Statement of Changes in Net Assets	Modified (Major)	25	Borrowing costs	Editorial	19	Business combinations and goodwill	Editorial
7	Statement of Cashflows	Updated (Minor)	26	Share based payments	Removed	20	Leases	Editorial
8	Notes to the financial statements	Updated (Minor)	28	Employee benefits	Updated (Minor)	22	Liabilities and equity	Updated (Minor)
9	Consolidated and separate financial statements	Updated (Minor)	29	Income tax	Editorial	24 Part II	Classification of expenses	New
10	Accounting policies, estimates and errors	Updated (Minor)	30	Foreign currency translation	Updated (Minor)	24 Part III	Fundraising costs	New
35	Narrative reporting	New	31	Hyperinflation	Editorial	27	Impairment of assets	Updated (Minor)
			32	Events after the reporting period	Editorial	33	Related party disclosures	Updated (Minor)
						34	Specialised activities	Editorial
						36	Fund accounting	New
						37	Supplementary information	New
						38	Transition to the Guidance	Updated (Minor)
							INPAG Practice Guide 1 – Supplementary statements	New

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## INPAS Covers

Which types of organizations are NPOs

Who are the primary users of NPO financial statements

Accounting for grants and donations

Presenting funds with use restrictions

Presentation and disclosure of expenses

Narrative reporting requirements

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## INPAS Structure – Sections

- A. Principles
- B. Financial statements
- C. Revenue
- D. Expense and liabilities
- E. Non-financial assets
- F. Financial assets and liabilities
- G. Consolidation and reporting boundaries
- H. Restatements and additional information
- I. Transition to INPAS

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## Effective Date

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- INPAS is effective for entities wishing to adopt



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## Common Deficiencies



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# Programmatic Investments



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## Defined

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- Financial instruments that have as their primary purpose the achievement of the NFP's programmatic mission
- Most common

Loans

Equity  
Interests

Guarantees

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## Examples

Low-interest or interest-free loans to students with demonstrated financial need

Student loans that will be forgiven upon the completion of a defined amount of community service after graduation

Investments in nonprofit, low-income housing projects

Loans to small for-profit businesses owned by members of economically disadvantaged groups or individuals who are members of those groups, for whom commercial loans are not available or are not available at affordable interest rates

Loans to for-profit companies that are conducting research consistent with the NFP's mission

Loans, typically of small dollar amounts, made to small businesses or individuals who lack access to banking and related services as a way to help the borrower out of poverty (referred to as microfinance)

Investments in businesses in deteriorated urban areas under a plan to improve the economy of the area by providing employment or job training for residents

Investments in NFPs that have a mission of combating community deterioration

Guarantees of an NFP's debt, which increases the amount of credit

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## Criteria

- Its primary purpose is to further the tax-exempt objectives of the NFP
- The production of income or the appreciation of the asset is **not** a significant purpose

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## Considerations

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- Core considerations for determining the proper accounting for programmatic investments, regardless of their form:
  - An assessment of whether an investment is programmatic or not is made when the initial investment transaction occurs
  - Because one of the goals of making programmatic investments is furthering the mission of the NFP and because, by definition, the production of income or the appreciation of the asset is not a significant consideration in the determination of whether to invest, programmatic investments often have a contribution element
  - Programmatic investments are subject to the same accounting standards as similar financial instruments, except for the contribution element, if any. Thus, loans are within the scope of the standards in ASC 310, Receivables, and **ASC 326, Credit Losses**; ownership interests are subject to the standards for reporting relationships, including consolidation, equity method, and ASC 321, Equity Securities; and guarantees are subject to the standards in ASC 460, Guarantees.
  - The relative significance of the investments to an NFP's operations and financial position and the **quantitative and qualitative risks** arising from them is considered when determining the type of financial statement presentation and the extent of the disclosures. Thus, even though the amount of programmatic investments might quantitatively be considered immaterial, user needs for qualitative information are a consideration in determining the appropriate financial reporting.

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## Interest Rate Considerations



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## Programmatic Loans

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- Stated interest rates on programmatic investments may
  - Be at market
  - Be below-market when compared to loans to entities of similar credit risk
  - Not bear interest

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## Market Rate

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- In some cases, a programmatic loan
  - Bears a market interest rate, and
  - The NFP expects at origination to collect all contractual cash flows
- The NFP evaluates the credit worthiness of the borrower and the loan is priced on the basis of a number of factors, with a key factor being that borrower's creditworthiness
- At origination, the loan should be recognized in accordance with ASC 310-10 and the allowance for credit losses should be recognized in accordance with ASC 326-20

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## Origination

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- Unless the NFP has elected to report programmatic investments at fair value using the "Fair Value Option," programmatic loans are reported at amortized cost

Debit Loan Receivable

Credit Cash



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## CECL

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- The allowance for credit losses is a valuation account that is deducted from, or added to, the amortized cost basis of the loan to present the net amount expected to be collected on the loan

Debit Credit Loss Expense

Credit Allowance for Credit Loss



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## CECL Application

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- The allowance for credit losses only includes amounts the NFP does not expect to collect due to credit risk
- The amounts not expected to be collected for reasons unrelated to credit loss, such as those associated with an NFP's employee service or the fulfillment of performance-based conditions, would not be included in the allowance for credit losses

## Example

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- Forgiveness of a loan to an employee of an NFP is part of the employee's compensation for services rendered
- Forgiveness of a loan to a student if upon graduation the student serves as a teacher in a low-income area is a conditional contribution

## Subsequent Measurement

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- Interest income is recognized at the stated rate

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## Below Market (But Collectable)

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- Using an interest rate that varies from prevailing interest rates warrants evaluation of whether the face amount and the stated interest rate of a note or obligation provide reliable evidence for properly recording the exchange and subsequent related interest
- If a NFP issues an interest-free or below-market-interest loan to a borrower and the NFP is not compensated for that reduced rate in some manner, FinREC believes the NFP has made an **inherent contribution** to the borrower
- Record the loan at its amortized cost basis, adjusted by a valuation account that is deducted from the amortized cost basis to report the net amount expected to be collected on the financial asset

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## Definition

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### Inherent Contribution

- An inherent contribution is “[a] contribution that results if an entity voluntarily transfers assets (or net assets) or performs services for another entity in exchange for either no assets or for assets of substantially lower value and unstated rights or privileges of a commensurate value are not involved”

## Journal Entry

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Debit Loan Receivable (Amount Lent)  
Debit Contribution Expense (Cash – FV)  
    Credit Cash (Amount Lent)  
    Credit Discount on Loan (Cash – FV)

## CECL Cont'd

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- The NFP also determines the initial estimate of the valuation allowance for credit losses based upon its expectation of collection of the contractual payments
- If the NFP has multiple loans, it considers whether the loan has similar risk characteristics to other loans the NFP has made, in which case the NFP determines the allowance for expected credit losses on a collective basis

## Subsequent Measurement Cont'd

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- No additional contribution expense is recognized during subsequent measurement of a programmatic loan except:
  - Loans that contain conditional promises to give
  - Loan forgiveness

## Subsequent Measurement Cont'd

- The difference between the periodic interest cost calculated using the interest method and the nominal interest on the outstanding amount of the debt is the amount of periodic amortization
- At each reporting date, should also adjust the allowance for credit losses
  - Compare current estimate of expected credit losses with the estimate of expected credit losses previously recorded

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## Forgiveness Considerations



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## Forgiveness Considerations

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- To encourage the borrower to take a specific action that achieves programmatic objectives, the loan document may include terms upon which all or a portion of the loan principal will be forgiven
- Those loan documents contain conditional promises to give
  - Represent a barrier that must be overcome as well as a right of release from obligation
  - Should be recognized when the condition(s) on which they depend are substantially met

## Recognition

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- Recognized at the amount of cash (or other assets) transferred to the borrower
  - Unless there are other off-market terms, such as a below-market interest rate stated in the loan

## Forgiveness

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- Forgiveness of some or all of the principal amount in accordance with the loan's contractual forgiveness provisions would be recognized as a contribution made by
  - Reducing the loan's carrying amount and
  - Recognizing contribution expense

## The Crazy – 2025

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- Generally, a contractual feature that can result in variability in the cash flows due on a loan would be evaluated for bifurcation as a separate derivative contract under ASC 815
- Subsequent to initial recognition, the bifurcated derivative would be recorded at fair value, with changes in fair value recognized in the statement of changes in net assets

## Some Sanity – 2025

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- Due to the conflict in guidance for recognition of not-for-profit contributions and derivatives, FinREC believes the NFP may elect to apply the recognition guidance in FASB ASC 720 and FASB ASC 958
- Under this accounting policy election, the conditional contribution feature would not be bifurcated under FASB ASC 815
- FinREC believes that the accounting policy elected should be applied on a consistent basis and the **NFP should consider whether it is a significant accounting policy that should be disclosed in the notes to the financial statements**

## Good News – 2026

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- FinRec is planning to include updated language thanks to derivative scope exception and remove derivative language from guide
- STAY TUNED

## Forgiveness Not in T&C

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- The terms of a programmatic loan do not include forgiveness, but the NFP investor decides to forgive all or a portion of the loan amount
- Determining whether a loan is forgiven and accounted for as a contribution, or is uncollectible is a matter of judgment, and sometimes challenging as both a decrease in collectability and a decision to forgive may occur within a short period of time

## Forgiveness Not in T&C Cont'd

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- If all or a portion of a loan is to be forgiven, to determine whether that forgiveness is a contribution or written off against the allowance for credit losses, FinREC believes the fair value of the loan (or the fair value of the portion being forgiven) should be measured at the time of forgiveness to determine the contribution made, as FASB ASC 720-25-30-1 requires contributions made to be measured at the fair value of the liability cancelled

## Example 1

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- NFP provides a programmatic loan to a borrower for \$150,000. The terms of the loan were at market and the loan is a fixed rate loan.
- The NFP determines that the loan is fully uncollectible and forgives the full amount of the loan
  - Since the fair value of the loan is zero, there is no contribution made to be recognized
  - Loan is written off to the allowance for credit losses

## Example 2

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- NFP provides a programmatic loan to a borrower for \$150,000. The terms of the loan were at market and the loan is a fixed rate loan
- During the term of the loan, the NFP had estimated and recorded an expected credit loss of \$30,000 based on the credit risk of the borrower
- The NFP informs the borrower that they will not be required to repay any of the loan **due to action by the borrower that is consistent with the goals of the NFP**
- At the time of forgiveness of the loan, the NFP has determined that a portion of the loan is uncollectible as a result of the borrower's inability to pay

## Example 2 Cont'd

- At the time of forgiveness, the fair value of the loan is \$125,000 (reflects the credit risk of the borrower and changes in interest rates since the origination of the loan)

<b>Debit: Contribution expense</b>	<b>\$125,000</b>
<b>Debit: Allowance for credit losses</b>	<b>\$30,000</b>
<b>Credit: Loan</b>	<b>\$150,000</b>
<b>Credit: Credit loss expense</b>	<b>\$5,000</b>

## Partial Forgiveness

- If a loan is not forgiven in full and if the debtor is experiencing financial difficulty, the NFP accounts for the changes in terms by applying the guidance in FASB ASC 310 which requires a determination of whether the refinancing or restructuring is a new loan or a continuation of the existing loan and, thus, determine the loan's discount rate and the accounting for unamortized net fees and costs, if any

# No Repayment Expected



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## No Repayment Expected

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- Entirely a contribution

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# Proposal



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## FinREC Proposal

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**Working Draft of revised paragraphs 8.47–.49 (Programmatic Loan Agreements That Contain Conditional Promises to Give) in Chapter 8, Programmatic Investments, of the AICPA Audit and Accounting Guide: Not-for-Profit Entities, to reflect FASB ASU 2025-07, Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract**

- Released: May 5, 2025
- Background:
  - Previous version had to address conflict between 815 and 958 guidance
  - Issuance of ASU 2025-07

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## Redline Version

**8.47** Generally, a contractual feature (such as a conditional forgiveness clause) that can result in variability in the cash flows due on a loan would be evaluated for bifurcation as a separate derivative contract under FASB ASC 815-15-25-1 (unless a scope exception applies). For programmatic loans with conditional promises to give, the NFP should determine if the conditional promise to give contains an underlying (i.e., the occurrence of the event which triggers forgiveness) that is based on operations or activities specific to one of the parties to the contract in accordance with the scope exception in FASB ASC 815-10-15-59e. If the contractual feature in a programmatic loan with a conditional promise to give meets the conditions for a scope exception in FASB ASC 815-10-15-59e, the contractual feature would not be subject to the requirements of FASB ASC 815 and would be accounted for when the donor-imposed condition(s) are substantially met, in accordance with FASB ASC 720-25-25 and FASB ASC 958-605-25-11, as described in paragraph 8.46. If the contractual feature in a loan with a conditional promise to give does not meet the conditions for a scope exception in FASB ASC 815-10-15-59e, consider application of the guidance in FASB ASC 815 to determine if the contractual forgiveness provision is an embedded derivative that would require separate accounting. Subsequent to initial recognition, the bifurcated derivative would be recorded at fair value, with changes in fair value recognized in the statement of changes in net assets. This accounting for the forgiveness clause in a programmatic loan at fair value as a bifurcated derivative may result in the NFP recognizing a conditional contribution before the condition is substantially met. In part, this is because a fair value measurement would take into account the counterparty's probability of meeting the condition. Bifurcation would result in the NFP potentially recording the

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## Redline Version Cont'd

**8.48** For example, a programmatic loan contains a contractual feature in which a loan may be recognized at the amount of cash (or other assets) transferred to a law school student even though the loan agreement contains a clause that a portion of the loan principal will be forgiven if a law school the student graduates, passes the bar, and performs pro bono services for one year. FinREC believes that the contractual feature to forgive a portion of the programmatic loan based on the student completing the specified activities qualifies for the scope exception in FASB ASC 815-10-15-59e, should not be accounted for as a bifurcated derivative, and the programmatic loan should be accounted for under (unless there are other off-market terms in the loan, such as a below-market interest rate; in that case, the loan amount would be recognized as described in paragraphs 8.29–35). The requirement to meet the condition(s) for forgiveness is a barrier and the failure to meet the condition(s) requires the student to repay the loan. The forgiveness of the loan is recognized when that barrier is overcome, not at the origination of the loan. To initially recognize the loan at a value which considers the conditional promise to give would result in a contribution being recorded before the recognition criteria in FASB ASC 720-25-25 and FASB ASC 958-605-25-11 have been met. The requirement to meet the condition(s) for forgiveness is a barrier and the failure to meet the condition(s) requires the student to repay the loan. The forgiveness of the loan is recognized when that barrier is overcome, not at the origination of the loan. Therefore, the loan is recognized at the amount of cash (or other assets) transferred to the student even though the loan agreement contains a clause that a portion of the loan principal may be forgiven (unless there are other off-market terms in the loan, such as a below-market interest rate; in that case, the loan amount would be recognized as described in paragraphs 8.29–35). In addition, as noted in paragraph 8.22, any potential loan forgiveness not associated with credit risk is not included in the measurement of the allowance for credit losses.

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## Comments Due

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- Comments should be sent to Samantha Cox (Samantha.Cox@aicpa-cima.com) by July 3, 2026



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## 3, 2, 1 Method of Applying New Knowledge

**3** things I learned

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**2** actions to apply what I learned

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**1** way I will share my learning

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# Let's Keep in Touch



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[gls.lcvista.com](https://gls.lcvista.com) (*QAS Self Study*)



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## What Questions Do You Have?



Melisa F. Galasso, CPA  
Chief Executive Officer

[Melisa@galassolearningsolutions.com](mailto:Melisa@galassolearningsolutions.com)  
<https://galassolearningsolutions.com>

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