Minutes

ASI Audit Committee - Special Meeting

📅 Tue August 2nd, 2022
⏰ 9:00am - 10:00am PDT
📍 https://fullerton.zoom.us/j/88268152275
👥 In Attendance

I. Call to Order
Cooper Fox, Chair, called the meeting to order at 9:03 am.

II. Roll Call
Members Present: Fox, Martin, Merida, Scialdone, Toh-Heng, Vences, Wong
Members Absent:
Management Present: Edwards, Ehrlich, McDoniel
Internal Auditors: Spencer Kimball
External Auditors: Aldrich & Associates, Andy Maffia, Cyrus Ward

According to the ASI Policy Concerning Board of Directors Operations, attendance is defined as being present prior to the announcement of Unfinished Business and remaining until the scheduled end of the meeting.

* Indicates that the member was in attendance prior to the start of Unfinished Business, but left before the scheduled end of the meeting.

** Indicates that the member was in attendance for a portion of the meeting, but not in attendance prior to the announcement of Unfinished Business.

III. Approval of Agenda
Decision:  (Vences-m/Toh-Heng-s) The agenda was approved by unanimous consent.

IV. Approval of Minutes
None.

V. Public Speakers
Members of the public may address the Audit Committee members on any item appearing on this posted agenda.
None.

VI. Reports
a. Chair
No report.

VII. Unfinished Business
None

VIII. New Business
a. Information: Review the Purpose of the Audit Committee
Fox yielded to Dr. Dave Edwards, ASI Executive Director, to review the purpose of the Audit Committee.

Dr. Edwards welcomed the members to the first Audit Committee Meeting. Dr. Edwards shared an overview of ASI requirements as a corporation, including the need for an Audit Committee. He reviewed the Committee structure and recognized the members.

Dr. Edwards shared in detail the duties, expectations, and commitments of the members on this committee; Dr. Edwards also stressed the independent nature of this committee.

Fox opened the floor to questions. There were no questions.

b. Information: Overview of Corporate Audit and Introduction of Audit Firm
Fox yielded to Carolyn Ehrlich, Director of Finance, to review the audit process.

Ehrlich shared the function of her department within ASI, and how this ties into the department accomplishing the committee’s various goals.

Ehrlich explained the relationship between the independent auditors and the committee.
Fox opened the floor to questions. There were no questions.

c. **Information: Auditing Firm Self Introduction to Board**
Fox yielded to Andy Maffia, Managing Partner at Aldrich Advisors, to introduce themselves and their team to the Committee.

Maffia introduced himself and Cyrus Ward to the committee.

Maffia explained how this process is integral to the CSU process of creating a financial report for the government.

Maffia reviewed the required communication.

Maffia said they are not testing everything, but only a sample of the transactions vs. the whole population. After testing they will provide their conclusion on ASI’s overall operations.

Maffia shared the responsibilities they have as auditors and the responsibility that CSUF ASI has to auditors.

Maffia asked if there were any questions regarding what he has explained so far before he proceeds. There were no questions and Maffia proceeded with his presentation.

Maffia provided information on the structure they will follow and the reports ASI will receive once the audit is complete. These reports will have details of the audit and recommendations from Aldrich.

Maffia invited Ward to speak. Ward shared information about his position working with Aldrich and non-profits. Ward said he will be working closely with management at CSUF ASI to conduct the audit.

Maffia introduced Debbie Smith who was not present at the meeting but will also be working with ASI during the audit as well.

Maffia reviewed the audit timeline and significant audit areas of interest.

Maffia also reviewed their company’s qualifications with the committee to provide reassurance of their work.

Fox opened the floor to questions. There were no questions.

IX. **Announcements/Member's Privilege**
- Dr. Edwards reassured the students that the work will not be difficult. Dr. Edwards shared they will also be doing a request for services and sending out proposals to find a new auditing firm; this is a process the members will be able to assist with.
- McDoniel said that they are targeting the week of September 8th to be the next time the committee meets. She urged members to keep that in mind when filling their schedules.
and shared that they will try and get that meeting onto everyone’s schedules soon. McDoniel shared that once the report is received they will quickly have to get the report to the CSUF President after the Committee and Board reviews.

X. **Adjournment**

Cooper Fox, Chair, adjourned the meeting at 9:47 am.

Cooper Fox, Chair

Crystaal Washington, Recording Secretary
08/02/2022 ASI Audit Committee Special Meeting Roll Call

<table>
<thead>
<tr>
<th>Attendance</th>
<th>COMMITTEE MEMBERS</th>
<th>Liaisons</th>
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<tr>
<td></td>
<td>Present</td>
<td>Absent</td>
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<tr>
<td>CHAIR (CBE)</td>
<td>FOX</td>
<td>COOPER</td>
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<td>ECS</td>
<td>MARTIN</td>
<td>BRAUVO</td>
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<tr>
<td>CAMPUS MEMBER</td>
<td>MERIDA</td>
<td>CINDY</td>
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<td>CAMPUS MEMBER</td>
<td>SCIALDONE</td>
<td>ROB</td>
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<td>HSS</td>
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<td>ALISA</td>
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<td>HHD</td>
<td>VENCES</td>
<td>BERENICE</td>
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<tr>
<td>FINANCE (EDU)</td>
<td>WONG</td>
<td>JENNA</td>
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Total: Present 7, Absent 0

*Recording Secretary: Crystaal Washington

Guest: Andy Maffia, Partner, Aldrich Advisors Inc.
Associated Students, Inc.,
California State University Fullerton

Meeting with the Audit Committee

For the Year Ended June 30, 2022
August 1, 2022

To the Audit Committee
Associated Students, Inc., California State University, Fullerton

Dear Committee Members,

We are pleased to discuss with you our audit service plans for the Associated Students, Inc., California State University, Fullerton (ASI) for the year ended June 30, 2022.

The purpose of this discussion is to provide you with the required communications regarding the auditors’ responsibility, the scope of the audit, and the timing of the audit.

We will also discuss current year developments at ASI, as well as the risk factors, professional and regulatory changes, and other factors that will be included in our planning for the audit and that will impact the performance of our audit.

We welcome any questions or input you may have about this audit service plan. We look forward to working with you and ASI this year.

Very truly yours,

[Signature]

Andy Maffia, CPA
Aldrich CPAs + Advisors LLP
SCOPE OF SERVICES

We are engaged to audit the financial statements of ASI for the year ended June 30, 2022. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 19, 2022, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of ASI. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Associated Students, Inc. California State University, Fullerton’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Andy Maffia is the engagement partner and is responsible for supervising the engagement and signing the report, or authorizing another individual to sign it.

This information is intended solely for the use of board of directors of ASI and is not intended to be, and should not be, used by anyone other than these specified parties.
SCOPE OF SERVICES, CONTINUED

Planned Scope, Timing of the Audit, and Other, continued

Our services include:

- Financial statement audit and opinion on the ASI’s financial statements as of June 30, 2022.
- Financial statement audit of the Children’s Center to be submitted to the California Department of Education as of June 30, 2022.
- As considered necessary under professional standards, and based on our judgement, a management letter commenting upon the internal controls of ASI, fiscal management practices, and other observations resulting from the audit.
- A letter to the Board of Directors and Finance Committee, identifying significant accounting policies, management judgments and accounting estimates, audit adjustments and other matters discussed during the audit.
- Meetings with the Board of Directors and/or Audit Committee prior to and at the conclusion of the audit, and at other times, as deemed appropriate.
- Preparation of the form 990.

CLIENT SERVICE TEAM

Aldrich uses a client service team to bring a broad range of competencies to our engagements. We will assign a client service team that will lead our services and the additional staff needed for your requirements. The client service team will include:

- Dominic Ruggiero, Senior – Responsible for day-to-day audit activities
- Cyrus Ward, Manager – Responsible for managing day-to-day audit activities
- Andy Maffia, Partner – Responsible for all professional services
- Debi Smith, Senior Manager – Responsible for tax services

All members will be actively involved and available for the duration of the assigned services, and additional staff members will be assigned and available as needed. All staff have significant experience with not-for-profit organizations. Should there be any management staff changes we will discuss them with you prior to implementation.

SERVICE TIMELINE

We will work with management to determine a detailed timeline for our audit procedures. Our general timing is as follows:

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<thead>
<tr>
<th>Event</th>
<th>Timeframe</th>
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<tbody>
<tr>
<td>Complete fieldwork</td>
<td>Weeks of August 1, 2022 &amp; August 8, 2022</td>
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<tr>
<td>Delivery of audit report draft to ASI and Campus</td>
<td>August 30, 2022</td>
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<tr>
<td>Comments and changes due to Aldrich</td>
<td>September 6, 2022</td>
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<tr>
<td>Presentation of the audit results to the audit committee</td>
<td>Week of September 8, 2022</td>
</tr>
<tr>
<td>Delivery of audit final report to CSU Chancellor’s office</td>
<td>September 19, 2022</td>
</tr>
<tr>
<td>Delivery of tax returns</td>
<td>TBD upon completion of audit</td>
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EXPECTATIONS
Adhering to the agreed upon timeline will not only make the audit efficient, but it will allow us to meet your deadlines while minimizing the burden on your team. If there are delays in providing Aldrich the requested information on those dates, please connect with us immediately. We will work with your team to adjust the schedule which could include delays in performing audit procedures, adjusting the due date of the report, and/or additional fees.

SIGNIFICANT AUDIT AREAS AND ISSUES
We will focus our audit on the following areas with significant risks of material misstatement:

- Cash and investments
- Accounts receivable and revenue
- Accounts payable and accrued expenses
- Pension obligations
- Net asset restrictions
- Functional expense allocations
- Revenue recognition implementation
- Children’s Center audit for the Department of Education
- Controls associated with significant transaction cycles, including revenues, expenditures, and payroll.

FRAUD CONSIDERATIONS
Our professional standards require us to consider the risk of fraud. As it relates to our audit, fraud includes the misappropriation of assets or fraudulent financial reporting. Procedures we will perform relating to fraud considerations include:

- Reviewing internal controls for susceptibility to fraud
- Considering the control environment and pressures/incentives to commit fraud
- Questioning employees at various levels within the Organization regarding fraud
- Our professional standards also require us to make inquiries of the board of directors, or a representative thereof, related to fraud concerns.
PEER REVIEW

We have included our peer review report below for your records:

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report on the Firm’s System of Quality Control

October 5, 2020

To the Partners of Aldrich CPAs + Advisors LLP
and the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP (the firm) in effect for the year ended April 30, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards). A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm’s Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer’s Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP in effect for the year ended April 30, 2020, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Aldrich CPAs + Advisors LLP has received a peer review rating of pass.

[Signature]
Certified Public Accountants

Members American Institute of Certified Public Accountants
4120 East 51st Street Suite 100 Tulsa, Oklahoma 74135-3633 (918) 749-8337
PROFESSIONAL AND REGULATORY CHANGES

The following items relate to changes throughout the not-for-profit environment for the benefit of the board of directors and management:

State of Nonprofits

Technology

Flexible and remote working arrangements became essential to continued operations for many not-for-profits (NFPs) during the pandemic. Remote work presents unique challenges, particularly for information security controls, because remote work environments do not usually have the same safeguards as office environments. When employees are at the office, they typically work behind layers of preventive security controls. When computers leave the perimeter and people work remotely, new risks arise for the organization, and additional security policies are essential. According to the March 2020 Information Technology Laboratory Bulletin published by the National Institute of Standards and Technology, organizations should "plan telework-related security policies and controls based on the assumption that external environments contain hostile threats."

Following are some information security and remote working best practices NFPs should consider when reviewing or developing policies and procedures:

- Establishing and communicating remote work security policies (for example, avoiding public wireless networks and use of personal devices or computers to store or process work information).
- Addressing authorization and authentication
- Ensuring employees are aware of current phishing and malware campaigns
- Securing communication channels
- Providing vigilant IT support
- Encrypting sensitive data

One of the most challenging issues arises as soon as assets are moved outside of an organization's physical office. Without proper foresight and the necessary tools, the IT environment can become difficult to manage and control. An organization may not know what information staff members are accessing, where they are accessing it, and what tools they are using to do so. Without managing this new remote freedom, the organization will undoubtedly experience the challenges associated with decentralization.

Data is arguably an organization's most important asset. The confidentiality, integrity, and availability of critical, sensitive, and proprietary data should be maintained. When data is housed solely on an internal network, implementing controls to protect that data is often more manageable. Organizations generally know where the data is, how it is accessed, and by whom.

However, with the move to more remote work, managing data becomes less straightforward. Staff members, typically without malicious intent, may implement various applications to increase their productivity or to fill a need that their IT department is not providing. However, this "shadow IT," implemented by staff on their own, is concerning. If organizations do not know what technology staff are implementing, they cannot secure it, and depending on the nature of the implementation, the staff member could be unknowingly exposing organization data.
State of Nonprofits, continued
Technology, continued
Staff members who are not using organization-managed devices are even more concerning. Organization-owned
devices are typically equipped to meet baseline security standards. However, personal devices may be unsecured
from the start. The risk continues to grow if personal devices are shared among members of a staff member's
household, such as children attending school virtually or family members using the device for recreational
purposes. These individuals are likely less cognizant of malicious links on social media or in email, and the potential
for inadvertent downloads of malware on the system increases. Organizations should define their expectations for
the use of personal devices for work purposes.

Along the same lines, consider public wireless or home networks that staff members may be using to access
organization resources. These environments further introduce unmanaged technology. Not only is there an
increased risk of vulnerability from the actual internet source, but there is heightened concern with the other
endpoints connected to it. Network resources could be shared with other unmanaged computers, printers,
scanners, and various internet-connected smart devices (for example, smart TVs, alarms, thermostats, or
refrigerators). If not properly secured or segmented, these other devices could affect the devices staff members use
to access organization resources. Finally, many home-based smart devices listen for commands (for example, “Hey
Alexa! What’s the weather?”). To do this, these devices are “always on,” which means they are always listening and
sending the data to various data centers for processing. If a staff member regularly has sensitive, work-related
conversations with a smart listening device nearby, then it is likely that these conversations are being recorded and
stored, even if just temporarily.

Ransomware Threat
Cybersecurity has been a serious concern in both the public and private sectors for quite some time, but the stakes
are rising as new types of threats emerge and organizations pivot to a more significant remote delivery model.
Among the most pervasive of the current generation of threats is ransomware. In its most basic form, ransomware
is malicious software that blocks access to a system or data until a sum of money is paid. However, variations exist
that start destroying data until a ransom is paid or an attempt to obtain and exfiltrate sensitive information is
made. Some ransomware variants, such as NetWalker, have evolved from broadly distributed attacks to more
targeted attacks of specific organizations. Threats like these are not only more difficult to prevent, but they also are
more malicious in their intent and devastating in their potential effects. Their consequences are often immediate
and severely damaging.

Most security experts have come to recognize that cyberattackers have become more numerous, more persistent,
and cunning enough to make incident prevention alone an inadequate strategy. Organizations also are recognizing
the near certainty that some of the attackers’ attempts will succeed. In other words, it’s no longer a question of
whether an attack will succeed, but when. What steps can an organization take to minimize the effects of an
attack?

If your organization has concerns in this area or would like to have an external party review your security Aldrich
Technology can help with this. Please talk to a member of your service team if you have questions.
PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

State of Nonprofits, continued

Challenges with Resources

NFP revenue sources vary depending on the type of organization, ranging from membership dues to tuition to contributions and government grants. Yet, all these sources have been affected by the pandemic as special events have been canceled, schools have been closed, pledges have been uncollectible, membership dues have declined, and government funding sources have changed. Faced with the question of how to continue to provide services with less resources, organizations have re-forecasted their budgets to align with the changes happening due to the pandemic.

The risks associated with declining revenue can be both short and long term, and it is important for NFPs to consider the impacts on the financial viability of the organizations. NFPs with going concern issues have had to immediately assess their current situation, create financial scenario plans, and take strategic cost-saving measures. Many have had to discuss increases in spending from endowment funds and using board-designated funds to bridge the gap due to loss of operating revenues. Many organizations have approached donors to reclassify restricted funds for general operations.

NFPs that provide frontline services, such as health and human service organizations, have seen increased demand for their services during the pandemic. However, their ability to provide those services has been challenging due to various COVID-19-related impacts, including significant numbers of staff who were sick, quarantined, or working remotely and the inability to obtain personal protective equipment in a timely manner. Several NFPs simply had to close certain programs because it was impractical or impossible to provide the services in the current environment.

Workforce

Because so many NFPs provide services as opposed to goods, remote working and employee safety have been key challenges. Many organizations were not set up for remote work at the onset of the pandemic (for example, they relied on systems that are not cloud-based or lacked sufficiently strong security controls) and have had difficulty transitioning. Flexibility and a focus on security and communication were critical.

NFPs that typically provide face-to-face services are challenged by staff who are reluctant to work in that type of environment. Workforce challenges also include staff retention and recruitment as budget cuts have affected compensation, benefits, and staffing plans. For those still hiring, recruitment and onboarding processes have had to be conducted remotely. NFPs that have maintained a thriving workforce during this crisis have kept a critical focus on their people, including health, safety, and well-being.

Internal Control

Remote work environments also have brought changes to systems of internal control. Remote work environments have required organizations to re-evaluate their internal control systems to make sure that the controls are still effective with the change in location and information sources in a remote environment. Many NFPs have had to reevaluate existing controls for unintended gaps and design and implement new or mitigating controls (for example, digital review and approvals). Updates to existing policies or creation of new policies have also been needed to accommodate adjustments in roles and responsibilities, new funding sources, changes in IT, and so on.
PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

State of Nonprofits, continued

Internal Control, continued

Segregation of duties is often a challenge for small NFPs, but this challenge is magnified in the pandemic environment because of the changes in processes and duties necessitated by more virtual operations. With these changes, management will need to carefully consider who holds physical custody of assets, who is responsible for recordkeeping for assets, and who can authorize and approve transactions, and ensure those functions remain separate.

Documentation, although always important, may also require additional emphasis in the COVID-19 environment due to potentially increased scrutiny of estimates that affect key areas of the financial statements. Thorough explanations and supporting documentation for management estimates, including assumptions and methodologies applied, will be more important than ever given the heightened risk in areas such as asset impairment, debt covenants, and assessments of the entity's ability to continue as a going concern. Detailed recordkeeping also will be necessary for any COVID-19-related funding received and related costs incurred.

Staff members will continue to welcome remote working arrangements for various reasons, and for many organizations, remote work is essential to continuing operations in the current environment. Organizations should adapt to this change by understanding the risks, potential security impact, and underlying implications for the financial statement audit if risks go unmitigated. Organizations should first measure their risk by defining who is working remotely and how and why they are accessing and storing data via applications, hardware, and other technology. Once this assessment is completed, controls can be enforced and monitored. Whether applied to cloud-based applications or virtual private network (VPN) solutions, authentication controls (for example, password, lockout, and multi-factor authentication), data loss prevention capabilities, and compliance monitoring are important.

New Audit Reports

For audits of December 31, 2021 and after there will be a new format and wording to the engagement letter and the audit reports that are issued due to the implementation of new auditing standards. These standards are intended to enhance the communication value and relevance of the reports.

The new audit report standards also include required procedures over annual reports. If your Organization issues an annual report that includes financial statement information or references the financial statements, there are required procedures that need to be conducted by your audit team. Your audit team will go over the specifics of these requirements.

New Standards for Presentation and Disclosure of Gifts-in-Kind

ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, issued in September 2020, requires new presentation and disclosure standards for gifts-in-kind. The new standards are effective for fiscal years beginning after June 15, 2021 (and for those who do interim reporting, interim periods beginning the following year). Gifts-in-kind, referred to as contributed nonfinancial assets, are items such as food, supplies, used clothing and household items, intangibles, medical equipment, pharmaceuticals, and contributed services. The following paragraphs discuss the new standards and review certain existing standards for estimating the fair value of gifts-in-kind.
PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

State of Nonprofits, continued
New Standards for Presentation and Disclosure of Gifts-in-Kind, continued

Under ASU No. 2020-07, NFPs are required to present gifts-in-kind as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. An NFP is required to disclose in the notes to financial statements the total value recognized for each category of gifts-in-kind received, the sum of which should agree to the total value of gifts-in-kind recognized in the statement of activities.

For each category of contributed nonfinancial assets, an NFP is required to disclose the following:

- Qualitative information about whether contributed nonfinancial assets were either monetized (that is, sold) or used during the reporting period. If used, a description of the programs or other activities in which those assets were used should be disclosed.
- The NFP’s policy (if any) about monetizing, rather than using, contributed nonfinancial assets.
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
- A description of the valuation techniques and inputs used to arrive at a fair value measure used at initial recognition.

Lease Accounting

FASB issued ASU No. 2016-02 in February 2016. This standard replaces FASB ASC 840, which was more than 40 years old. With the goal of increasing comparability and transparency, the new leases standard essentially moves operating lease obligations from the footnotes to the statement of financial position. Prior to ASU No. 2016-02, lessees recognized only lease obligations (liabilities) and related assets for capital leases. This left financial statement users lacking valuable information regarding an NFP’s true operating costs and often required them to conduct further analysis of footnote disclosures to ascertain the costs of operating leases.

Bringing operating leases onto the entity’s statement of financial position could make a significant difference in the numbers that an organization is reporting. However, many lessees will be able to meet the new reporting and disclosure requirements using existing systems and processes, keeping additional costs of providing the required information at bay. ASU No. 2016-02 will be effective for NFPs for fiscal years beginning after December 15, 2021.