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Nonprofit Accounting and Tax Update

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Presenters

Tamara McInerney, CPA, Partner, Tax, BPM

Tamara has 27 years of experience providing accounting and tax services to closely-held businesses, private client services, trusts and nonprofit organizations. Her income tax services include tax planning and compliance for individuals, partnerships, LLCs, trusts, corporations and non-profit entities. She is experienced in creating strategies to minimize tax liabilities, stock option planning, preparing income tax projections, and identifying and researching complex tax issues for individuals and small businesses. Tamara specializes in trust and estate taxation, and in providing income and estate planning to private client services and closely-held businesses. She also has extensive experience working with charitable remainder trusts, private foundations and nonprofits.

Elena Serebriakova, CPA, Director, Tax, BPM

Elena has over 12 years in public accounting, with a focus on providing tax services to nonprofit and for-profit organizations. Her nonprofit experience includes community foundations, professional membership associations, education organizations, performing arts organizations, social welfare organizations and private foundations.

Presenters

Shannon Winter, CPA, Partner, Assurance, BPM
Shannon provides audit, review, compilation and consulting services to nonprofit organizations. She helps lead BPM's Nonprofit Industry group and provides training on a variety of nonprofit topics - including government compliance. She consults with clients regarding strengthening internal controls and compliance for recipients of local and federal awards. She has worked with both for-profit and nonprofit entities which have received local, state, and federal funds and require federal compliance audits. Her experience includes working with organizations that provide medical assistance to those with mental health issues, substance abuse, financial and housing assistance for low-income and at-risk veterans, individuals, and families, as well as the physically disabled, homeless, and membership organizations. Shannon enjoys helping organizations present their financial results and telling their story.

Agenda

- Tax Update
- Revisit of Revenue Recognition
- Upcoming Accounting Standards
- Single Audit and Uniform Guidance Updates
- Resources

TAX UPDATES

Tax Update Agenda

General Updates

- Electronic Filing Mandate (general 990-T and 990PF)
- Employee Retention Credit
- PPP Loan Forgiveness

990-T

- Section 512(a)(6) - UBI Silos
- Investment Activities
- Net Operating Loss

990, 990PF

- IRC 4960 – Excess Compensation

State

- Charitable Registration
- Remote workforce
- Other developments

GENERAL UPDATES

General Updates

Electronic Filing Mandate – 990

- Any 2020 Form 990-T with a due date on or after April 15, 2021 must be filed electronically and not paper file.
- A limited exception applies for 2020 Form 990-T returns submitted on paper that bear a postmark date on or before March 15, 2021

Electronic Filing Mandate – 990-PF

- Electronic filing is required for 2020 tax filings, or for a tax year beginning in 2020.

CARES Act Reminder & General Overview

Employee Retention Credit (ERC) originally enacted through the CARES Act on March 27, 2020

- The intent of the ERC was to provide an incentive for businesses affected by COVID-19 to retain employees on payroll – particularly for “small businesses” including exempt organizations
- The ERC is a payroll tax credit reported on your payroll tax return. The ERC is **fully refundable**. If your total retention credit exceeds your payroll tax liability, the excess can be refunded to you rather than carried over to subsequent quarters.
- The initial guidance stated that a company could not receive a PPP loan and also take advantage of the ERC.

Employee Retention Tax Credit Extension/expansion of ERC in American Rescue Plan and CAA

- **Restriction for PPP loans retroactively removed so employers can claim Employee Retention Credit (ERC) even if they received a forgiven PPP loan (use excess expenses)**
- Enhanced benefits for 2021
  - Expansion of the credit on wages up to $10,000 per employee per quarter (vs $10,000 per employee for year)
  - Allows up to 70% of wages as a credit (previously 50%). So, credit maximum per employee is $7,000 ($10,000 X 70%) for each quarter in 2021
  - Raised the full-time employee threshold to 500 employees (previously the expanded credit was allowed for employers with 100 or fewer full time employees)
- Significant decrease in receipts changed from 50% (2020 quarter compared to 2019) under CARES Act vs 20% (2021 quarter compared to 2019) under CAA and ARPA

Consolidated Appropriations Act vs CARES Act

Factor changed	CARES ACT	Consolidated Appropriations Act
Limit on Credit	50% of qualified wages Max of $5,000 per EE	70% of qualified wages per quarter Max of $28,000 per EE per year
Eligible if received PPP?	Not eligible *	Eligible (with election to exclude qualified wages from either payroll costs for PPP purposes or from calculation of credit)*
Employer size limitation	100 full-time employees	500 full-time employees
Gross receipts test	50% decrease in calendar quarters compared to 2019	20% decrease in calendar quarters compared to 2019
Availability	December 31, 2020	December 31, 2021

ERC Example 2020 vs 2021 – 10 Person Company

2020		2021	
Qualifying wages per employee (capped at $10,000 annually)	$10,000	Qualifying wages per employee (capped at $10,000 per quarter)	$40,000
Number of employees	10	Number of employees	10
Maximum qualifying wages	$100,000	Maximum qualifying wages	$400,000
Credit percentage	50%	Credit percentage	70%
Maximum credit for 2020	$50,000	Maximum credit for 2021	$280,000

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Eligibility Requirements – 2020 vs 2021

For 2020 – Eligible Employer is:

- Employer who experienced a 50% reduction in gross receipts compared to the corresponding 2019 quarter. The credit is increased by the proportionate share of the employer's health-care costs related to such wages, or
- Employer whose operation was fully or partially suspended due to orders from a governmental authority related to COVID-19

For 2021 – Eligible Employer is:

- Employer who experienced a 20% reduction in gross receipts compared to the corresponding 2019 quarter. The credit is increased by the proportionate share of the employer's health-care costs related to such wages, or
- Employer whose operation was fully or partially suspended due to orders from a governmental authority related to COVID-19

Notice 2021-23 modification – Gross Receipts Alternative Calculation

- For 2021, businesses can use the prior quarter in comparison to the 2019 quarter to determine their decline in gross receipts for eligibility

Gross Receipts – For Nonprofit Entities

- Total Sales for all activities
- Plus: Investment Income & Other
  - Interest
  - Dividends
  - Rents
  - Royalties
  - Annuities
  - Contributions
  - Gifts/Grants received
  - Member Dues

Employee Retention Credit -
Process for Claiming the Credit

Employee Retention Credits for 2020 are now only available using Form 941-X - Nonrefundable vs refundable – IRS appears to be refunding both now, regardless of 2020 deferral of employer SS tax.

Employer might choose to hold back credit amount from federal employment tax deposits (for the quarter)

- Employee federal income, social security and Medicare taxes
- Employer social security and Medicare taxes

If credit amount for the quarter exceeds federal employment taxes due, Form 7200, for an advance refund of credits, can be filed by small employers **BUT** only during the quarter or 1 month after the quarter.

IRS Exam Risk

- Congress took the unusual step of extending the statute of limitations for the IRS to assess amounts attributable to the Employee Retention Credit from the normal three years to **five** years

- The statute of limitations begins on the later of either the filing date of the original tax return that includes the calendar quarter with respect to which the credit is determined, or April 15 of the succeeding calendar year

- IRS Frequently Asked questions
  - https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act

PPP Loan Forgiveness

Notice 2021-20 and 2021-23

- Can use excess payroll not needed for PPP forgiveness for employee Retention credit (ERC); payroll expenses listed on application and needed for forgiveness deemed to be elected out of ERC.

If no non-payroll expenses listed on forgiveness application, then 100% of forgiveness was from payroll expenses (but excess still open for ERC) and can't use non-payroll portion that could have been listed and was not.

If non-payroll expenses listed on forgiveness application, then can be counted towards forgiveness first up to the 40% (or the amount of non-payroll expenses shown) and the remainder of PPP forgiveness is from payroll that us not eligible for ERC because it was used for PPP forgiveness.

Notice 2021-49 defines rules for Recovery startup businesses (new bus after 2/15/20).

Coordination with PPP Loans

Wages paid with forgiven PPP funds are not included in payroll Costs for purposes of computing the Employee Retention Credit

2020 Example

Total Qualifying ERC Wages	$1,000,000
Wages paid with PPP Funds	600,000
Total qualifying ERC wages Less PPP Funds	$400,000
Credit Rate (2020)	50%
Maximum Employee Retention Credit	$200,000

PPP Loan Forgiveness Reporting on 990

- IRS has provided no guidance.
- One way to report is as government contribution.
- Or follow Financial Statements reporting when loan is forgiven.

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UBI SILOING

Final Regs 1.512(a)(6)
Issued November 19, 2020

- Taxpayer may choose to apply it to taxable years beginning on or after January 1, 2018 or December 2,2020
- Tax-exempt organizations (TEO) have to use two-digit NAICS code to identify separate UBTI streams
- TEOs may aggregate investment activities, debt financed property income as one UBTI activity (subject to QPI definition)
- Pre-2018 NOLs have to be used to offset UBTI before applying post-2017 NOLs

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Two-digit NAICS codes

North American Industry Classification System (NAICS) U.S. Census Bureau

11 Agriculture, Forestry, Fishing and Hunting
21 Mining, Quarrying, and Oil and Gas Extraction
22 Utilities
23 Construction
31-33 Manufacturing
42 Wholesale Trade
44-45 Retail Trade
48-49 Transportation and Warehousing
51 Information
52 Finance and Insurance
53 Real Estate and Rental and Leasing
54 Professional, Scientific, and Technical Services
56 Administrative and Support and Waste Management and Remediation Services
61 Educational Services
62 Health Care and Social Assistance
71 Arts, Entertainment, and Recreation
72 Accommodation and Food Services
81 Other Services (except Public Administration)
92 Public Administration

No Need to Use NAICS Codes

- Controlled entities – each is treated as a separate trade a business. There is no need to separate specified payments from a single controlled entity.

- Income from controlled foreign corporations is treated as a single unrelated trade or business.

- Each S corporation interest is treated as a separate income stream except if a qualifying S Corp. interest.

INVESTMENT ACTIVITIES

Investment Activities

Qualifying investment activities include all the below items:

- Are qualifying partnership interest (QPIs).
- Are qualifying S corporation interest.
- Are debt-financed property.
- Can be treated as a single unrelated trade or business.
- Exempt organization (EO) may elect not to assign an NAICS code.

Investment Activities

Qualifying partnership interest:

- Once designated as QPI, will remain a QPI unless requirements are no longer met.
- One year grace period – if an EO's QPI in the preceding tax year would no longer qualify as a QPI in the current year, then the EO can treat that interest as a QPI in the current year

Investment Activities – De Minimis Rule

A partnership interest is treated as a qualifying partnership interest (QPI):

- If capital and profits interest in the partnership are no more than 2%.
- Under final regulations – there is no aggregation of partnership interests of the EO's disqualified persons, supporting organizations or controlled entities in determining the EO's partnership interest % under the de minimis test.

Investment Activities – Participation Test

- Treat a partnership interest as a QPI if the EO hold no more than 20% of the capital interests in the partnership and the EO does not significantly participate in the partnership.
- EO has to aggregate holdings of its 509(a)(3) supporting organizations and 512(b)(13) controlled entities.
- EO does not need to aggregate
  - the holdings of a type III supporting organization (unless EO parent).
  - the holdings of its disqualified persons.
- If EO is a general partners in a partnership, the partnership investment is not QPI regardless of the ownership %.

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Investment Activities

QPI initial questions:

- Any limited partner interest in partnership? Do those parentship generate UBI?
- What is the ownership %? More or less than 2%?
- If ownership % is more than 2% but less then 20%, does EO participates in partnership?
- If ownership more than 20%, are there second tier partnerships and what is the %?
- Does EO significantly participates in partnership (may require to perform or prevent to perform any act that significantly affects operations, participates in management, has a power to appoint or remove management team.)

Investment Activities

The look-through rule – change from proposed regulations.
It applies even if the EO has over 20% ownership or significantly participates in the directly held partnership, if:

- The second-tier or other lower-tier partnership meets the requirements of the de minimis test with respect to the EO, or
- The second-tier or other lower-tier partnership meets the requirements of the participation test with respect to the partnership that directly owns the interest in the indirectly help partnership.
- Practical point – how to receive information for second tier or lower-tier partnerships from the directly help partnership especially is multiple tiers are involved.

Investment Activities

- Things to consider for De Minimis Test and Participation Test.
- Aggregation of related party interest.
  - Not required for de minimis test.
  - Aggregation is required of controlled entities & supporting organization (other than non-parent Type III supporting organizations) for participation test.
- Schedule K-1
  - Cannot always rely on schedule K-1.
  - Sometimes Schedule K-1 shows capital and profits % as various.
  - There is usually no information for the lower tier partnerships.

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NET OPERATING LOSS

Net Operating Losses

- NOL deductions calculated separately with respect to each trade or business for taxable years beginning after 12/31/2017.
- Pre-2018 NOLs must be taken before post-2017 NOLs and can offset all siloed activities.
- Post-2017 NOLs can be carried back it can offset aggregate UBTI.
- Post-2017 NOLS when carried forward – silo rules apply.
- If an activity which had a siloed NOL is terminated or sold – the NOL is suspended.
- If the organization restarts the activity or starts a new activity under the same NCAIS code – can use suspended NOL.

Net Operating Losses - Modification

- IRC Section 172(a) amended for use of NOL for Corporate and noncorporate businesses
- Taxpayer no longer subject to the 80% taxable income limitation on the use of NOL
- Taxpayer can carryback NOLs incurred in the 2018, 2019, or 2020 tax years to offset any taxable any taxable income earned in the prior five years
- Reinstatement of the 80% taxable income limitation for tax years beginning after December 31, 2020
- Taxpayer may elect to waive the carryback period for NOL arising in those years.

TAX ON EXCESS COMPENSATION

IRC 4960 Excess Compensation and Excess Parachute Payments

- Imposes a 21% excise tax on.
- Applicable tax-exempt organization (ATEO) under section 501(a), section 521(b)(1), section 115(1), or section 527(e)(1).
- Pays remuneration in excess of $1M and/or any excess parachute payments to a covered employee.
- Excess compensation - need to count renumeration from the ATOE and related organizations.
- Excess parachute payments – paid by ATEO.
- Effective for taxable years beginning after 12/31/2017.

IRC 4960 – Covered Employees

- Any employee (including former employee) of an applicable tax-exempt organization if employee:

Is one of the 5 highest compensated employees of the organization for the taxable year (including renumeration paid by related organizations), or

Was a covered employee of the organization (or any predecessor) for any preceding taxable year beginning after 12/31/2016.

Once covered, always covered.

IRC 4960 - Final Regulations

- Final regulation apply to tax years beginning after 12.31.2021.
- Clarification on remuneration – treated as paid when “vested”, no short-term deferral rule.
- Additional guidance on volunteer exceptions – limited hours, nonexempt funds, limited services (ask your tax preparer for more detail).
- What needs to be included in the calculation: Box 5 of w-2, earning in vested 457(b) and 457(f) amounts, vested amounts deferred to next year, less previously paid remuneration, less GTL, less 401(k).

Section 4960 Additional Questions

- Is there 457(f) or 457(b) plan?
- If yes, is it vested?
- Are there any accrued earnings?
- Short-time deferrals (bonuses) – when does a bonus vests?
- Is there a bonus plan document?
- If employees quit their jobs before the payments date, are they entitled to receive the bonus?
- The accounting department needs to coordinate with HR/finance/attorney.
- The organization must consider renumeration paid by related taxable entities and track any vested amounts, so the compensation is not double-counted.

IRC 4960 Excess Parachute Payments

- Parachute payment: any payment to, or for benefit of, a covered employee in the nature of compensation if:
  - It is contingent on involuntary separation from the employment, and
  - It had an aggregate present value of greater or equal 3 times the base amount
- Base amount- average annual compensation (over 5 recent tax years) includable in gross income (box 1 of W-2).

Example: CFO leaves the organization in August 2021. CFO's base amount is calculated using 2016-2020 Form W-2, box 1 amounts 200K.
3 times base is 600K.
If the CFO receives a parachute payment over 600K, it is parachute payment.
If the CFO receives 580K – no parachute payment.

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Form 4720 – Used to Report Excess Compensation and Excess Parachute Payments

- Form 4720 – Used to compute and report the excise tax.
- The taxpayer (ATEO, related ATEO, related taxable organization) if liable for the tax despite any arrangements made between organizations.
- No estimated taxes for 4720.
- The liability must be paid by original due date (with the return or extension).
- The IRS is working on mandatory electronic filing of Form 4720.

STATE UPDATES

Charitable Registration

- Charitable solicitation – definition varies from state to state but a charitable solicitation generally includes any direct or indirect request for contributions for charitable purposes including oral and written statements, offers for sale and announcements for special events.
  - Was there an affirmative act such as asking for a gift or selling goods or services that will benefit the organization?
- A charitable solicitation in a state may trigger a registration requirement with that state
- States have different threshold requirements for filing.
- 41 states and DC require charities to register prior to soliciting
- There are some exemptions (“religious organization”, less than $25,000 of national donations. Educational institutions, organization which limit solicitations to membership)

Charitable Registration – Internet Fundraising

- Charleston Principles: offered as a guide to states as to when charities solicit via Internet
  - These principles are dynamic and may change
  - State charity officials should require registration of those over whom their court could constitutionally assert personal jurisdiction to enforce a registration requirement.
  - The authority is broader in case of deceptive charitable solicitations

- Entities that are domiciled within the state – must register in that state

Charitable Registration – Internet Fundraising, Cont.

- Entities that are domiciled outside the state – must register, If:
    a. Non-internet activities warrant a registration
    b. The entity solicits through an interactive Web site and either
        1. targets a person physically located in the state
        2. receives contributions from the state in a repeated and ongoing basis
        3. Solicits contributions through a website that is not interactive, but specifically invites further offline activity to complete the contribution, or establishes other contact with the state (sending emails or other communication to promote the website)

Solicitation Disclosures With the States

- Depending on a state, the solicitation materials may need to have a specific disclosure statement
- If professional fundraisers solicit on a charity's behalf, their solicitation materials might need to have a specific disclosure statement
- Depending on the state a written disclosure could be a very short one (DE) or very long one (CA and NY)
- Some law firms specialize in multi state registration and compliance for nonprofits. Some helpful sites are below:
  - Nonprofit Fundraising Registration & Compliance - Perlman and Perlman
  - National Association of State Charity Officials (nasconet.org)
  - Nonprofit Reporting & Compliance Requirements | Hurwit & Associates (hurwitassociates.com)

News About Schedule B

- There were four states which required to provide full schedule B – CA, NY, NJ, and HI
- On July 1, 2021 the Supreme Court invalidated California requirement that charities should provide names and addresses of their top donors to CA Attorney General office.
- Effective July 1, 2021, the Registry of Charitable Trusts will no longer require the filing of schedule B to the IRS Form 990 as part of the registration and annual reporting requirements.
- NY AG's Charities Bureau stated on its website that it was suspending collection od schedule B until NY policies are reviewed

More States Developments

- Effective January 1, 2021, FTB no longer requires $10 CA form 199 filing fees and $25 fee for filing form 3500.
- CA form 199 late filing fee was repealed, but late filing penalties ($5 per month) still apply.
- NY – a bill was passed by state legislature which would repeal a requirement for 501(c)(3) charities to submit schedule B to both NY AG Charities Bureau and NY Department of State. The bill still needs to be signed by the NY Governor.

Remote Workforce

Your employees want to work from Bali and Hawaii, now what?

State and Local Tax Considerations

- Charitable solicitation registration may be required if employees solicit contributions
- Business Tax
- Sales tax
- Income Tax – is there an activity which triggers UBTI? What about taxable related organizations?
- Gross receipts tax – usually does not apply
- Employment tax
- Franchise tax

Nexus Standard

Nexus represents sufficient connection that allows a state to impose tax, examples:

Employee activities of telecommuting employees who work from home offices

Regular and systematic travel into a state

Remote Workforce – State Tax Considerations

- Employee working from home can create Nexus in a jurisdiction and trigger withholding requirement.
- State tax must be withheld for the state in which an employee is performing services.
- Employees generally are subject to tax in the state of residence.
- Convenience of the employer rule – a few states treat compensation earned remotely as if it was earned in the employer's home state (DE, NE, NY, PA)
- Tax reciprocity agreements with neighboring states – permit workers to pay tax in the jurisdiction where they live.

Remote Workforce – Other Considerations

- Administrative costs – additional state tax compliance obligation, business and payroll tax.
- Documentation and substantiation – for any tax relief.
- Temporary arrangement?
- Employees continue to work remotely post-pandemic.
- Business to increase remote work opportunities, offer flexibility.
- Co-ordination between the payroll department and human resources information systems.

State Guidance – COVID-19 Tax Relief

- Some states issued specific state tax withholding obligation guidance for employers with employees who are working remotely due to COVID-19:

  Alabama, Connecticut, Georgia, Iowa, Illinois, Kansas, Kentucky, Massachusetts, Maryland, Maine, Michigan, Minnesota, Mississippi, Nebraska, New Jersey, Rhode Island, South Carolina, Vermont

- Few states have issued guidance on tax relief for business tax.

Additional 2020 and 2021 Tax Considerations

Individual charitable contribution deduction for non-itemizers

- $300 per return for cash contributions in 2020
- $300 for cash contributions in 2021 (up to $600 on a joint return)

Individuals who itemize for 2020 and 2021 the 60% AGI limitation for cash contributions to public charities is disregarded.

Additional Temporary Tax Considerations

ARPA - allowed employers to **voluntarily** extend emergency paid sick leave (EPSL) and Emergency Family and Medical Leave Expansion Act (EFMLEA) provisions of the Families First Coronavirus Response Act (FFCRA) to employees and receive tax credits through Sept. 30. https://www.irs.gov/newsroom/employer-tax-credits-for-employee-paid-leave-due-to-covid-19

COBRA subsidy - https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/faqs/cobra-premium-assistance-under-arp.pdf

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Additional Resources

Paycheck Protection Program https://www.bpmcpa.com/News-Events under COVID-10 Topics

EIDL Advance Program – Initial $10K for Small businesses and nonprofits in low-income communities was increased by a Supplemental Targeted Advance of $5K. https://www.sba.gov/funding-programs/loans/covid-19-relief-options/eidl/targeted-eidl-advance-supplemental-targeted-advance

COVID EIDL Loans
https://www.sba.gov/document/support-faq-regarding-covid-19-eidl

Disaster Relief: How Charities must document relief activities
https://www.irs.gov/charities-non-profits/charitable-organizations/disaster-relief-how-charities-must-document-relief-activities

Potential Changes for Donor Advised Funds

Accelerating Charitable Efforts (ACE) Act would establish a timeline – but no requirement to distribute – for donations to charities from DAF's and replace current DAF rules with two new types of DAF's.
https://www.king.senate.gov/imo/media/doc/ace_act.pdf

The Initiative to Accelerate Charitable Giving (IACG) launched efforts to reform charitable giving laws, especially those governing DAF's.
https://acceleratecharitablegiving.org/

Other Proposed changes that could impact charitable giving

Increase marginal rates from 37% to 39.6% for taxpayers with AGI over certain thresholds

Tax on capital gains on taxpayers with income over $1M could be at ordinary income rates. (vs current 23.8%)

Transfers by gift or death could be subject to income tax. This excludes charitable donations, meaning donations would not generate taxable capital gain to the donor and charities would take a carryover basis in the contributed assets.

Limiting the deferral of gain from Like-kind exchanges to $500K per taxpayer ($1M for married taxpayers filing jointly)

Raising corporate income tax rate to 28% from 21%

Avoid Public Relations Issues

Hospital offering board members COVID-19 vaccinations before access was widely available to community and before their “turn”.

Nonprofit organization holding in person events early in the pandemic that exposed participants to risk of infection (Turning Point USA).

College admission Scandal.

Avoid public relations issues or IRS Scrutiny

Other examples:

Excess compensation payments

Failure to substantiate business expenses

Failure to make required excise tax reporting payments

Governance issues (failure to govern)

Political activities (permitted advocacy vs direct political activity)

Private inurement

REVISIT OF REVENUE RECOGNITION

ASU 2018-08 – Contributions Received and Contributions Made

- ASU was not deferred
- Resource Recipients: Effective for periods beginning after December 15, 2018
- Resource Providers: Effective for periods beginning after December 15, 2019

Refresher

Project added to FASB's Technical Agenda to **improve and clarify** existing guidance

ASU 2014-09, *Revenue from Contracts with Customers,* including related disclosures, heighted the issue

Raised question as to whether grants and contracts are in scope of that guidance (reciprocal or nonreciprocal)

Long –standing diversity in practice in classifying grants and contracts, particularly from governmental entities

Issue 1: Reciprocal Versus Nonreciprocal

- Many NFPs treat federal grants/contracts with governmental entities as exchanges (regardless of substance)
- Some equate the government with general public
- Many believe the government doesn't give "contributions"

Issue 2: Conditional Versus Unconditional

- Stakeholders find it difficult to distinguish between a conditional and unconditional contribution; causing diversity in application
- If funds are provided with certain stipulations, there's difficult in distinguishing whether contribution is conditional, restricted, or both
- Diversity in application of "remote" notion – whether likelihood of facility to meet a condition is remote. (Some NFPs believe any condition within their control has remote likelihood of not being met.)

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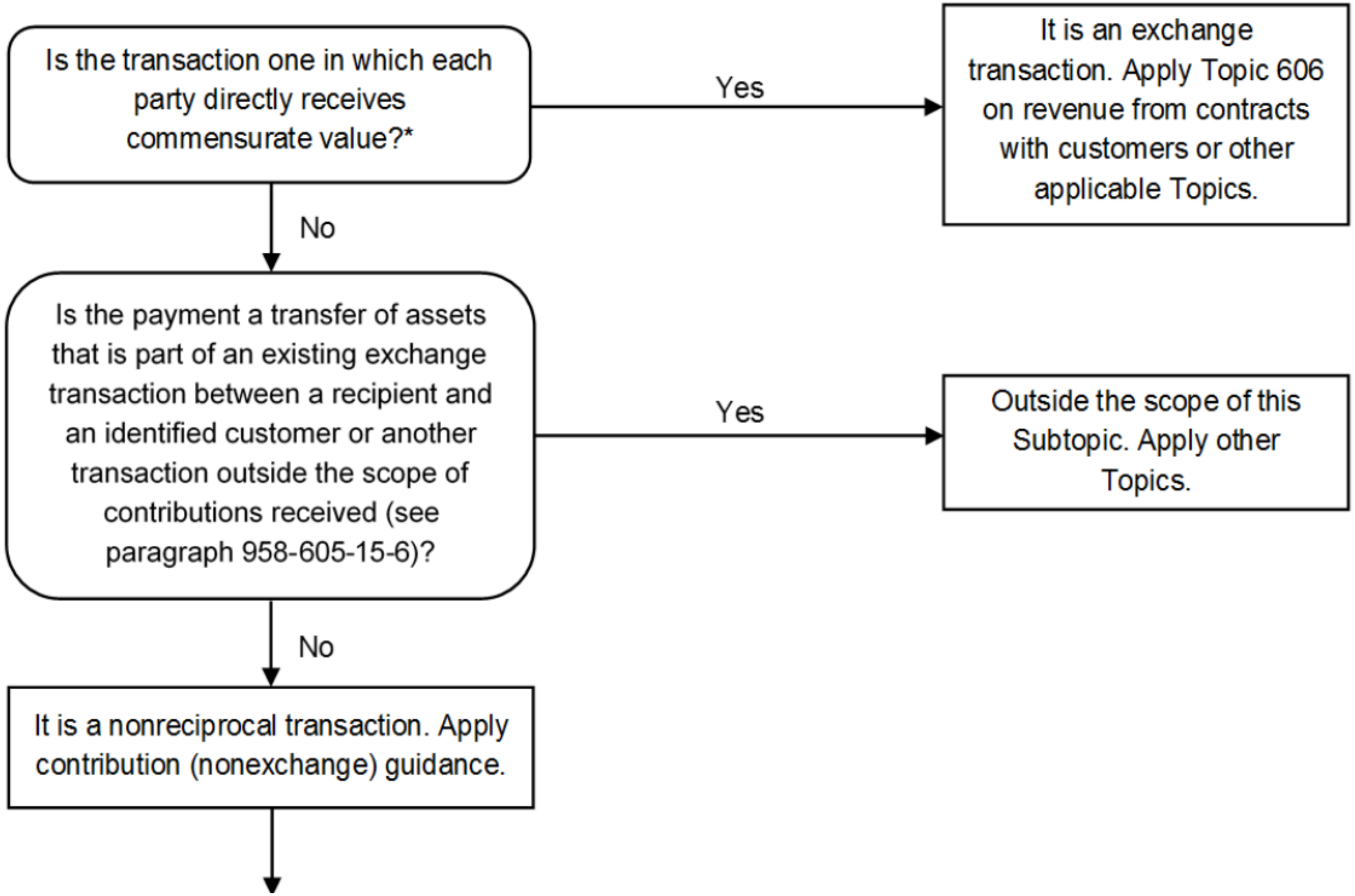
Decision Making Process



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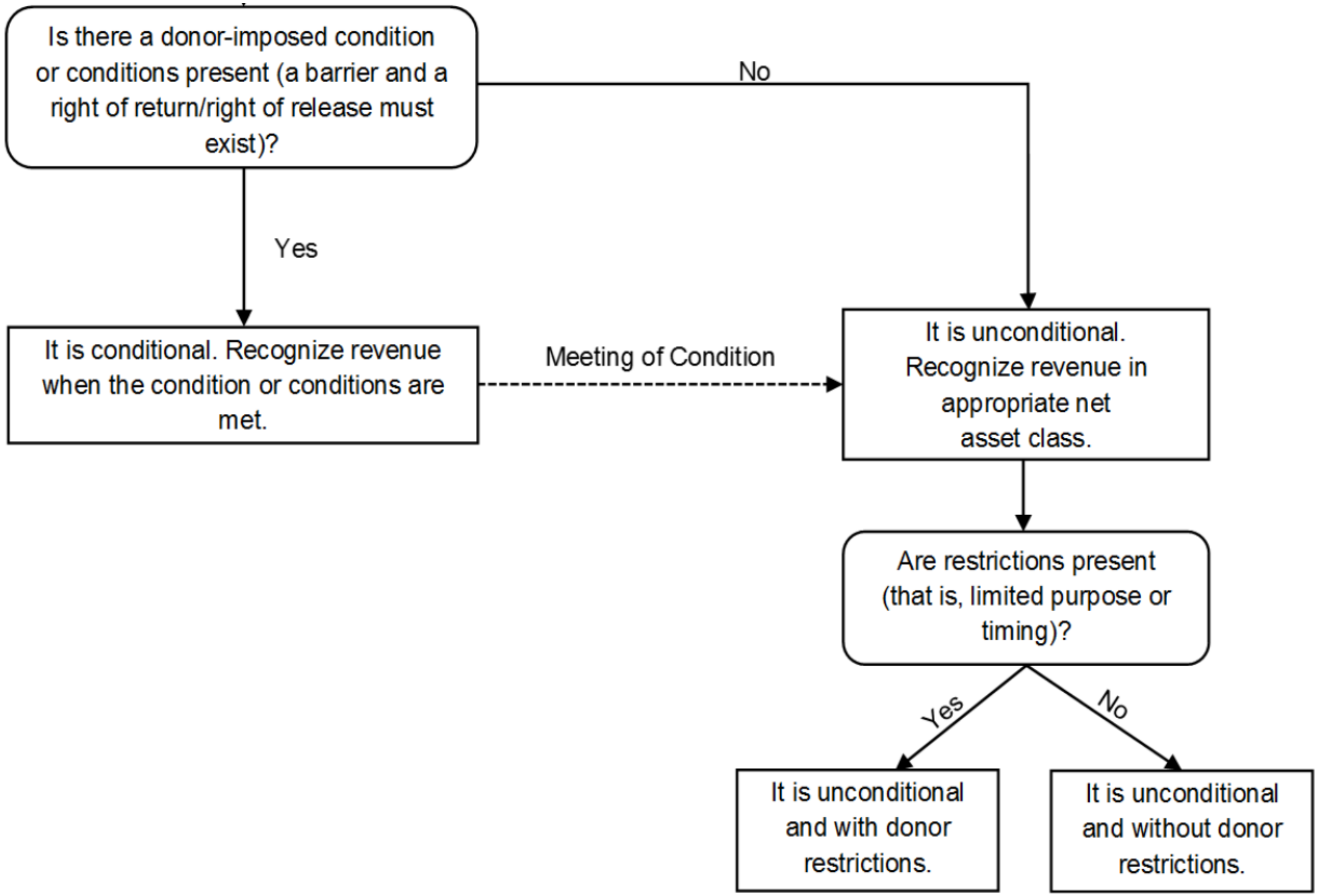
Decision Making Process



Contribution vs. Exchange Transactions

Indicative of Exchange (606)	Indicative of Contributions (958-605)
Expressed intent by both parties to exchange resources for goods/services of commensurate value	Recipient solicits assets from resource providers without the intent of exchanging goods/services
Both parties agree on the amount of assets transferred	Resource provide has full discretion in determining the amount of transferred assets
Contractual provisions provide for assessment of penalties beyond the amount of assets transferred, on failure to perform	Penalties assessed for failure to comply with terms of the agreement are limited to delivery of assets already provided and return of unspent funds
Goods/services provided directly benefit the resource provider or are for its own use	Benefit by the public - this is NOT equivalent to commensurate value received by the resource provider
Resource provider obtains proprietary rights, such as patents, copyrights, or advance and exclusive knowledge of research outcomes	Executive of the resource provider's mission, or positive sentiment from acting as donor is not providing commensurate value

Indicators of a Barrier

To determine what is a barrier, an NFP will consider indicators, which will include, but are not limited to, the following:

- The inclusion of a measurable performance-related barrier or other measurable barrier. (E.g. specific level of services, specific output(s) or outcome(s), match)
- The extent to which a stipulation limits discretion by the recipient on the conduct of an activity (E.g. qualifying expenses, specific protocol)
- The extent to which a stipulation is related to the purpose of the agreement (excludes administrative or trivial)

Key Judgement Area #2 – performance metrics on which entitlement depends vs. “best efforts” metrics.

Conditional Contributions - Barriers

- **Measurable Performance Related Barrier:**
  - Often coupled with a time limitation
  - A specific level of services
    - *Example: Provide 200 meals to the homeless*
  - An identified number of units of outputs
  - A specific outcome
    - *Example: Students must achieve a specific standardized test score*

- **Limited Discretion by Recipient on Activity:**
  - Limited use of a contribution to a specific activity or time but do not necessarily place limitations on how the activity is performed
  - Follow specific guidelines:
    - Qualifying expenses
    - Hire specific individuals
    - Specific protocols that must be adhered to

Conditional Contributions – Barriers (continued)

- **Stipulations that are Related to the Purpose:**
  - Requirement for homeless shelter to provide specific number of meals
  - Requirement for an animal shelter to expand facility for a specific number of animals
  - Research report that summarizes findings from a grant on specific item
  - Administrative and trivial stipulations are not related to the purpose and include routine reporting such as:
    - An annual report
    - Report that summarizes the recipients performance
    - Report showing number of meals provided typically would not contribute to achieving the purpose of the agreement, rather the action of providing a specific number of meals would meet the stipulation and achieve the purpose of the agreement

Disclosures

Recipients	Resource Providers
No additional recurring disclosures have been added in the guidance.	No additional recurring disclosures have been added to the guidance.
Guidance in Topic 958 includes disclosures for unconditional and conditional promises to give.	Guidance in Topic 958 includes a cross reference to the disclosures in Topic 450, Contingencies and in Topic 470, Debt.
For conditional promises to give, recipients are required to disclose: - The total of the amounts promised - A description and amount for each group of promises having similar characteristics	Resource providers also are required to provide information about unconditional promises to give.

Disclosure Thoughts

- Not intended to be a laundry list disclosures of conditional contributions
- Consider key attributes of the barriers and group together, such as:
  - Subject to matching
  - Incurring qualifying expenses
  - Measurable performance barrier

UPCOMING ACCOUNTING STANDARDS

Overview of FASB Updates

Removed the **Simplifying the Balance Sheet Classification of Debt** and **Consolidation of a NFP by a For-Profit Sponsor** projects from the agenda.

Conceptual Framework Projects

- Elements (Redeliberations), Measurement (Drafting ITC), Presentation (Drafting Final)

Recognition and Measurement Projects

- Identifiable Intangible Assets and Subsequent Accounting for Goodwill
- Leases – Discount Rate for Lessees that are Not Public Business Entities
- Recognition and Measurement of Revenue Contracts with Customer Under Topic 805

Presentation and Disclosure Projects

- Income Taxes, Inventory, Interim, Government Assistance, Supplier Finance Programs Involving Trade Payables

Research Projects

- Accounting for and disclosure of intangibles, Agenda consultation, Financial statements of Not-for Profit Entities

Full technical agenda can be found here

ASU 2020-07 – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

Effective Date

- Amendment will be effective for annual periods after June 15, 2021 (6/30/22)
- Early adoption permitted

Objective

- Increasing transparency about contributed nonfinancial assets through enhancements to presentation and disclosures

Scope

- Contributions and nonfinancial assets (fixed assets, use of fixed assets, materials and supplies, intangibles, services)

Importance of Transparency

- Many NFPs, including smaller NFPs, receive and use significant amounts of gifts-in-kind (GIKs)
- The value of GIKs can impact key metrics for not-for-profit (NFP) entities, such as the program expense ratio and liquidity and reserve ratios
- It can also have significant implications for the financial/ programmatic sustainability of the NFO
  - If the level of GIKs decreases, and NFP must decide whether to (1) spend other resources to make up the difference or (2) pare back the level of its programs.

Requirements

- Present contributed nonfinancial assets as separate line item in the statement of activities
- Disclose a disaggregation by category of nonfinancial asset. For each category, also disclose information about how the assets are used (for monetized), including any associated donor/grantor restrictions, and how they are valued (at initial recognition).
- Presentation Requirement – separate line-item presentation of contributed nonfinancial assets in the statement of activities, apart from contributions of cash or other financial assets
  - *Present comparatively if comparative financials are presented*

GIK Example 1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions, primarily from individuals:			
Cash and other financial assets	67,920	74,330	142,250
In-kind	127,760		127,760
Government grants	52,600	-	52,600
Other income	66,580	-	66,580
Net assets released from restrictions	19,200	(19,200)	-
Total revenues, gains, and other support	334,060	55,130	389,190
Expenses			
Animal shelter operations	212,960	-	212,960
Supporting services:			-
Management and general	20,385	-	20,385
Fundraising	21,570	-	21,570
Total expenses	254,915	-	254,915
Change in net assets	79,145	55,130	134,275

GIK Example 2

	Without Donor Restrictions				
	In-Kind	Other	Total	With Donor Restrictions	Total
Revenues, gains, and other support					
Contributions, primarily from individuals	127,760	67,920	195,680	74,330	270,010
Government grants	-	52,600	52,600	-	52,600
Other income	-	66,580	66,580	-	66,580
Net assets released from restrictions	-	19,200	19,200	(19,200)	-
Total revenues, gains, and other support	127,760	206,300	334,060	55,130	389,190
Expenses					
Animal shelter operations	111,570	101,390	212,960	-	212,960
Supporting services:					
General and Administrative	-	20,385	20,385	-	20,385
Fundraising	-	21,570	21,570	-	21,570
Total expenses	111,570	143,345	254,915	-	254,915
Change in net assets	16,190	62,955	79,145	55,130	134,275

Disclosure Requirements:

- Quantitative: Disaggregation of the amount of contributed nonfinancial assets received **by category**
- Qualitative: For each category:
  - (a) Information about whether the assets were monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used.
  - (b) The NFP's policy (if any) for monetizing rather than utilizing contributed nonfinancial assets
  - (c) A description of any associated donor restrictions
  - (d) A Description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with paragraph 820-10-50-2-(bbb)(1), at initial recognition
  - (e) The principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed nonfinancial assets

Current Issues in Financial Reporting (COVID-19)

- FASB shares global concerns about the stakeholder impact of the Coronavirus pandemic in the United States and abroad
- FASB continue to monitor and respond to the situation and is committed to supporting and assisting stakeholders during this time
- The FASB website has a page focused on the FASB Response to COVID-19
- Resources for stakeholders include:
  - ASUs
  - Staff Q&A/educational documents
  - Board meeting recaps and minutes
  - Media advisories
  - Links to the technical inquiry service and to the implementation portal

Accounting for Lease Concessions

Staff interpretation in response to impacts of COVID-19 and the expectation that many lessors will provide lease concessions to lessees for a significant number of lease contracts

Entities may elect to account for concessions related to COVID-19 as if enforceable rights and obligations for those concessions existed in the original contract

Entities can then forego reviewing contracts to see if rights and obligations for COVID-19 concessions explicitly or implicitly exist

As a result, entities do not have to apply the modification accounting requirements in Topics 842 and 840

Election is only for concessions that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee

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FASB Staff Q&A

Goodwill – Accounting Alternative for Evaluating Triggering Events

- ASU 2021-03, *Intangibles – Goodwill and Other 9Topic 350), Accounting Alternative for Evaluating Triggering Events*
- Issued – March 30, 2021
- Scope – Private companies and NFPs
- Main Takeaway:
  - Eligible entities may elect to perform its goodwill impairment triggering event evaluation as of the **end** of each reporting period (whether the reporting period is an interim or annual period)
  - Effective for fiscal years beginning ***after*** December 15, 2019
  - Early adoption permitted
  - Prospective application

Reporting of Federal COVID-19 related Assistance

FASB staff, in consultation with Board members, have worked with the AICPA and other key stakeholders to help ensure timely guidance that’s consistent with GAAP

Paycheck Protection Program

Higher Education Emergency Relief Fund

Healthcare Provider Relief Fund

Paycheck Protection Program Loan

Accounting Models	Debt Model (Topic 470, Subtopic 405-20)	Conditional Grant (Contribution) Model (Subtopic 958-605)	Gain Contingency Model (Subtopic 450-30)	Government Assistance Model (IAS 20)
Recognition of loan proceeds	Loan payable	Refundable advance	Liability	Deferred income liability
Accrued interest	Yes	No	No	No
Timing of income recognition and derecognition of the loan	Debtor is legally released	Conditions substantially met	All contingencies met and gain is realized or realizable	Reasonable assurance that conditions will be met
Description	Gain on extinguishment	Grant revenue (or gain)	Gain	Other income or reduction of related expenses

Disclosure of Significant Accounting Policies

- Questions have been raised about disclosures of government assistance
- Paragraph 235-10-50-3
  - Entities are required to **identify and describe the accounting principles** that materially affect financial statements
  - Disclosures generally include judgements as to **appropriateness of principles relating to recognition of revenue and allocation of assets costs to current and future periods**. Specifically:
    - A selection from existing acceptable alternative
    - Principles and methods peculiar to the industry in which the entity operates
    - Unusual or innovative applications of GAAP

Impacts of COVID-19 on NFPs

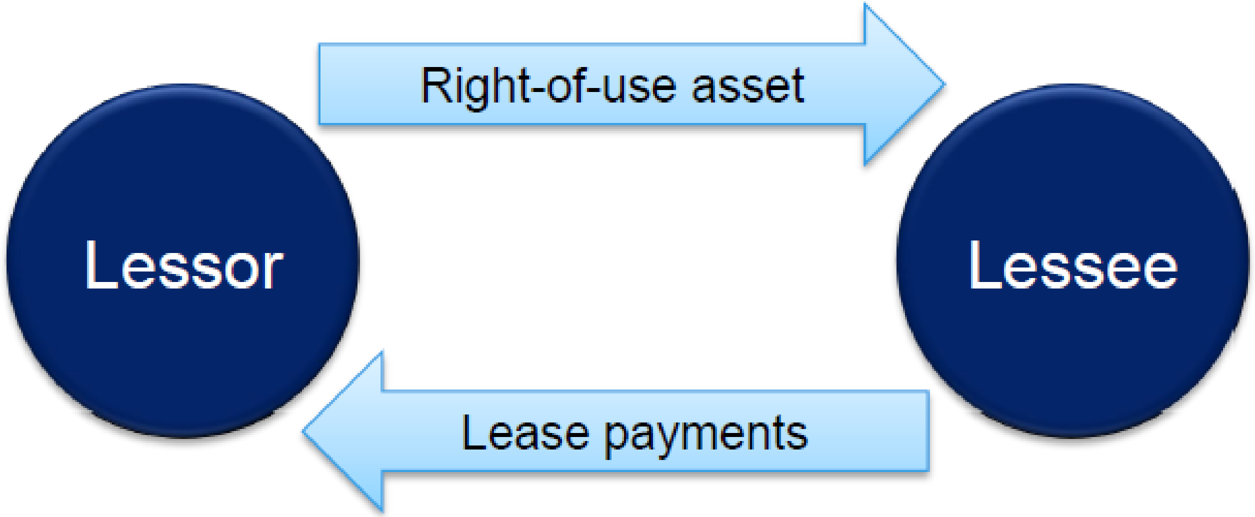
- Subsequent events
- Risks and uncertainties
- Asset impairment
- Fair value measurements
- Revenue recognition
- Modifications or extinguishment of liabilities
- Insurance recoveries

Impacts of COVID-19 on NFPs, continued

- Contingent losses
- Going concern evaluations
- Leases
- Business combinations
- Internal controls and segregation's of duties
- Fraud – increased health and financial threats

Overview of New Lease Standard (Topic 842)

A lease is a contract, **or part of a contract**, that conveys the right to control the use of identified property, plant or equipment (an identified asset) for a period of time in exchange for consideration



Overview of New Lease Standard (Topic 842)

	Balance Sheet	Income Statement	Cash Flow Statement
Finance	Right-of-use (ROU) asset Lease liability	Amortization expense Interest expense	Cash paid for principal and interest payments
Operating	Right-of-use (ROU) asset Lease liability	Single lease expense on a straight-line basis	Cash paid for lease payments

Recognition and measurement exemption for short-term leases (12 months)

Other than public business entities may use risk-free rates for measurement of all lease liabilities

Lease – Preliminary Takeaways

- Users
  - Different users use the information about leases differently
    - Used without adjustments
    - Used with adjustments, or
    - Not used, revert to legacy analyses
  - Mixed feedback on single operating lease cost compared to interest and amortization
  - Continue to evaluate disclosures and tends
  - Recommended improvements to certain disclosures
- Preparers and Practitioners
  - Feedback on challenges during implementation and ongoing application
  - No fundamental changes recommended
  - Select areas for improvement suggested (modification accounting)
  - Support for continued educational efforts by FASB

Leases – Discount Rate for Lessees That are not Public Business Entities

- Objective – to reconsider the risk-free discount rate accounting policy election afforded to lessees that are not public business entities
- Scope – Lessees that are not public business entities, including all not-for-profit entities and employee benefit plans
- Tentative Board Decisions –
  - Level of accounting policy election
  - Discount rate specified in accounting policy election
  - Interaction between the rate implicit in the lease and the accounting policy election
- Transition and effective date – retrospective transition (effective annually after December 15, 2021), unless lessee has **NOT** adopted Topic 842

Current Expected Credit Losses (CECL)

Not In Scope:
contributions receivable (pledges), most grants receivable (if following the contribution model)

- Loans and debt Instruments not measured at fair value through net income
- Trade receivables and contract assets recognized under ASC 606
- Certain lease receivables
- Financial guarantee contracts and loan commitments

Reference Rate Reform - Introduction

- Reference Rate – What is it?
  - A reference rate is a variable interest rate used to determine interest-related cash flows
  - Interbank offered rates (IBORs) are widely used in the global financial system as reference rates for a large volume and across a broad range of financial products and contracts
    - Examples – USD LIBOR, GBP LIBOR, Euribor, CHF LIBOR
- What is Reference Rate Reform?
  - Financial Stability Board called for (a) the identification of risk-free alternative rates to replace IBORs and (b) transition plans to support the reference rate reform effort
  - Focus – Tie benchmark rates more closely to observable, arms-length transactions

Reference Rate Reform

- Topic 848
  - ASU 2020-04: *Reference Rate Reform (Topic 848): Facilitation of the Effect of Reference Rate Reform on Financial Reporting* – provided accounting relief for contract modifications and hedges
  - ASUS 2021-01: *Reference Rate Report (Topic 848): Scope* – Addressed emerging diversity in practice related to certain derivative instruments that undergo a change in the interest rate used for discounting
- What Does "Account Relief" Mean?
  - Simplify accounting evaluations
  - Relief is optional
  - Relief is temporary – applies during the transition period when contracts are modified
- Ongoing Monitoring
  - March 5, 2021 – LIBORs will stop being published as of June 30, 2023
  - Relief currently expires December 31, 2022

Goodwill and Intangible (ASU 2019-06) Project

- Extends existing Private Company Alternative to NFPOS, as a package:
  - Amortize Goodwill over 10 years (or less)
  - Subsume certain Customer Related Intangibles, all Noncompete Agreements into Goodwill and amortize
  - Test Goodwill for impairment upon triggering event, instead of annually
  - Option to do impairment test at entity level, instead of reporting unit level

- Similar open-ended effective date as private companies – one-time ability to elect without having to demonstrate preferability
- Still on table for further discussion

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SINGLE AUDIT AND UNIFORM GUIDANCE UPDATES

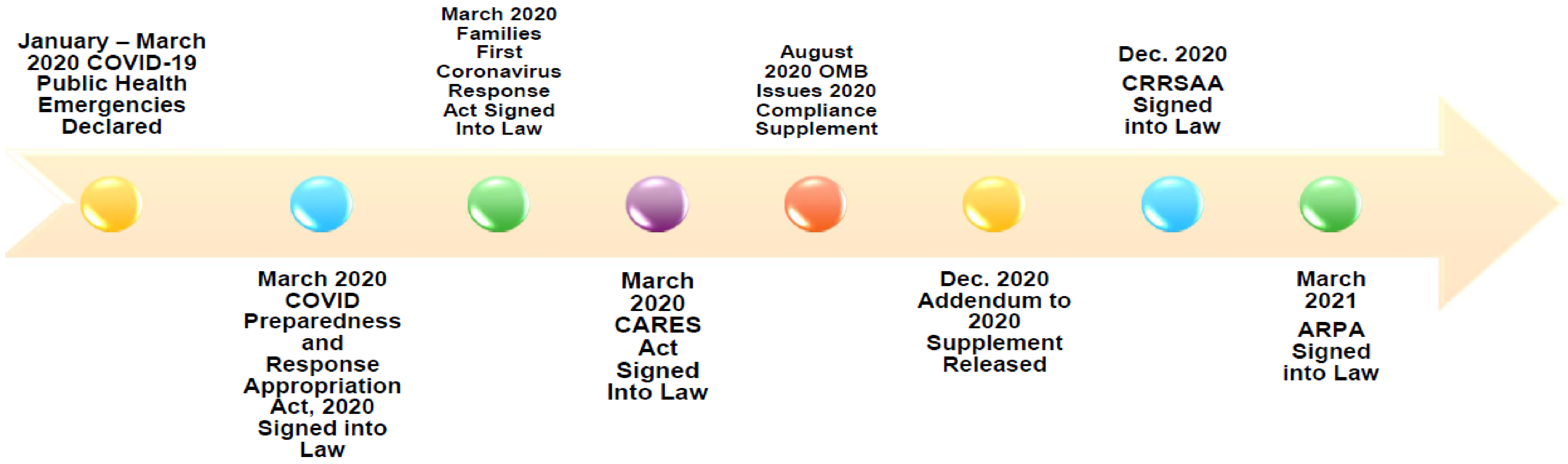
Effect of Current Environment on Governmental Audits

- COVID-19 impact continues including both accounting and auditing challenges
  - Massive infusions of federal funding for many entities
  - Increased fraud risks
  - Client internal control considerations
  - Noncompliance with laws/regulations
- Revenue uncertainties/going concern
- Accounting estimates
- Remote auditing considerations continue
- Clock ticking again on previously postponed accounting and AICPA auditing standards

Effect of Current Environment on Governmental Audits

- Historic federal funding in response to pandemic
  - Many new programs
  - Impact on existing programs receiving additional funding
- New recipients/increase in first-time single audits = HIGHER RISK!
- Late (or continued lack of) federal guidance resulting in delayed audits from 2020 and workload compression
- Year 2 audit considerations for CARES/CRRSAA major programs from 2020
- Federal focus on accountability and transparency
- Quality continues to be a focus; significant federal oversight expected over COVD-19 funding

Single Audit – What A Year!!



OMB Memo M-21-20

OMB Memorandum M-21-20 issued on March 19, 2021, to federal agencies relevant to ARPA

- Encourages application of UG to ARPA funding both to non-federal entities and for-profits
- Higher risk program identification
  - We have been having initial conversations with OMB on this topic and implications for future single audits
- Waivers, flexibilities, and more
- Six-month audit extension for audits not submitted on March 19, 2021, through June 30, 2021, year-ends
  - Much broader than prior extensions
  - No linkage to receipt of COVID-19 funding or operational impact like previous extensions

Technical Update - Single Audit

ATTACHMENT – SNAPSHOT OF IMPACT OF 6-MONTH EXTENSION PROVIDED BY OMB MEMO 21-20 FOR AUDITS NOT SUBMITTED AT 3/19/21		
Fiscal Year End	Normal Due Date*	Extended Due Date*
June 30, 2020	March 31, 2021	September 30, 2021
July 31, 2020	April 30, 2021	October 31, 2021
August 31, 2020	May 31, 2021	November 30, 2021
September 30, 2020	June 30, 2021	December 31, 2021
October 31, 2020	July 31, 2021	January 31, 2022
November 30, 2020	August 31, 2021	February 28, 2022
December 31, 2020	September 30, 2021	March 31, 2022
January 31, 2021	October 31, 2021	April 30, 2022
February 28, 2021	November 30, 2021	May 31, 2022
March 31, 2021	December 31, 2021	June 30, 2022
April 30, 2021	January 31, 2022	July 31, 2022
May 31, 2021	February 28, 2022	August 31, 2022
June 30, 2021	March 31, 2022	September 30, 2022

* Per section 200.512 of the Uniform Guidance, if the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day. Dates in these columns have NOT been adjusted accordingly for those situations.

Access GAQC [Summary of COVID-19 Related Deadline Extensions]

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2021 Compliance Supplement

- https://www.whitehouse.gov/wp-content/uploads/2021/08/OMB-2021-Compliance-Supplement_Final_V2.pdf
- *Identification of COVID-19 Awards*. New information added to this section of the appendix states that OMB is currently working to issue a new summary to identify new ARP programs, as well as which existing federal programs received COVID-19 funding from ARP. OMB states it will post this information on https://www.cfo.gov/ as soon as it is available
- Two future addenda to be issued

Background, timing, effective date

2021 Supplement to be issued in multiple parts again this year

First part:

- Released on Friday – see previous slide for link.
- Effective for audits of fiscal years beginning after June 30, 2020.
- Will provide the 2021 Supplement by section once released by GAQC in coming weeks.

Subsequent part:

- Certain new ARP programs will be issued separately in Addendum that will be posted to cfo.gov (timing and format uncertain).

What does COVID-19 Funding Mean

Year 1 – the meaning of COVID-19 funding was more intuitive – primarily form CARES Act

Year 2 – it includes all new programs and existing programs (subject to single audit from the following:

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief and Economic Security Act
- Coronavirus Response and Relief Supplemental Appropriations Act
- American Rescue Plan Act

Appendix VII

- Clearly identify COVID-19 funding on the SEFA and Data Collection Form

	a	b	c	d	e	f	g	h
	Assistance Listing #	Assistance Listing #						
Row Number (auto-generated)	Federal Awarding Agency Prefix	Assistance Listing Three-Digit Extension	Additional Award Identification	Federal Program Name	Amount Expended	Cluster Name	Federal Program Total (auto-generated)	Cluster Total (auto-generated)
					($)		($)	($)
1	93	558		TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	$3,000,000.00		$4,000,000.00	
2	93	558	COVID-19	COVID-19 - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	$1,000,000.00		$4,000,000.00	
				Total Federal Awards Expended =	$4,000,000.00			

SEFA Challenges

- Challenges around determining when there is an award
- Challenges because many of the new programs provide for a period of performance and allow for application of costs (or lost revenue, as applicable) incurred in periods both before and after the award existed and often spanning more than one fiscal year of the nonfederal entity
- Timing issue
- Guidance on the Reporting of Certain COVID-19 Awards on an Accrual Basis SEFA - https://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/downloadabledocuments/aicpa-gaqc-nonauthoritative-covid-19-scenarios.pdf

RESOURCES

Available Resources

- BPM News and Events - https://www.bpmcpa.com/News-Events
- Employee Retention Credit: Do You Qualify? - https://youtu.be/bjEWgfvTcVM
- BPM Training – In-Kind Donations: New Requirements and a Refresher on Existing Standards - https://www.youtube.com/watch?v=-LrcUiFZhmE&list=PLYt4iI5aczz12kppUD1AGiGtGbdak828I&index=8
- BPM Training – Uniform Guidance and Single Audit Requirements - https://www.youtube.com/watch?v=9juf6J6kDdM&list=PLYt4iI5aczz12kppUD1AGiGtGbdak828I&index=7

Available Resources (continued)

- 2 CFR Revisions (Redlined) - Nonauthoritative OMB reference document providing a markup identifying changes
- 2 CFR Revisions (85 FR 49506) Crosswalk - Document posted on www.cfo.gov that compares the revisions to 2 CFR made in August 2020 with previous CFR guidance
- https://ecfr.federalregister.gov/current/title-2/subtitle-A/chapter-II - beta site - Allows user to access current version of 2 CFR and also refer to historical versions
- FAQs, *Prohibition on Covered Telecommunications and Video Surveillance Services or Equipment* - addresses questions surrounding updates to section 200.216 of 2 CFR

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Thank You!