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# Not-for-Profit Accounting Update

PRESENTED BY

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# Objectives

- GAAP Update
  - › Recently implemented standards & challenges
    - Revenue recognition
    - Contributed nonfinancial assets
    - Leases
    - COVID-related government assistance programs
  - › Newly effective ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
  - › Accounting standards on the horizon

# Objectives

- Single Audit Update
  - › Requirements
  - › Changes applicable to current year
  - › Upcoming revisions Uniform Guidance
  - › Preparation of the Schedule of Expenditures of Federal Awards
  - › Grant audit requirements specific to for-profit entities
- Tax Update
  - › Unrelated business income taxes
  - › Beneficial Ownership Information (BOI) reporting & applicability to nonprofits

# Objectives

- Tax Update, continued
  - › DOL rules related to Fair Labor Standards Act
    - Employees vs. independent contractors
    - Exempts vs. non-exempt
    - Effective now, but could be impacted by legal challenges
  - › Current IRS nonprofit audit focus

# GAAP Update

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# Revenue Recognition

- Background

- › FASB ASC 606 was issued in 2014 & applies to contracts with customers



- › For not-for-profit organizations, affects only exchange transactions
- › FASB issued ASU 2018-08 to address

- Challenges

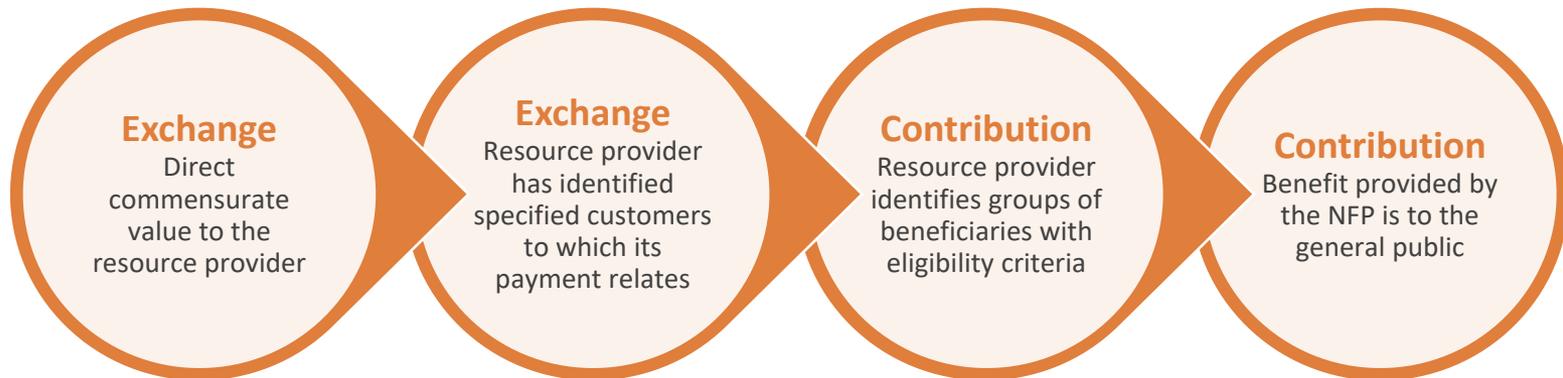
- › Determining what is exchange vs. contribution
- › Contracts with elements of both

# ASU 2018-08 Refresher

- Clarifies whether to recognize your not-for-profit's revenue as a contribution or exchange transaction
- Applies to all entities that receive or make contributions
- Addresses conditional contributions
- Disparity in practice for transactions with government entities
  - › Exchange
  - › Contribution

# Is it an Exchange Transaction?

## 4 Transaction Categories to Help You Decide



# Contracts with Elements of Both

- ASC 958 - guidance specific to a membership arrangement
  - › Should be applied by analogy to other transactions
  - › Recognize \$25 as an exchange transaction
  - › Recognize \$75 as a contribution
  - › *Not always as clear cut as in this example*

# Contribution & Exchange Indicators - Membership Dues

Indicator	Contribution	Exchange Transaction
Purpose of dues payment	Benefits to general public	Benefits to members
Extent of benefits	Negligible	Substantive
NFP's service efforts	To members & nonmembers	Only to members
Duration of benefits	Not specified	Defined period
Refundability	Not refundable	Fully or partially refundable
Qualifications for membership	General public	Meet certain criteria

*Source: ASC 958-605-55*

# Contributed Nonfinancial Assets

- ASU 2020-07 effective annual periods beginning after June 15, 2021
- No change to initial measurement of the contribution
- Presentation & disclosure requirements only
  - › Separate line item on the statement of activities
  - › Disclose
    - Monetized or utilized
    - Policy regarding monetization
    - Donor-imposed restrictions
    - Valuation techniques & principal market

# Challenges

- Contributed services
  - › Only recorded if they meet 1 of 2 criteria
    - Create or enhance nonfinancial assets
    - Require specialized skills that would typically be purchased
  - › Disclosures required even if not recognized as revenue
- Determining fair value may be challenging
  - › Pharmaceuticals sourced in foreign countries
  - › Items that do not actively trade in markets that publish pricing information
  - › Evaluate valuation techniques & inputs used

# Leases

- Background

- › ASC 842 - fiscal years beginning after December 15, 2021
- › Increase transparency & comparability
- › Definition of a lease
- › Substantially ALL leases will be reported on the statement of financial position

# Financial Statement Impact Summary - Lessee

Lease Classification	Statement of Financial Position	Statement of Changes	Cash Flow Statement
Finance Lease	Right-of-use (ROU) asset / Lease liability	Amortization expense; interest expense	Cash paid for principal & interest payments
Operating Lease	ROU asset / Lease liability	Single lease expense on a straight-line basis	Cash paid for lease payments

# Polling Question #1

**How does your organization calculate and maintain the ROU asset and lease liabilities under ASC 842?**

- A. Add-on to existing accounting software (i.e. NetLease for NetSuite)
- B. Third-party software (i.e. LeaseCrunch)
- C. Microsoft Excel
- D. We do not have material leases

# Challenges

- Completeness of lease portfolio
- Calculating the asset & liability
- Discount rate
- Short-term lease recognition exemption
- Below market rent

# COVID-Related Government Assistance Programs

- Paycheck Protection Program
  - › Debt
  - › Conditional contribution
- Employee Retention Tax Credits
  - › Nonexchange transaction with a governmental entity that is accounted for as a conditional contribution
  - › Changing rules & eligibility periods may have resulted in recognizing revenue subsequent to the period in which the ERTC relates
  - › Do **not** net income with expenses

## Polling Question #2

**Has your organization received all Employee Retention Tax Credits (ERTC) for which you have applied?**

- A. Yes – no further IRS correspondence
- B. Yes – currently under IRS audit
- C. No – application has been approved
- D. No – application has not yet been approved
- E. No – denied or expect to be

# FASB ASC 326

- ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
- Fiscal years **beginning after** December 15, 2022
- Cumulative-effect adjustment to opening net assets as of the beginning of the first reporting period FASB ASC 326 is effective
- Significantly changes how entities measure credit losses on most financial assets & certain other instruments
- Introduces a new methodology for recognizing credit losses

# In & Out of Scope Assets

## Applies To

- Financing receivables
- Held-to-maturity debt securities
- Receivables that result from revenue transactions under Topic 606 (contract assets)

## Scope Exceptions

- Financial assets measured at fair value through changes in net assets
- Available-for-sale debt securities
- Promises to give (pledges receivable)
- Loans & receivables between entities under common control
- Receivables arising from operating leases accounted for in accordance with Topic 842

# Conditional Contributions

- Does FASB ASC 326 apply to conditional contributions made to a nonprofit entity?
  - › FASB ASC 326-20-15-3e provides a scope exception to promises to give (pledges receivable)
  - › Accordingly, conditional contributions are within the scope exception in FASB ASC 326-20-15-3e; not within scope of CECL

## Example – Trade Receivables

- Is historical experience still relevant?
- How do current conditions compare with historical experience?
- Use reasonable & supportable forecasts - most challenging aspect of the new standard!
- Not expected to be a significant change for short-term trade receivables

## Example – Related Party Loans

- An entity has loans receivable with a related party (not in a common control group) for which the credit quality disclosures in FASB ASC 326-20-50-4 to 50-5 apply
- The loan is very informal & client did not provide any credit quality indicators
- How can an entity comply with the aforementioned credit disclosures?

## Example – Related Party Loans

- FASB ASC 326-20-55-15 provides examples of credit quality indicators, including all of the following:
  - › Consumer credit risk scores
  - › Credit-rating-agency ratings
  - › An entity's internal credit risk grades
  - › Debt-to-value ratios
  - › Collateral
  - › Collection experience
  - › Other internal metrics

## Example – Related Party Loans

- Collection experience, aging or other internal metrics may be used
- Reporting entity does need to provide information that enables a financial statement user to:
  - › Understand how management monitors the credit quality of its financial assets, AND
  - › Assess the quantitative & qualitative risks arising from the credit quality of its financial assets

# Programmatic Loans

- AICPA issued working draft of Chapter 8, *Programmatic Investments, of the Audit & Accounting Guide: Not-for-Profit Entities, for application of FASB ASC 326, Credit Losses (CECL)*
- Comments by July 12, 2024
- Draft provides examples of programmatic loans
- Draft states that forgivable loans are conditional contributions; outside scope of CECL

# On the Horizon

- ASU 2023-01, *Leases (Topic 842) Common Control Arrangements*
  - › Effective fiscal years beginning after December 15, 2023
- ASU 2023-08, *Accounting for and Disclosures of Crypto Assets*
  - › Effective fiscal years beginning after December 15, 2024

# Polling Question #3

**Is your organization prepared for the changes brought by ASU 2016-13, which introduces a new methodology for recognizing credit losses?**

- A. Fully prepared
- B. Somewhat prepared
- C. Unprepared
- D. Not applicable to our organization

# Single Audit Update

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# Single Audit Overview

- Required from all recipients who expend \$750,000 or more in aggregate federal financial assistance within their fiscal year
- Conducted by independent auditor procured by auditee
- Conducted after conclusion of fiscal year
- Due the **earlier** of 30 calendar days after receipt of the auditor's report, or within 9 months after auditee's fiscal year-end
- Comprised of 2 sections

# Single Audit Update

- Yellow Book – 2024 Revision
- COVID-19 federal expenditures
- Department of Treasury recently updated its [ERA program FAQs](#)
- HHS has launched a new [webpage](#) as educational resource

# Single Audit Update

- Federal Audit Clearinghouse – Change from Census to GSA!
  - › GSA FAC [single audit submission resources page](#)
  - › Detailed [submission guide](#) available
- OMB issued final revisions to the Uniform Guidance in a Federal Register notice April 22, 2024
  - › [Red line document](#) showing UG revisions

# Uniform Guidance Revisions

- Effective October 1, 2024 - NOT effective for June 30, 2024, fiscal year-end audits
- Auditor revisions
  - › Audit threshold increases from \$750,000 to \$1 million
  - › Type A threshold increases to \$1 million
  - › Amount of questions costs "undetermined" or "unknown": Auditor explanation required
- Auditee revisions
  - › Raises *de minimis* indirect cost rate
  - › Modifies & expands definitions
  - › Adds requirements related to cybersecurity

# SEFA Challenges

- Definition of expenditures
  - › Report on SEFA when "expended"
  - › May include more than costs incurred covered by federal funds
  - › Medicare & Medicaid generally **not** considered federal awards
- Accuracy of reporting
  - › Presented on the accrual or cash basis of accounting
  - › Completeness

# Grant Audits for For-Profit Entities

- Also known as “Compliance Audits” or “Program-Specific Audits”
- If receive federal funds, may be subject to \$750,000 per year federal expenditure threshold
- No Single Audit (all-inclusive with the financial statement audit) — this is an audit of the Schedule of Expenditures of Federal Awards

# Polling Question #4

**What do you expect your federal expenditures will be in your next fiscal year?**

- A. < \$500,000
- B. \$500,000 - \$749,999
- C. \$750,000 - \$999,999
- D. \$1,000,000 - \$1,249,999
- E. < \$1,250,000

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# Tax Update



# New for 2024

- Organizations exempt under Section 501(a)
  - › Those exempt from taxation under 501(c)
  - › **Must electronically file Form 8940 to request miscellaneous determinations**
    - Government entities requesting voluntary termination of exempt status under 501(c)(3)
    - Canadian registered charities requesting inclusion in Tax Exempt Organization Search database or a determination on public charity classification
    - Private foundations giving notice of intent to terminate private foundation status under 507(b)(1)(B)

# Alternative Fuel Vehicle Refueling Property Credit

- Available 2023 through 2032 for nonprofits in low-income communities or non-urban areas
- Inflation Reduction Act tax credit for alternative fuel
- Base credit equal to 6% of cost, limited to \$100,000 credit/item or property
- Organization can claim a 30% credit

# Unrelated Business Income Taxes

- UBIT:
  - › Income from a trade or business
  - › Regularly carried on
  - › Not substantially related to the organization's charitable, educational or other purposes
- Gross income of more than \$1,000 from an unrelated business must file Form 990-T, separately
- Estimated taxes must be paid if it expects tax for the year to be \$500 or more

# Common Examples of UBIT

- Advertising
  - › Income from sponsorships = exempt
  - › Income from ads with a clear call to action = **not** exempt
- Certain rental income
  - › Income derived from a debt-financed property, unless at 85% of the property's use was for exempt purpose
- Merchandise sales
- Exclusions
  - › Royalties
  - › Dividends & interest

# Beneficial Ownership Information (BOI) Reporting

- Regulatory requirements to disclose information about who ultimately owns/controls the business and on entity itself
- Beneficial owner is defined as any individual who directly or indirectly exercises substantial control OR owns or controls at least 25% of ownership interest
- Purpose is to enhance transparency
- Effective January 1, 2023
- If tax-exempt as a 501(c)(3), **not required** to report BOI
  - › ***Must have 501(c)(3) determination letter from IRS!***

# DOL Rules Related to the FLSA

- Classification of employee or independent contractor
  - › New rules - are workers "economically dependent" on employer
  - › Factors to consider (non-exhaustive)



# DOL Overtime Rule

Effective Date	Standard Salary Threshold	Highly Compensated Salary Threshold
July 1, 2024	Rise up to \$844 per week/\$43,888 per year (up from \$684 per week/\$35,568 per year).	Rise to \$132,964 per year from \$107,432; individuals must be paid minimum of \$844 per week.
January 1, 2025	Goes up again to \$1,128 per week or \$58,656 per year.	Increases to \$151,164 per year; individuals must be paid at least \$1,128 per week.
July 1, 2027	New rate automatically adjusted for inflation every three years.	New rate automatically adjusted for inflation every three years.

*Source: Council of Nonprofits*

# Current IRS Audit Focus

- Employment tax issues
  - › Proper worker classification
  - › Filing of required returns
  - › Remote workers
  
- Unrelated business income
  - › Ensure revenue streams are documented
  - › Certain specific activities are addressed
  - › Consideration & conclusion if revenue streams satisfy exception or exclusion

# Current IRS Audit Focus

- Insider transactions
  - › Why in best interest of organization
  - › Solicitation of other bids
  - › Documentation is key
- Reasonable compensation
  - › Comparability
  - › Key responsibilities
  - › Expense reimbursements
  - › Documentation
- Private benefit transactions
- Lobbying & political contributions
- Registrations
- Governance

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