July 2025

Not-for-Profit Accounting Update

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Cohen & Co

Welcome!

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Webinar Objectives

Learn more about:

- Federal funding declines and implications for not-for-profit audits and financial statements
- Single Audits in light of now effective 2024 Uniform Guidance
- Applicability of ASC 326, *Financial Instruments – Credit Losses*
- New accounting pronouncements and important tax-related issues

Federal Funding Today

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Polling Question #1

How much federal funding does your organization typically receive each year?

- $0 to $100,000
- $100,000 to $500,000
- $500,000 to $1 million
- Greater than $1 million

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Polling Question #2

For your next fiscal year, have you budgeted for a decline in your current level of federal funding overall?

- Significant decline
- Moderate or nominal decline
- No known decline
- No expected decline

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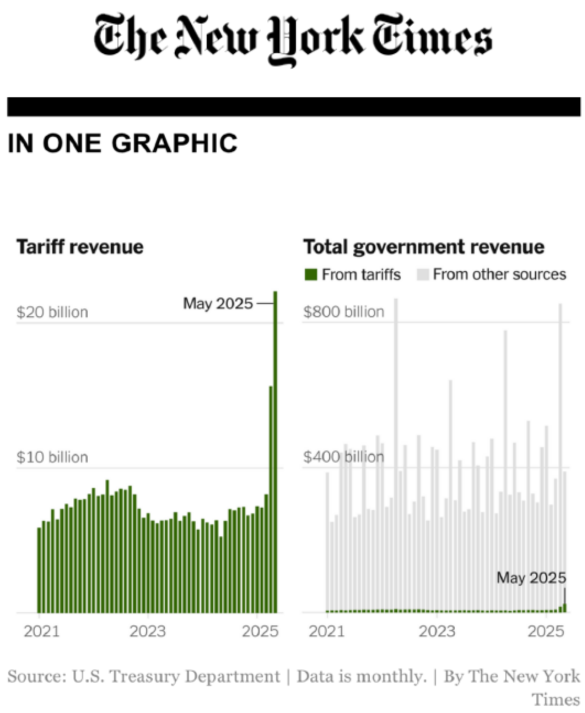
Government Funding

- Individual income taxes and payroll taxes account for 84% of funding
- Corporate and excise taxes have been decreasing in percentage of total revenues since 1950
- Tariff revenue grew exponentially in 2025 but is still a small percentage of total government funding



https://www.nytimes.com/2025/06/11/business/trump-tariffs-tax-bill.html?

Government Spending

- Executive branch implements Congress-approved budget
- Office of Budget and Management (OMB) oversees and sets guidelines for federal funding
  - Contracts
  - Grants
    - Discretionary
    - Earmark
    - Formula
  - Cooperative agreements
- Federal funding received by for-profit entities and nonprofit organizations

Grant Audits: What Your For-Profit Entity Needs to Know

Tuesday, August 12

11 a.m. to Noon

Blanket Federal Funding Freeze

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

January 27, 2025

M-25-13

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Matthew J. Vaeth, Acting Director, Office of Management and Budget

SUBJECT: Temporary Pause of Agency Grant, Loan, and Other Financial Assistance Programs

The American people elected Donald J. Trump to be President of the United States and gave him a mandate to increase the impact of every federal taxpayer dollar. In Fiscal Year 2024, of the nearly $10 trillion that the Federal Government spent, more than $3 trillion was Federal financial assistance, such as grants and loans. Career and political appointees in the Executive Branch have a duty to align Federal spending and action with the will of the American people as expressed through Presidential priorities. Financial assistance should be dedicated to advancing Administration priorities, focusing taxpayer dollars to advance a stronger and safer America, eliminating the financial burden of inflation for citizens, unleashing American energy and manufacturing, ending "wokeness" and the weaponization of government, promoting efficiency in government, and Making America Healthy Again. The use of Federal resources to advance Marxist equity, transgenderism, and green new deal social engineering policies is a waste of taxpayer dollars that does not improve the day-to-day lives of those we serve.

Uncertain Environment

- OMB issued a blanket federal funding freeze in January 2025
  - Means to review federal financial assistance
  - Align with new executive orders
  - Caused widespread confusion
  - Memo was rescinded, but federal funding freeze remained in effect
- Court challenges and legal battles
- Mass layoffs in many government agencies
- DOE grants facing more scrutiny and administrative challenges
- Cost-reimbursement payment delays

Operational Effects

- Payment delays
  - Communicate with funders and stakeholders
  - Diversify income sources
  - Implement changes, as needed
  - Update cash-flow projections
- Federal award cancellations
  - Review termination clauses in original award
  - Pause spending on grant
  - Seek legal counsel
  - Complete required closeout activities
  - Maintain copies of reports and correspondence
  - Preserve funder relationships

Accounting Effects

Contribution revenue (ASC 958-605)

- Conditional contributions
  - Revenue is not permitted to be recognized until one or more barriers have been overcome
  - Federal funding freeze by itself would not represent an additional condition or barrier to be overcome
- Collectability of federally funded contributions receivable
  - Delay in payment does not mean cancellation
  - Consider any uncertainties in assessment about collectability
  - Adjust related allowances in the period in which the expectation changes

Accounting Effects

Revenue from exchange transactions (ASC 606)

- Variable consideration
  - Possible adjustment to transaction price (Step 3 of revenue recognition model)
- Allowance for credit losses
  - Government's refusal to pay would not represent a credit loss, as it is not default
  - Adjustment to revenue vs. allowance for credit losses
- Contract modification
  - "Change is scope or price (or both) of a contract that is approved by the parties to the contract," but both parties do not have to approve
  - Contract may have a "termination for convenience" clause
    - Government must reimburse for costs incurred to date

Financial Statement Effects

Subsequent events

- Type 1
  - Events and transactions that provide additional evidence about conditions that existed at the balance sheet date
  - Recognized subsequent events
- Type 2
  - Events that provide evidence about conditions that did not exist at the balance sheet date but arose subsequent thereto
  - Nonrecognized subsequent events

Financial Statement Effects

Disclosures

- Nature of operations
- Concentrations
- Risks and uncertainties
- Subsequent events
- Liquidity and availability of resources
  - As of balance sheet date
  - Does not include effects of subsequent events
  - Quantitative and qualitative disclosures are required

Subsequent to the balance sheet date, the Federal Government instituted a pause on the funding of federal grant and loan funds. While these funds have been properly reflected as available for general use as of the reporting date, their collectability is subject to significant uncertainty related to [describe uncertainty in terms of circumstances, timing of collections, potential asserted adjustments, disputes, etc.] due to this funding freeze or other federal actions.

Audit Effects

Going concern

- Determine if substantial doubt is raised
  - Entity's ability to meet its obligations as they become due
- If substantial doubt is raised, determine if substantial doubt exists
  - Considers entity's plan to alleviate the substantial doubt
  - If substantial doubt is raised, disclosure is required
- Determine if management's plans alleviate the substantial doubt
  - Probable that plans will effectively be implemented within one year after the date the financial statements are issued AND
  - Probable that management's plans, when implemented, will mitigate the conditions or events that raise substantial doubt

What's Next?

- Still much uncertainty
- One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025
  - Decrease federal tax revenue by $4.5 trillion from 2025 through 2034
  - Permanent extension of the 2017 tax cuts
  - Provide additional tax cuts and changes to the tax code
  - Reduce federal spending

One Big Beautiful Bill Act: A Closer Look at Industry Impact
Tuesday, July 29
11 a.m. to 12:15 p.m.

Single Audits and the 2024 Uniform Guidance

Polling Question #3

We are subject to a Single Audit for our most recent fiscal year-end (December 31, 2024, or June 30, 2025).

- True
- False
- Unknown at this time

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Single Audit Update

OMB issued final published version of the 2024 UG released April 2024

- Generally, the effective date for the final guidance is 10/1/24 (applied to awards issued after that date)
- Effective date for existing awards "will depend"
- Some UG changes do not pertain to individual awards (i.e., the increased UG audit threshold, increased Type A threshold, etc.)
  - Effective: Fiscal year-ends beginning on or after 10/1/2024
  - ***Changes that do NOT pertain to individual awards will not affect the 12/31/2024 and 6/30/2025 year-ends***

Single Audit Update

2024 UG Background

- The Council on Federal Financial Assistance (COFFA) website is the repository for related UG implementation guidance such as:
  - Redline document
  - 2 CFR Crosswalk
  - OMB Memorandum M-24-11
  - Federal agency implementation guide
- COFFA issued the following documents:
  - FAQs (developed from previous questions on 2 CFR)
  - Memorandum for the federal financial assistance community (COFFA Memo)

Single Audit Update

2024 UG Background

- Per the COFFA memo, the version of the UG applicable to the auditee is based on the federal awarding agency's implementation of 2 CFR
  - Some federal award agencies adopt with exceptions or deviations
  - Check federal agency websites to identify exceptions or deviations
- If recipients are passing funds down (that is, they are PTE), inform subrecipients about which version of the UG applies to subawards (based on the original PTE award)
- If recipient is a subrecipient, reach out to PTE to understand which version of the UG applies to subawards
- Archived no-CPE GAQC event titled, The New Uniform Guidance: What Has Changed

Single Audit Update

- Yellow Book – 2024 revision issued
  - New Chapter 5 titled, Quality Management, Engagement Quality Reviews and Peer review
  - Effective date aligns with AICPA's SQMS standards
  - Effective for financial statement audit, attestation engagements and reviews of financial statements for periods beginning on or after December 15, 2025
  - Early implementation permitted

2025 Compliance Supplement

- OMB has not yet issued 2025 Compliance Supplement
- Once issued, effective for audits of fiscal years beginning after June 30, 2024
- **NOTE:** The information on the following slides are based on GAQC's review of drafts, please review the 2025 supplement once issued
- Federal Audit Clearinghouse (FAC)
  - The provider of the FAC changed from the Census to GSA in 2024. Submission due at the earlier of 30 days after issuance or nine months after year-end

2025 Compliance Supplement

- Part 2 - Several changes to requirements subject to audit; requirements that changed between "Y" & "N" changes will be shown bold and yellow highlighted
- Part 3 – will include a Part 3.1 & 3.2 to address the 2024 UG Revisions
  - Part 3.1 - for awards subject to pre-2024 UG Revisions
  - Part 3.2 - for awards subject to the 2024 UG Revisions
- For awards issued before October 1, 2024, where the federal agency has not applied the 2024 UG Revisions, the auditor should perform audit procedures in Part 3/1 for testing compliance requirements subject to audit
- For awards issued on or after October 1, 2024, and existing awards with amendments that explicitly apply the 2024 UG Revisions, the auditor should perform the audit procedures in Part 3/2 for testing compliance requirements subject to audit

2025 Compliance Supplement

- Part 3.1 - minimal changes made to this section
- Part 3.2 - created by copying Part 3.1 and updating wording and requirements to align with the 2024 UG Revisions
  - New title for requirement G: Cost Sharing, Level of Effort, Earmarking
  - Requirements with significant changes
    - B: Allowable Costs/Cost Principles
    - F: Equipment and Real Property Management
    - I: Procurement and Suspension and Debarment

Part 4 - New and Deleted Programs

New Programs	Deleted Programs
▪ **10.646** - Summer Electronic Benefit Transfer Program for Children ▪ **93.472** - Title IV-E Preventive Program	▪ **10.542** - Pandemic EBT Food Benefits ▪ **10.649** - State Pandemic Electronic Benefit Transfer (P-EBT) ▪ **21.015** - Resources and Ecosystems Sustainability, Tourist Opportunities, and Gulf RESTORE ▪ **21.019** - Coronavirus Relief Fund ▪ **21.024** - Rapid Response Program ▪ **93.461** - HRSA COVID-19 Claims ▪ **93.499** - Low Income Household Water Assistance Program

2025 Compliance Supplement

- Part 5 – Cluster of Programs – no additions or deletions made to "Other Clusters" section; minor updates to R&D & SFA Cluster
- Part 7 – no changes for 2025
- 2025 "Higher Risk Programs"
  - **93.778/93.777/93.775** - Medicaid Cluster
  - **15.252** - Abandoned Mine Land Reclamation (AMLR)
- Programs removed from "Higher Risk"
  - **21.023** - Emergency Rental Assistance
  - **21.027** - CSLFRF

Going forward – UG Revisions

- Single Audit threshold increased from $750,000 to $1 million
- Type A threshold increased to $1 million
- Increased the de minimis rate up to 15%
- Questioned cost definition updated
- Single Audit extension language added

Polling Question #4

We will be subject to a Single Audit in our next fiscal year (December 31, 2025, or June 30, 2026).

- True
- False
- Unknown at this time

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Allowance for Credit Losses

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Polling Question #5

Are you familiar with the requirements of ASC 326 (CECL) and how it affects your organization?

- Yes
- No
- A little, but there are still aspects I don't understand

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CECL Applies to Certain Nonprofit Assets

- Financing receivables (i.e., notes receivable)
- Held-to-maturity debt securities
- Receivables that result from revenue transactions under Topic 606.
  - While contract assets are not financial assets, ASC 606-10-45-3 requires these assets to be evaluated for credit losses under ASC 326-20
  - See subsequent slides for proposed ASU for further amendments

CECL Scope Exceptions for Nonprofits

- Financial assets measured at fair value through changes in net assets
- Available-for-sale debt securities
- Promises to give (pledges receivable) of a not-for-profit entity
- Loans and receivables between entities under common control
- Receivables arising from operating leases accounted for in accordance with Topic 842

Programmatic Loans

- The AICPA updated Chapter 8, Programmatic Investments, of its Audit & Accounting Guide: Not-for-Profit Entities, for application of FASB ASC 326, Credit Losses (CECL)
  - Guidance and illustrations for application of CECL to programmatic loans
- Chapter 8 provides examples of programmatic loans being certain investments in nonprofit projects or businesses, loans to individuals and businesses, and guarantees of debt — all of which the primary purpose is to further the tax-exempt objectives of the nonprofit
- States that forgivable loans are conditional contributions, and these would be outside scope of CECL

CECL Update

- On December 3, 2024, FASB proposed updated guidance aimed at reducing the complexity and cost of measuring credit losses for private companies and certain nonprofits of accounts receivable and contract assets
- Benefits include cost reduction, improved clarity and enhanced transparency
- Practical expedient and policy election to be applied prospectively
  - Provide a recognition and measurement practical expedient
    - An entity that elects the practical expedient would be able to assume that current conditions as of the statement of financial position date do not change for the remaining life of the asset
  - Provide an accounting policy election that apply the practical expedient
    - An entity that elects the accounting policy is permitted to consider collection activity after the statement of financial position date when estimating expected credit losses
- Expected to be effective for annual periods beginning after December 15, 2025; Final ASU expected 3Q 2025

Accounting Update

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FASB NFP Standards Tracker

- ASU 2023-01, Leases (Topic 842): *Common Control Arrangements*
  - Effective for fiscal years beginning after December 15, 2023
  - Terms and conditions to be considered — provided an optional expedient to private entities (including certain NFPs) to rely on written terms and conditions
  - Accounting for leasehold improvements (LI) — made a change to the accounting for all lessees that are party to a common control lease in which the lessee is the owner of the LIs
    - Amortized by the lessee over the useful life of the LI to the common control group as long as the lessee controls the use of the asset
    - Accounted for as a transfer between entities under common control through an adjustment to net assets, if, and when, the lessee no longer controls the use of the underlying asset
    - Subject to impairment guidance

FASB NFP Standards Tracker

- ASU 2022-03, Fair Value Measurement (Topic 820): *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*
  - Clarifies that a contractual restriction on the sale of an equity security is not factored into the fair value measurement
  - New disclosures required
  - Effective for fiscal years beginning after December 15, 2024; early adoption permitted

FASB NFP Standards Tracker

- ASU 2023-08, Intangibles - Goodwill and Other-Crypto Assets (Subtopic 350-60): *Accounting for and Disclosure of Crypto Assets*
  - Crypto assets measured at fair value and increases/decreases recognized in changes in net assets
  - Must meet ***ALL*** of the following:
    - Definition of intangible asset
    - Do not provide the asset holder with enforceable rights to or claims on underlying goods, services or other assets
    - Are created or reside on a distributed ledger based on blockchain or similar technology
    - Secured through Cryptography
    - Fungible
    - Not created or issued by the reporting entity or its related party

FASB NFP Standards Tracker

- ASU 2023-08, Intangibles - Goodwill and Other-Crypto Assets (Subtopic 350-60): *Accounting for and Disclosure of Crypto Assets*
  - Financial Position – Crypto assets separate from other intangible assets measured using other measurement bases
  - Statement of Activities – Gains/Losses in net income separate from amortization and impairment of other intangible assets
  - Cash Flows – cash flows from crypto assets received in ordinary course of business or as a contribution and converted nearly immediately into cash as operating
    - Crypto assets received with donor-imposed restrictions for long-term or capital use liquidated nearly immediately required to be classified as cash flows from financing activities

Polling Question #6

This new standard will affect my organization the most:

- ASU 2023-01, Leases (Topic 842): *Common Control Arrangements*
- ASU 2022-03, Fair Value Measurement (Topic 820): *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*
- ASU 2023-08, Intangibles - Goodwill and Other- Crypto Assets(Subtopic 350-60): *Accounting for and Disclosure of Crypto Assets*
- None of the above

Tax-Related Issues

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Polling Question #7

My entity is organized as a:

- 501(c)(3) public charity, 501(c)(6) membership organization or other exempt organization (other than a private foundation)
- Private foundation
- Unknown
- Not applicable

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One Big Beautiful Bill Act (OBBBA) – How Nonprofits are Affected

- Expanded excise tax on excess compensation
- Tiered "Endowment Tax" for private colleges and universities
  - Section 70415 amends IRC Section 4968 to impose a tiered excise tax on net investment income — based on student-adjusted endowment and applying to institutions with 3,000+ tuition-paying students
  - Large universities must model and budget for these new rates, effective for tax years beginning after December 31, 2025
- No changes to foundation excise tax or UBTI rules
  - Private foundation excise tax remains a flat 1.39%; no tiered structure was enacted
  - UBTI exclusions for parking/transit benefits and name/logo royalties are unchanged

One Big Beautiful Bill Act (OBBBA) – How Nonprofits are Affected (cont.)

- New charitable giving deduction incentives
  - 1% floor on corporate charitable deductions; excess can be carried forward five years
  - Permanent standard deduction boost: Non-itemizers can deduct up to $1,000 (single) or $2,000 (married)
  - Itemized deductions, including charitable giving, are capped at ~35% of the value for high-income filers
  - Donors — especially individuals and corporations — now have new incentives
    - Nonprofits can highlight these changes in campaigns and communications!

One Big Beautiful Bill Act (OBBBA) –How Nonprofits are Affected (cont.)

- Low-income housing tax credit (LIHTC)
  - Lowers bond-financing threshold from 50% of land and building costs to 25%
  - Permanent 12% increase in the 9% allocations for LIHTC beginning in 2026
- Qualified Opportunity Zones (QOZs)
  - Made permanent, with new QOZs established every 10 years
  - Stricter criteria for qualifications
- New Market Tax Credits (NMTC)
  - Receives a permanent extension through the OBBBA, with $5 billion in annual allocation authority

501(c)(3) Status Issues

- Failure to meet organizational test
  - Organization must be "organized and operated exclusively" for exempt purposes under IRC Sec. 501(c)(3)
  - To be "organized," documents must have required provisions
- Operating within an exempt purpose
  - Must primarily serve a public interest (not private)
  - If serving both, the private benefit must be incidental to exempt purpose
    - Qualitatively: necessary or a byproduct of exempt activities
    - Quantitatively: amount is insubstantial compared to public benefit
- Political campaign activities expressly prohibited

501(c)(3) Status Issues (cont.)

- Excessive lobbying activities
  - Attempt to influence legislation both direct and grassroots
  - Exceptions
    - Written requests to present testimony on pending legislation
    - Nonpartisan, published research
    - Indirect influence via pursuit of exempt purposes
- Private inurement and private benefit
  - Insiders are prohibited from receiving benefits greater than they provide in return
  - No *de minimis* exception

501(c)(3) Status Issues (cont.)

- Excessive unrelated business income
  - Trade or business, regularly carried on, not substantially related to mission
  - How much is too much? It is subjective!
  - Consult legal counsel
- Engaging in illegal activities
- Excessive compensation
  - The OBBBA expanded excise tax on excess compensation from highest five to all current and former employees earning more than $1 million in a tax year
  - Determining reasonable compensation
    - Use an independent body to review
    - Rely on appropriate comparability data
    - Document the process
    - Follow conflicts of interest policy

501(c)(3) Status Issues (cont.)

- Improperly filing Form 990
  - Form 990-N
    - Annual gross receipts <=$50,000
    - Cannot be filed by private foundations, most 509(a)(3) supporting organizations, Section 527 organizations, or those exempt under:
      - 501(c)(1), 501(c)(20), 501(c)(24), 501(d), 529, 4947(a)(2), 4947(a)(1)
  - Form 990-EZ
    - Gross receipts < $200,000 and assets valued at < $500,000
  - Form 990
    - Gross receipts >= $200,000 or total assets >= $500,000
- Failure to file annual returns
  - 15th day of 5th month after accounting period ends can be extended to 15th day of 11th month
  - Automatic revocation for failure to file for three consecutive years

Private Foundation Tax Matters

Self-dealing transactions

- Financial transactions between a private foundation and a disqualified person, without regard to whether the transaction is to the detriment or benefit of the private foundation
- Initial tax
  - 10% on the disqualified person involved
  - 5% on the foundation manager who knowingly participates, up to $20,000
- Additional tax (if not corrected)
  - 200% tax on the disqualified person
  - 50% tax on the foundation manager who refuses to agree to the correction, up to $20,000

Private Foundation Tax Matters (cont.)

Disqualified Person

- Substantial contributor
- Foundation manager
- Owns more than 20% of a substantial contributor
- Family member of above individual
- Entity in which persons described above own 35% or more
- Certain government officials

Self-Dealing Transaction

- Sale, exchange or lease or property
- Lending money or extending credit
- Furnishing goods, services or facilities
- Compensation or reimbursements
- Transfer income or assets or allow use for disqualified persons' benefit
- Agreement to make any payment of money or other property to a government official (with exceptions)

Private Foundation Tax Matters (cont.)

Self-dealing transactions

- Multiple individuals liable for taxes are jointly and severally liable
- Self-dealing is considered corrected when the private foundation is made whole
- Generally, excise taxes are not subject to abatement
- Taxes cannot be paid by the private foundation, or it is another act of self-dealing!
- Very short list of examples
  - Payment of disqualified person's legally enforceable charitable pledge
  - Payment of memberships with special privileges (i.e. use of special lounge)
  - Receipt of benefit/gala/event tickets (bifurcation not allowed)

Private Foundation Tax Matters (cont.)

Failure to meet minimum distribution requirements

- Required to spend or pay out, for charitable and administrative purposes, at least 5% of the average FMV for the preceding year
- 30% initial tax on undistributed income not distributed before the first day of the succeeding tax year
- Initial tax may be abated for reasonable cause
- Calculation

FMV of assets → Calculated minimum investment return → Make adjustments → Yields minimum distributable amount

Private Foundation Tax Matters (cont.)

Failure to meet minimum distribution requirements

- Determine FMV of assets not used for charitable purposes
  - Assets not used or held for use for charitable purposes, but may enable it to create wealth to support future charitable activities
    - Cash on hand and on deposit
    - Securities and investments
    - Due from broker account
    - Excluded property
      - Pledges/grants receivable
      - Future interests in estates and trusts
  - Readily available market quotations --> easy!
  - Certified appraisal every five years for real estate
  - Exclude cash balances to cover administrative expenses and normal and current disbursements

Private Foundation Tax Matters (cont.)

Failure to meet minimum distribution requirements

- Be certain that all qualifying distributions have been reported
  - All administrative expenses paid in cash
  - Returned grants relating to a prior year grant should not net against current year expense
  - Report all program-related investments
  - Report all assets acquired for charitable purposes

Polling Question #8

I am interested in learning more about private foundations.

- Yes
- No
- Unsure at this time

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