


Stay Current with Tax and Accounting Changes



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The background of the slide is a composite image. It features a hand holding a pen over a document with various charts and tables. Another hand is visible at the bottom, using a calculator. The document includes a 'BUDGET PLANNER' section and several pie charts with percentages like 7%, 8%, 10%, 11%, 29%, and 35%.

News That May Affect Your Next Audit - Audit and Accounting Changes That You Need to Keep in Mind This Year

Tracy Harding | Mark LaPrade



Auditing Update and How the Changes May Affect Your Audit

Learning objectives



To enable you to work with your organization's auditor to plan for changes in the auditing rules that may affect your audit

Polling question #1



Forthcoming Changes in the Rules That May Affect Your Audit



Changes to the
auditor's reports



How the auditor plans
the audit to identify
and address risks



Changes to the Auditor's Reports

- ▲ Opinion first!
- ▲ Mention of the requirements for the auditor to be independent and to meet other ethical responsibilities
- ▲ Description of management's and the auditor's responsibility for assessing the entity's ability to continue as a going concern
- ▲ Emphasis on:
 - Professional judgment and professional skepticism
 - Communications with those charged with governance
- ▲ Disclosure of the auditor's responsibility with regard to the annual report
- ▲ Guidance on the communication of "key audit matters", if applicable



Changes to the Auditor's Reports

What should I do?

- ▲ Ask your auditor to prepare a “pro forma” version of the new auditor’s report, and share it with management, the board, and perhaps external users such as banks
- ▲ If you prepare an annual report that includes audited financial statements, discuss its preparation process with your auditor so you can incorporate their review into the process
- ▲ Discuss with your board and auditor whether the organization would like “key audit matters” communicated as part of the auditor’s report



The Auditor's Risk Assessment

- ▲ The auditor's focus is on whether the financial statements contain material misstatements, due to error and/or fraud
- ▲ The auditor needs to obtain reasonable assurance
- ▲ Requires obtaining a sufficient understanding of the entity, including internal control
- ▲ Where are the risks that create a reasonable possibility there's a misstatement?
 - Identify
 - Assess
 - Respond



The Auditor's Risk Assessment – What Should I Do?

- ▲ Be sure you understand which of your organization's internal controls the auditor thinks are particularly important to prevent or detect material misstatements of the financial statements
- ▲ Ask your auditor if the organization should take any steps to strengthen those controls
- ▲ Ask them which risks they consider to be significant risks, as defined
- ▲ If they've been following the proposed changes, ask them whether they believe they will result in any changes to the information they'll need to perform the audit



Accounting Update & Impact of COVID-19 on Financial Reporting

Learning objectives



- ▲ **To provide an update** of recent accounting standards in order to help you prepare financial statements in accordance with U.S. generally accepted accounting standards
- ▲ **To provide guidance** on the financial reporting implications of COVID-19

Pronouncements Effective for June 30, 2021 or After

Pronouncement	Conduit Debt Obligors	NFP Without Public Debt
ASU 2014-09 – Revenue from Contracts with Customers (Topic 606) and related guidance **	Already Adopted	6/30/2021
ASU 2016-02 – Leases (Topic 842) **	6/30/2021	6/30/2023
ASU 2018-13 – Changes to the Disclosure Requirements for Fair Value Measurements (ASC 820)	6/30/2021	6/30/2021
ASU 2018-15 – Internal Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Service Arrangement that is a Service Contract	6/20/2021	6/30/2022
ASU 2019-03 – Updating the Definition of Collections	6/30/2021	6/30/2021
ASU 2020-07 – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets	6/30/2022	6/30/2022
ASU 2020-04 and 2021-01 – Reference Rate Reform (Topic 848)	6/30/2021	6/30/2021

** Reflects the changes in effective dates provided by ASU 2020-05



Polling question #2



Revenue From Contracts with Customers (Topic 606) and Related Guidance

- 1** Identify the contract with a customer
- 2** Identify the performance obligation in the contract
- 3** Determine the transaction price
- 4** Allocate the transaction price to the performance obligations in the contract
- 5** Recognize revenue when (or as) the entity satisfies a performance obligation



Revenue from Contracts with Customers (Topic 606) and Related Guidance

Practical implementation tips



- ▲ Inventory all of your revenue streams with customers – disaggregate your revenue streams based on unique characteristics and determine which ones have cutoff risk.
- ▲ Consider cutoff risk based on the nature of the transaction. If entire earnings process happens within your fiscal year, less analysis may be required.
- ▲ How you bill your customers is irrelevant in determining the timing of revenue recognition.



ASU 2016-02 – Leases – Classification of Leases

Finance lease if one of the following is met:

- ▲ Ownership transfers at the end of the lease term
- ▲ Purchase option that is reasonably certain of being exercised
- ▲ Lease term is a major part of the remaining economic life (e.g. 75%)
- ▲ Present value of lease payments and lessee residual value guarantee is substantially all of the fair value of the underlying asset (e.g. 90%)
- ▲ Specialized asset with no alternative use

If none of these are true,
the lease will be an **Operating Lease**

ASU 2016-02 Leases – Classification of Leases

Lease Classification	Balance Sheet	Income Statement	Cash Flow Statement
Finance Lease			
	<ul style="list-style-type: none">• Right of use asset• Lease liability	<ul style="list-style-type: none">• Amortization expense (straight-line)• Interest expense	<ul style="list-style-type: none">• Cash paid for principal (financing activity) and interest payments (operating activity)
Operating Lease			
	<ul style="list-style-type: none">• Right of use asset• Lease liability	<ul style="list-style-type: none">• Single lease expense recorded on a straight-line basis	<ul style="list-style-type: none">• Cash paid for lease payments (operating activity)

ASU 2016-02 Leases – Determining Lease Payments



Include the following

- Fixed payments reduced by lease incentives paid to lessee
- Variable lease payments dependent on a rate or index
- Options for which exercise is reasonably certain
- Fees paid to the lessor for structuring the transaction
- Amount lessee is probable to owe under a residual value guarantee



Exclude the following

- Variable lease payments not dependent on an index or rate
- Guarantee of the lessor's debt
- Amounts allocated to nonlease components

ASU 2016-02 Leases – Selecting a Discount Rate



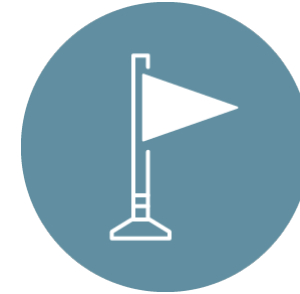
Implicit Rate

- Only use when readily determinable
- Often not known to lessee



Incremental Borrowing Rate

- Rate lessee would pay to borrow on collateralized basis
- Assume similar term/environment



Risk-free Rate

- Practical expedient for private companies
- Would like result in larger lease liability



ASU 2016-02 Leases – Practical Considerations

- ▲ Ensure the lease population is complete and accuracy of the data
- ▲ Consider whether you have any contracts that have imbedded leases
- ▲ Determine and maintain discount rates – they may be different depending on when the lease started
- ▲ Consider the materiality of the impact of existing leases on the entity's financial statements
- ▲ Consider implementing a lease accounting software package



ASU 2018-13 – Changes to the Disclosure Requirements for Fair Value Measurements

- ▲ Applicable for fiscal years beginning after December 15, 2019
- ▲ Removes the following disclosure requirements
 - The amount and reasons for transfers between Level 1 and Level 2
 - The valuation process for Level 3 investments
 - The changes in unrealized gains/losses for the period included in earnings for recurring Level 3 investments (nonpublic entities only)
- ▲ Modifies the following disclosures:
 - Transfers into and out of Level 3
 - Liquidation timing for investments held at Net Asset Value



ASU 2018-15 – Cloud Computing Arrangements

- Implementation costs for service contracts under Cloud Computing Arrangements would be accounting for in accordance with Subtopic 350-40 on internal-use software
- Include renewal options that are reasonably certain to be exercised in the amortization period
- Presentation in the financial statements would be consistent with the presentation of hosting fees



ASU 2019-03 – Collections

- ▲ The ASU is only applicable if the NFP elects not to capitalize collections
- ▲ The definition of collections has been updated to include the concept of direct care
- ▲ Requires the disclosure of policies for the use of proceeds from deaccessioned collection items
- ▲ If the proceeds are allowed to be used for direct care, the entity is required to disclose what they consider to be direct care
- ▲ Prospective implementation is required



ASU 2020-07 – Presentation and Disclosures for Contributed Non-Financial Assets

- ▲ Improve transparency of contributed nonfinancial assets, including how those assets are used and valued
- ▲ Helps the reader understand the importance of gifts-in-kind on an NFP's ability to fulfill their mission and run their programs
- ▲ Effective for annual periods beginning after June 15, 2021
- ▲ Early adoption is permitted



ASU 2020-04 and 2021-01 – Reference Rate Reform

- ▲ Reference rates are variable interest rates used in the global financial system for a large volume of financial products and contracts (USD LIBOR, GBP LIBOR, etc.)
- ▲ The Financial Stability Board called for:
 - Identification of a risk-free alternative rates to replace “IBORS”
 - Transition plans to support the reference rate reform effort
- ▲ Simplify accounting evaluations for contract modifications and hedge accounting
- ▲ Relief is optional and temporary – expires after 12/31/2022

GASB Pronouncements Effective for June 30, 2021 or After

Pronouncement	Effective Date (assuming 6/30) **
GASB 84 – Fiduciary Activities	6/30/21
GASB 90 – Majority Equity Interests – an amendment of GASB No. 14 and No. 61	6/30/21
GASB 93 – Replacement of Interbank Offered Rates	6/30/21
GASB 87 – Leases	6/30/22
GASB 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period	6/30/22
GASB 92 – Omnibus 2020 (multiple effective dates)	6/30/22
GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans – an amendment of GASB No. 14 and No. 84 (Supersedes GASB no. 32)	6/30/22

** Reflects effective date deferrals provided by GASB No. 95





Impact of COVID-19 on Financial Reporting

Polling question #3



Disclosure Considerations

▲ 1 Disclosure/recognition of loss contingencies

▲ 2 Cash flow presentation of insurance proceeds

▲ 3 Risks and uncertainties

▲ 4 Going concern

▲ 5 Subsequent events



Accounting Considerations

▲ **1** Credit losses for receivables and loans

▲ **2** Investment and endowment accounting

▲ **3** Indefinite-lived intangible assets other than goodwill, long-lived assets, and goodwill

▲ **4** Long-term debt

▲ **5** Internal control considerations



Accounting Considerations


▲ **6** Revenue recognition

▲ **7** Business interruption insurance

▲ **8** Exit activities

▲ **9** CARES Act accounting

▲ **10** Uniform Guidance and related extensions

A woman with curly hair, wearing a black blazer over a grey top, stands and presents to a group of people seated at a long wooden table in a bright, modern office. Large windows in the background offer a view of a city skyline. A whiteboard with text is visible behind the presenter. The scene is overlaid with a large, semi-transparent white diagonal shape.

Stay Current with Tax and Accounting Changes -Tax Update

Barb McGuan

Learning objectives



After this presentation, you will have a better understanding of the:

- ▲ Recent Tax Law Changes and IRS Developments Impacting EOs
- ▲ Fiscal Sponsorship Requirements
- ▲ Employee Retention Credit Rules
- ▲ Expanded Paid Sick and Family Leave
- ▲ Student Loan Repayment Programs
- ▲ Changes to Required Minimum Distributions
- ▲ COBRA Subsidy Rules



New Developments From the Consolidated Appropriations Act, 2021 Impacting Individuals

- ▲ Medical expense deduction floor 7.5% threshold permanent
- ▲ Charitable contribution deduction for non-itemizers
 - For 2020 - \$300 per return filing (even if MFJ)
 - For 2021 - \$300 per person (max \$600 if MFJ)
- ▲ Qualified emergency financial aid grants made after 3/26/20 are not taxable to students and not reported on Form 1098-T, but students cannot claim deductions or tax credits for expenses paid with the grant

Nonprofit Recent Developments

1 | November 2020 - IRS Issued Final §512(a)(6) Regulations for Nonprofit Organizations with Multiple UBI Activities

- Little to no change from proposed regs.
- NAICS codes now very important – separate activities based on first 2 digits of NAIC code.
- K-1s with UBI will generally be treated as a single activity.

2 | Treatment of Forgiven Loans for Nonprofit Organizations

- Government grant treatment for forgiven portion preferable.
- Impact on Schedule A Public Support Test.





Nonprofit Recent Developments

- ▲ Mandatory electronic filing for Forms 990-PF, 990-T, 4720 for tax years beginning after 7/2/2019.
- ▲ Private foundations: flat excise tax on investment income of 1.39%
- ▲ 501(c)(4) exemption applications now electronic (Form 1024-A)
- ▲ US Supreme Court deliberating on a CA case re: Schedule B
- ▲ Syndicated conservation easements currently under scrutiny
- ▲ Donor Advised Funds in the news

Nonprofit Recent Developments



Tax Exempt and Government Entities Division Released Its Compliance Program and Priorities initiatives:

- ▲ Worker classification
- ▲ Small exempt orgs with retirement plans
- ▲ Compliance with retirement plan participant loan arrangements
- ▲ 990-N filers - \$50,000 gross receipts
- ▲ Excess compensation > 1mil but no excise tax
- ▲ Employers issuing both W-2 and 1099 to same individual, same year
- ▲ Exempt bonds – arbitrage violations & student loan bonds



Fiscal Sponsorship

- ▲ An arrangement between a 501(c)(3) “The Sponsor” and a “Project” (an organization or a group of individuals not recognized as a 501(c)(3)).
- ▲ Allows the Sponsor to accept funds restricted to the Project on the Project’s behalf. Sponsor accepts the responsibility to make sure the funds are spent to achieve the Project’s goals.
- ▲ Sponsor reports the contributions on their Form 990 and is responsible for acknowledging donors, etc.



IRS Criteria for a Fiscal Sponsorship

- ▲ Grants/donations are given to a 501(c)(3) tax-exempt organization Sponsor that acts as a guardian of the funds for a Project that does not have 501(c)(3) status.
- ▲ The Sponsor must use funds received for specific charitable projects that further the Sponsor's own tax-exempt purpose.
- ▲ The Sponsor must retain discretion and control as to the use of the funds.
- ▲ The Sponsor must maintain records that substantiate the use of funds for appropriate 501(c)(3) purposes.
- ▲ Typically, the Project will be short-term or the sponsored group is seeking tax-exempt status.
- ▲ If criteria are not met, the IRS can deem donations are not tax-deductible.




Fiscal Sponsorship

- ▲ **Must have a written agreement!**
- ▲ Sponsor should periodically review activities of Project to ensure they remain consistent with their own tax-exempt mission (including internal audits of financial reports and any bank accounts of the Project).
- ▲ Sponsor must ensure Project does not engage in prohibited activities (i.e. political campaign activities, or conducting excessive amounts of UBI activities).
- ▲ Sponsor must be able to clearly communicate to donors that funds earmarked for Project are subject to their discretion and control, cannot guarantee funds will be automatically advanced to the Project.
- ▲ Sponsor can also provide G&A support services to Project and charge a fee (generally 5-15%) of donations made to the project.



Fiscal Sponsorship vs Agency

- ▲ “Fiscal Agency” is an arrangement with an established charity to act as the legal Agent for a project, but the Agent doesn’t retain discretion and control of the donated funds. The Agent is acting on behalf of the Project who ultimately has the right to control the Agent’s activities.
- ▲ Funds contributed to a non-exempt Project that has a fiscal sponsor are tax-deductible to the donor and those that are contributed to a Project with a fiscal agent are not.
- ▲ **Sponsorship** = Sponsor reports the revenue and related expense
- ▲ **Agency** = Project reports the revenue and related expense



Stay Current with Tax and Accounting Changes - Employee Benefits Update

Bill Enck

Employee Retention Credit



Who is Eligible? Organizations that:

- ▲ Were fully or partially suspended from an appropriate governmental authority due to COVID-19, or
- ▲ Had a significant decline in gross receipts from corresponding quarter in 2019
- ▲ Greater than 50% during 2020
- ▲ Greater than 20% in 2021

Employee Retention Credit



What is it?

- ▲ Credit against applicable employment taxes for each calendar quarter
- ▲ Equal to 50% (70% in 2021) of qualified wages per employee; Maximum credit of:
 - \$5,000 per employee for 2020
 - \$7,000 per employee per quarter in 2021

Employee Retention Credit



Qualified wages:

- ▲ **Less than 100 employees:** all wages paid during shutdown and during depressed quarters
 - Effective January 1, 2021: less than 500 employees
- ▲ **Greater than 100 employees:** wages paid to an employee who is not providing services due to the suspension of the business or a drop in gross receipts
 - Effective January 1, 2021: greater than 500 employees

Employee Retention Credit



- Which organizations may still benefit from the ERC?
 - Received a PPP Loan
 - Gross receipts have not surpassed 80% in a calendar quarter
 - Any newly hired employees
- Available through December 31, 2021

Polling question #4





Families First Coronavirus Response Act (FFRCA)

- ▲ Paid Sick and Family Leave Credits:
The basics:
 - Employers with fewer than 500 employees
 - Effective for leave paid on or after April 1, 2020
 - Tax credit for amounts paid, up to certain limits
 - Sick Leave – up to 80 hours paid at regular rate
 - Up to \$511 per day; or
 - 2/3 of the regular rate, up to \$200 per day
- ▲ Family Leave – up to 10 weeks paid at 2/3 regular rate, up to \$200 per day

Families First Coronavirus Response Act (FFRCA)

1

Exception: health care providers and emergency responders

2

Requirement to offer expired December 31, 2020

3

Credits available for time taken through September 30, 2021

4

Sick time available to receive COVID-19 vaccination and leave for any side effects



CARES Act: Student Loan Relief

- ▲ CARES Act permits the following tax free benefits:
 - Up to \$5,250 to be tax-free in 2020 only (extended through December 31, 2025)
- ▲ Included as part of Internal Revenue Code Section 127
- ▲ Exclude up to \$5,250 per employee annually
- ▲ Must have a written plan
- ▲ Graduate or undergraduate courses
- ▲ Not required to be job-related

Polling question #5



Required Minimum Distribution (RMD) Rules

Old Rules

- ▲ Plan participant must begin to receive an RMD at the later of:
 - Attainment of age 70½: or,
 - Termination of employment *
- ▲ First RMD is due by April 1st of year following year age 70½ attained; by Dec. 31st annually thereafter

** More than 5% owners must begin RMDs upon attainment of age 70½*

New Rules

- ▲ SECURE Act Change:
 - Changes required beginning date to attainment of age 72
 - Effective January 1, 2020
- ▲ CARES Act Change:
 - All RMDs waived for 2020!





COBRA Subsidy and Tax Credits

What is it?

- ▲ Premium holiday for certain eligible individuals
- ▲ Subsidy period: April 1 through September 30, 2021
- ▲ After end of the period, individuals must again pay full cost
- ▲ Claimed on Form 941
- ▲ Claimed against Medicare taxes
- ▲ Request in advance on Form 7200



COBRA Subsidy and Tax Credits

Who is an eligible individual?

- ▲ Involuntary termination/reduction in hours
 - Not required to be COVID related
- ▲ Lost health benefits
- ▲ As far back as November 1, 2019
- ▲ Credit period does not extend normal COBRA coverage period



COBRA Subsidy and Tax Credits

What to do?

- ▲ Distribute new election notices
 - New 60-day election period for individuals who previously declined
- ▲ Claim the credit
- ▲ Eligible individuals must notify company if they become eligible for other coverage

Questions?

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