

2021 Accounting and Tax Updates and Changes for Not-for-Profits

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Polling Question



Tax Laws: Current, CARES Act and Future

8/25/2021

4

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Current Charitable Contribution Tax Laws

Individual Taxpayers

- Requirement to itemize deductions to receive benefit
- Deduction for cash contributions made to public charities limited to 60% of taxpayer's AGI
- Excess contributions may be carried over for up to five years
- Benefits of donating appreciated stock
 - Fair market value vs. cost basis
 - No capital gains tax



CARES Act Charitable Contribution Tax Laws

Individual Taxpayers

- Deduction available for individuals who do not itemize, up to \$300
- Temporary suspension of 60% AGI limitation

Current Charitable Contribution Tax Laws

Corporate Taxpayers

- Deduction limited to 10% of taxable income
- Excess contributions may be carried over for up to five years

CARES Act Charitable Contribution Tax Laws

Corporate Taxpayers

- Increased deduction limitation to 25% of taxable income



Potential Tax Law Changes and Effects

Items in American Families Plan

- Increased tax rate for highest individual bracket
- Increased corporate tax rate
- Change to taxation of capital gains for some taxpayers
- Tax capital gains at death for unrealized gains above \$1 million



Potential Tax Law Changes and Effects

Items in Campaign Platform

- Restoration of Pease limitation and 28% cap on itemized deductions
- Change to taxable estate threshold

Polling Question



Form 990 Reporting Items

- PPP Loan Forgiveness
- Employee Retention Credit



SAS 134

New *auditor* reporting standards



INDEPENDENT AUDITOR'S REPORT¶

To the Board of Trustees of
ABC Organization¶

We have audited the accompanying financial statements of ABC Organization (a nonprofit organization), which comprise the statement of financial position as of June 30, 20X1, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.¶

Management's Responsibility for the Financial Statements¶

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.¶

Auditor's Responsibility¶

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.¶

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.¶

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.¶

Opinion¶

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Organization as of June 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.¶

INDEPENDENT AUDITOR'S REPORT¶

To the Board of Trustees
of ABC Organization¶

Opinion¶

We have audited the accompanying financial statements of ABC Organization (a nonprofit organization), which comprise the statement of financial position as of June 30, 20X1, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.¶

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Organization as of June 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.¶

Basis for Opinion¶

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.¶

Responsibilities of Management for the Financial Statements¶

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.¶

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.¶

Auditor's Responsibilities for the Audit of the Financial Statements¶

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.¶

In performing an audit in accordance with generally accepted auditing standards, we:¶

- Exercise professional judgment and maintain professional skepticism throughout the audit.¶
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.¶
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Organization's internal control. Accordingly, no such opinion is expressed.¶
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.¶
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Organization's ability to continue as a going concern for a reasonable period of time.¶

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.¶

SAS 134

- Opinion will be first
- Creates “Substantial Doubt About the Entity’s Ability to Continue as a Going Concern” header
- Creates KAMs – Key Audit Matters reporting
 - Only when the auditor is engaged to do so
- Effective for audits of financial statements for periods ending on or after December 15, 2021

Polling Question



Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets



Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets

- No change in fair value determination
- Enhance transparency
- Present contributed nonfinancial assets separately in the statement of activities

ASU 2020-07

- Enhanced Disclosures
 - Disaggregation by category (types)
 - By Category
 - Qualitative information – monetized or utilized
 - Policy for monetizing rather than utilizing
 - Donor imposed restrictions
 - Valuation techniques, inputs, and principal market used
- Effective for annual periods after June 15, 2021
 - June 30, 2022 will be first year ends
 - Retrospective basis for implementation
 - Early adoption permitted

ASU 2020-07

The Organization received the following contributions of nonfinancial assets for the year ending June 30:

	<u>20X1</u>	<u>20X0</u>
Medical equipment and supplies	\$ 2,250,400	\$ 3,059,600
Auction items	33,000	34,000
Rent	-	1,144,200
Nursing services	<u>6,057,900</u>	<u>5,743,300</u>
TOTAL CONTRIBUTED NONFINANCIAL ASSETS	<u><u>\$ 8,341,300</u></u>	<u><u>\$ 9,981,100</u></u>

ASU 2020-07

Contributed medical equipment and supplies received by the Organization are recorded as in-kind contribution revenue with a corresponding increase to inventory. The organization utilized three inventory valuation methods during the year ended June 30, 20X1 and 20X0. These methods include (1) current price located on a publicly available website if the inventory item is a match for the website item when donated; (2) percentage of the price located on a publicly available website if the item donated has been used but the item located online is new; (3) the current average price located on a publicly available website for similar items if a group of items are donated and the items range in price depending on model, size, etc.

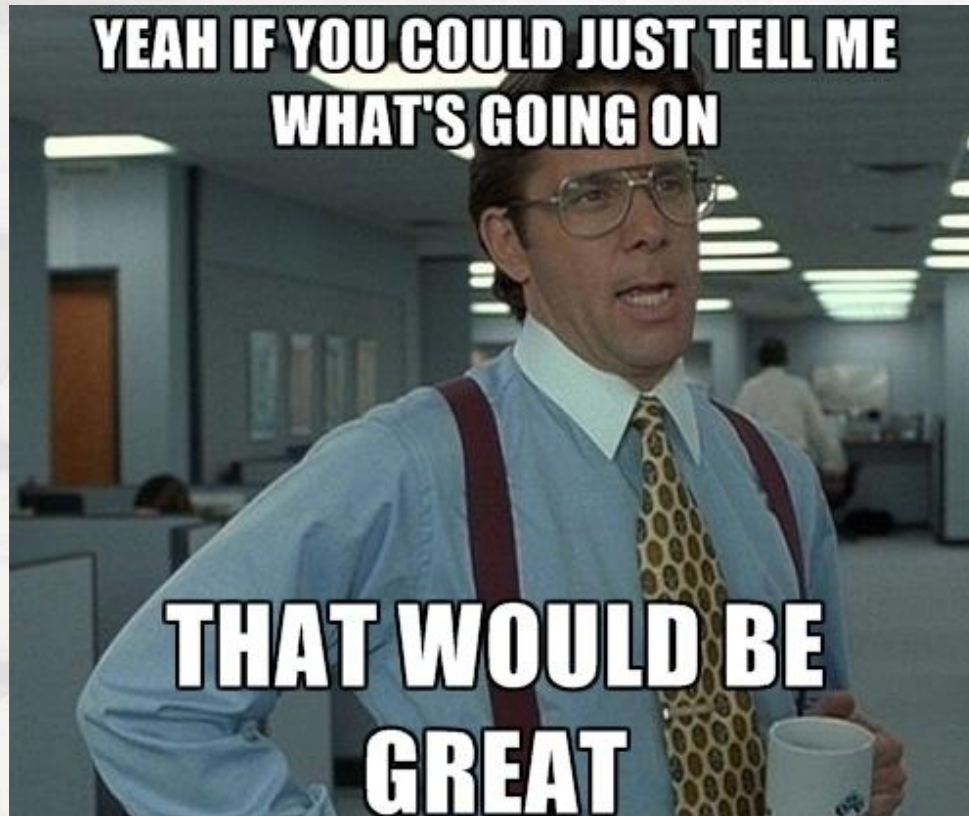
Contributed medical equipment and supplies and contributed nursing services were utilized in the Organization's partial hospitalization program.

ASU 2020-07

The Organization receives items to be sold at its annual auction, and it is the Organization's policy to attempt to sell any unsold auction items on various commercial websites used for such purposes. Contributed auction items are valued at the gross selling price received. Donors contributing auction items have restricted the proceeds from sale to purchases of personal protective equipment.

The Organization entered into a lease agreement for office space for which the rental payments stated in the agreement are less than the amount that would be charged for similar space that is rented under similar terms. Using publicly available commercial real estate rental listings, the Organization estimates the rental payments to be half of market price. The amount of contributed rent over the remaining lease term is reported as contributions receivable in the accompanying statements of financial position, and the related rent expense is recorded straight line over the life of the lease in the accompanying statements of activities.

Leases (Topic 842) and related ASUs



Leases (Topic 842) and related ASUs

- Essentially all leases on the balance sheet
 - Short-term and other exceptions
 - Balance sheet gross up
- Consider software options to implement
- Effective for fiscal years beginning after December 15, 2021

Pike Industries, Inc.
Schedule of Items Appearing on the Balance Sheet
12/31/Year 1

Property Plant & Equipment:

Finance Lease Right-of-Use Asset	\$ 108,237
Less: Accumulated Depreciation — Finance Lease Right-of-Use Asset	21,647
Finance Lease Right-of-Use Asset (net)	86,590
Operating Lease Right-of-Use Asset	18,595 ^{a.}

Current Liabilities:

Finance Lease Liability	20,568 ^{b.}
Operating Lease Liability	9,070 ^{c.}

Long-Term Liabilities:

Finance Lease Liability	68,081 ^{d.}
Operating Lease Liability	9,525 ^{e.}

ASU 2016-02

Year Month	GL Description	GL Number	Cost Center	Debit	Credit
2021-08	ROU Asset	110		309,350.84	0.00
2021-08	Cash / Accounts Payable	100		0.00	(2,500.00)
2021-08	LT Lease Liability	120		0.00	(306,850.84)
2021-08	Rent Expense	140		2,929.00	0.00
2021-08	ROU Asset	110		0.00	(2,289.73)
2021-08	LT Lease Liability	120		0.00	(639.27)

2021-09	Rent Expense	140		2,929.00	0.00
2021-09	Cash / Accounts Payable	100		0.00	(2,500.00)
2021-09	ROU Asset	110		0.00	(2,293.60)
2021-09	LT Lease Liability	120		1,864.60	0.00

ASU 2016-02

Other Information	
(Gains) losses on sale-leaseback transactions, net *	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases (i.e. Interest)	0.00
Financing cash flows from finance leases (i.e. principal portion)	0.00
Operating cash flows from operating leases	10,000.00
ROU assets obtained in exchange for new finance lease liabilities	0.00
ROU assets obtained in exchange for new operating lease liabilities	306,850.84
Weighted-average remaining lease term in years for finance leases	0.00
Weighted-average remaining lease term in years for operating leases	9.58
Weighted-average discount rate for finance leases	0.00%
Weighted-average discount rate for operating leases	2.50%

ASU 2016-02

Maturity Analysis	Finance	Operating
2022-12	0.00	30,000.00
2023-12	0.00	31,600.00
2024-12	0.00	33,840.00
2025-12	0.00	34,240.00
2026-12	0.00	34,800.00
Thereafter	0.00	174,500.00
Total undiscounted cash flows	0.00	338,980.00
Less: present value discount	0.00	(38,971.64)
Total lease liabilities	0.00	300,008.36

Customer's Accounting for Implementation Costs Incurred in a Cloud Arrangement That Is a Service Contract

- Internal use software
- Capitalize and amortize over the life
- Effective annual reporting periods beginning after December 15, 2020



Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

- LIBOR expected to be discontinued
- Provides significant relief from current rules
- Limited use until December 31, 2022

Thank you!

Questions?

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