



# NONPROFIT: ACCOUNTING AND TAX UPDATE

June 13, 2023



# SPEAKERS

Moderator



**Donella Wilson**  
Partner and Nonprofit Practice  
Leader  
GHJ

Panelist



**Amber Coatney**  
Manager  
GHJ

Panelist



**Amy Eybsen**  
Senior Manager  
GHJ

Panelist



**Brett Crowell**  
Manager  
GHJ

Panelist



**Lizbeth Nevarez**  
Managing Director and  
Nonprofit Tax Practice Leader  
GHJ

Panelist



**Yulia Murzaeva**  
Managing Director  
GHJ

# AGENDA

TOPIC	SPEAKER
WELCOME	<b>Donella Wilson</b> , Nonprofit Practice Leader, GHJ (Moderator)
ACCOUNTING UPDATES	<b>Amy Eybsen</b> , Senior Manager, GHJ <b>Amber Coatney</b> , Manager, GHJ <b>Yulia Murzaeva</b> , Managing Director, GHJ
TAX UPDATES	<b>Lizbeth Nevarez</b> , Nonprofit Tax Practice Leader, GHJ <b>Brett Crowell</b> , Manager, GHJ
TECHNOLOGY	<b>Amy Eybsen</b> , Senior Manager, GHJ



# CONTRIBUTED NON-FINANCIAL ASSETS

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# CONTRIBUTED NON-FINANCIAL ASSETS: OVERVIEW

- Statement of Activities - present GIK as a separate line item
- Statement of Functional Expense - present GIK by function on separate line item (best practice)
- Disclose:
  - Disaggregation of the amount by category of nonfinancial asset recognized
  - How and in what programs/activities assets received were used or whether sold and the related policy
  - Description of any donor restrictions
  - Description of valuation techniques

**Tabular Presentation**

	<u>20x2</u>	<u>Usage in Programs/Activities</u>	<u>Donor-imposed Restrictions</u>	<u>Fair Value Techniques</u>
Building materials	\$80,000	Home Repair Program	\$15,000 restricted for emergency relief in Central America. The remainder is unrestricted.	Estimated U.S. wholesale prices (principal market) of identical or similar products using pricing data under a "like-kind" methodology considering the goods' condition and utility for use at the time of the contribution
Appliances	30,000	New Home Ownership Program	Unrestricted	Estimated U.S. wholesale prices of identical or similar products using pricing data under a "like-kind" methodology considering the goods' condition and utility for use at the time of the contribution
Furniture	10,000			
	<u>\$120,000</u>			

Source: AICPA Center for Plain English Accounting

# CONTRIBUTED NON-FINANCIAL ASSETS: LESSONS LEARNED

What can (and what did) go wrong?

- Recording volunteer time that does not meet the definition of GAAP
- Inconsistencies in valuing donations
  - Thrift value vs. retail value
- Relying on donor's valuation
- Not retaining support for valuation
- Not tracking GIK throughout the year
- Clerical errors in spreadsheets used to record GIK
- Update of values to reflect current real estate market values
- Failure to record full value for use of facilities over multiple years





# CONTRIBUTED NON-FINANCIAL ASSETS: TAX CONSIDERATIONS

## Charitable Acknowledgment Letters

- Do not include the FMV of the donated asset
- Include description and quantity only

## Form 8283 Non-Cash Charitable Contributions

- Donated property valued over \$5,000
- Required Appraisal

## Form 8282 Donee Information Return

- Disposal of property within 3 years



# LEASES FOR NFPs

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# ASC 842 AND IN-KIND LEASES

- Effective Dates
  - December FYE: 12/31/2022
  - June FYE: 6/30/23
- Use of Facilities: Free of Charge
  - ASC 842 requires exchange of consideration.
  - Use of facilities donated free of charge would fall outside of the scope of ASC 842. The market value of the lease payments would be accounted for as contribution revenue (discounted to present value if term covers multiple years).
- Use of Facilities: Below-Market Rent
  - Falls within scope of both ASC 842 and ASU 2020-07
  - Lease liability equal to present value of lease payments
  - Contribution revenue - difference between fair market value of rent and lease payments

# ASC 842: PRACTICAL EXPEDIENTS

## Expedients Package

- Can elect NOT to reassess: i) Whether any expired or existing contracts are leases or contain leases (ii) the lease classification for any expired or existing leases (iii) initial direct costs for any existing leases

## Short-Term Leases Accounting Policy

- Leases with terms of 12 months or less not recognized under ASC 842

## Discount Rate

- Allows use of a risk-free discount rate by class if the rate implicit in the lease is not readily determinable

## Combining Lease and Non-Lease Components

- Can elect to account for lease and non-lease components (such as CAM fees) as a single combined lease component.

# POLLING QUESTION 1

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# OTHER ACCOUNTING REMINDERS

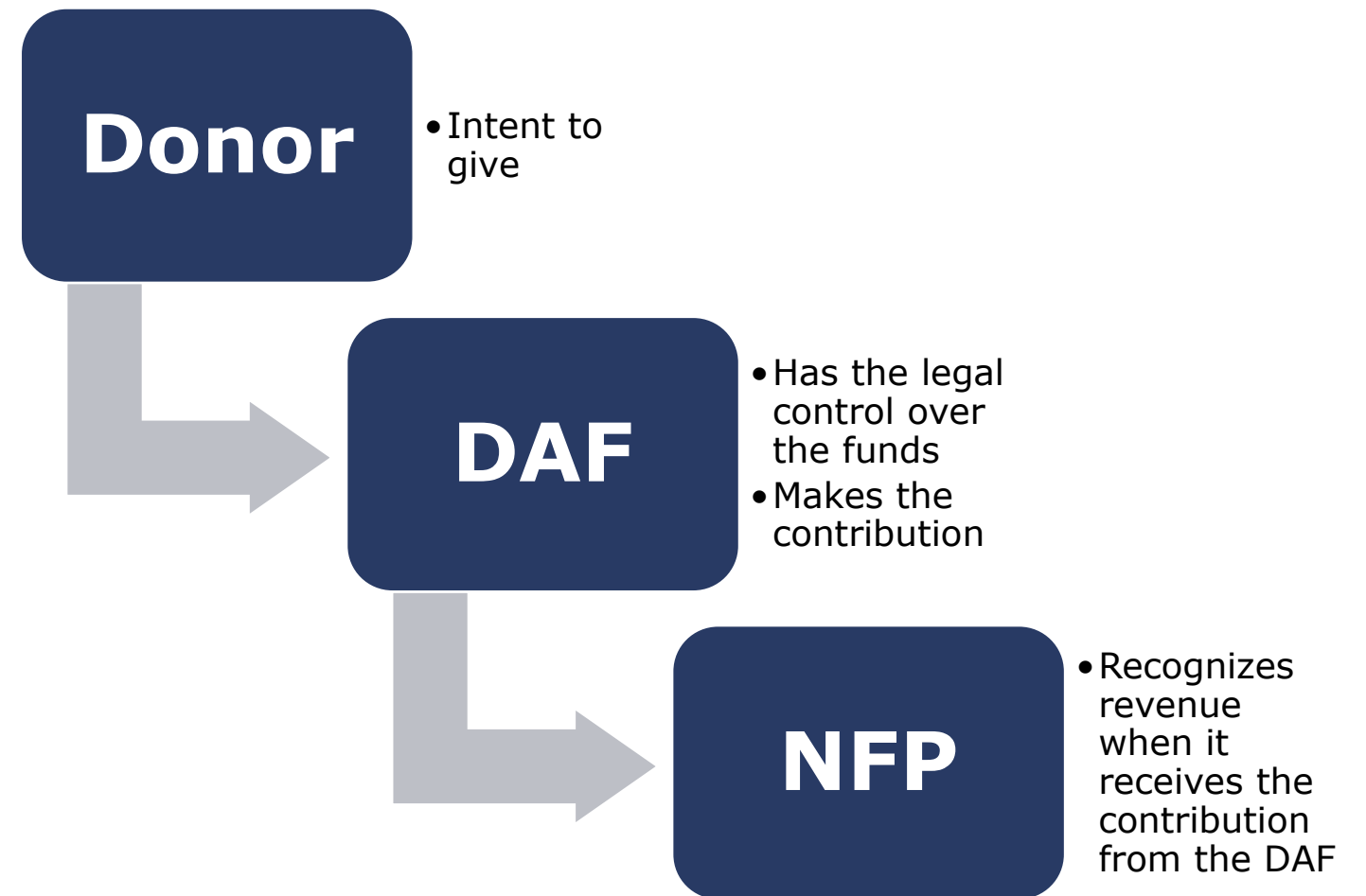
# CONTRIBUTIONS RECOGNITION BASICS

- Unconditional contributions are recognized as revenues in the period received
  - The matching principle does not apply
- Conditional contributions are recognized in revenue when those conditions are met
- Contribution is conditional when it has **both**:
  - One or more barriers that must be overcome before a recipient is entitled to the assets
  - A right of return or release

Barrier	Not a Barrier
Measurable level of service	Goals, targeted outcomes, best efforts
Occurrence of an identified event	Satisfactory progress clauses
Limited discretion	Restriction to a specific program or activity
Stipulations related to the purpose of the agreement	Stipulations administrative or trivial in nature

# DONOR-ADVISED FUNDS

- **Donor-advised fund (DAF)** is a separately identified fund maintained or operated by a section 501(c)(3) organization (“a sponsoring organization”).
  - Once the donor makes the contribution to the DAF, the sponsoring organization has legal control over it.
  - The donor retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.
- Donor communications may include language such as “we will recommend grants from the DAF” or “we agree to recommend that the DAF makes a grant”
- **Revenue is recognized once the gift is approved by the DAF, not the donor**



# DAF LEGISLATIVE UPDATE AND 2022 DAF ACTIVITY

## Biden Budget Proposal

- PF transfers to DAF redistribution within 1yr
- Compensation payments to disqualified individuals will not counts towards the minimum required distribution

## Annual National Philanthropic Trust DAF Report (2022)

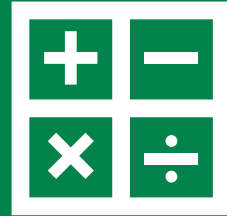
- Annual Payout rate 27.3%
- 2021 \$45.74 Billion in Grants with \$72.67 Billion in Contributions

## California Attorney General Report (2022)

- 35 California Based organizations and 22 National
- 57% of all DAFS had a grant ratio exceeding 50%



# ACCOUNTING FOR LEGAL CONTINGENCIES



Recognition follows the loss contingency model – recognized when both of the following are true:

- Loss is probable
- Amount can be reasonably estimated



Specifically for litigation-related accruals, consider also the period in which the underlying cause of the actual or pending litigation occurs

- Assuming the loss is probable and amount can be estimated, loss should be accrued for any claims arising during the fiscal year, provided the information is available before the financial statements are issued
- Even if management was not aware of the underlying cause or the claim until after year-end
- Even if the amount of the loss was not identified until after year-end



Settlement amount must be considered when estimating loss accrual, even if the settlement is reached after year-end

# ACCOUNTING FOR SEVERANCE PACKAGES

Special termination benefits (offered in exchange for voluntary termination) are recognized when the employee accepts the offer and the amount can be estimated

Severance payments pursuant to an existing severance plan and due only upon the occurrence of a specified event are accrued when the payment is probable and the amount is estimable

## SEVERANCE PAYOUTS

Benefits provided in accordance with an established plan and that vest or accumulate are accrued when the payment is probable, amount can be estimated, and as the related services are provided

One-time termination benefits are accrued when management commits to the plan, identifies the affected employees and communicates the decision to them. If the employees are required to perform services in order to receive the benefits, the expense is recognized over such service period

# CECL – WHAT IS RELEVANT FOR NFPs?

What is **current expected credit loss (CECL)** model?

- New credit impairment model provided in ASU 2016-13
- Replaces current “incurred loss” methodology for recognizing credit losses with the requirement to estimate credit losses expected over the contractual life of a financial asset
- Effective for most non-profits for fiscal years beginning after December 15, 2022

## IN SCOPE

- Receivables from exchange revenue transactions
- Lessors’ net investments in leases
- Loans or notes receivables
- Certain programmatic investments
- Off-SFP exposures (guarantees, letters of credit, etc.)

## OUT OF SCOPE

- Pledges receivable
- Financial assets at fair value
- Lessors’ operating lease receivables
- Balances due from entities under common control

# POLLING QUESTION 2

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# TAX UPDATES

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# PRIORITY GUIDANCE PLAN

- **Donor Advised Funds Regulations**

- Taxable expenditures for DAFs
  - Excise taxes on sponsoring organizations and fund management
  - Prohibited benefits
  - Excess Benefit Transactions
  - Guidance regarding the public support computation
- Regulations regarding allocation of expenses in computing unrelated business taxable income.
  - Guidance under IRC 4941 regarding a private foundation's investment in a partnership in which disqualified persons are also partners.

- **Tax Exempt Unit Priorities**

- Hiring Initiative
- Expand the use of data, machine learning and artificial intelligence algorithms to select returns for exam
- FY 23 Accomplishments
  - 1280 examinations with 75% change rate

# SOLAR AND EFFICIENCY CREDITS

- Inflation Reduction Act (IRA)
  - Solar Credits
  - EV Charging
  - Energy Efficient Vehicle Credits
- Energy Efficiency Pilot Program Grant
  - HVAC units, windows, roofing, doors etc.







# EMPLOYEE RETENTION TAX CREDIT (ERTC)

# EMPLOYEE RETENTION CREDIT: 2020 V. 2021

	2020	2021
Applicable Period	March 12, 2020 through December 31, 2020	January 1, 2021 through September 30, 2021 (some businesses may qualify through December 31, 2021)
Eligible Quarter	Either: 1) business operations have been fully or partially suspended during a quarter due to governmental orders related to COVID-19; or 2) Company experienced a substantial decline in gross receipts for the quarter	
Business Suspension Test	See IRS Notice 2021-20, Section III.D	
Gross Receipts Test	Decline of more than 50% for a 2020 quarter compared to the same quarter in 2019	Decline of more than 20% for a 2021 quarter compared to the same quarter in 2019
Gross Receipts – Safe Harbor	N/A	Employers can use the prior quarter gross receipts to determine eligibility
Gross Receipts – Aggregation	Aggregation rules apply when comparing 2020 and 2021 gross receipts to 2019	
Credit Amount	50% of qualified wages	70% of qualified wages
Qualified Wages – Business Suspension Test	Eligible wages paid during the period in which the business operations were fully or partially suspended	
Qualified Wages – Gross Receipts Test	Eligible wages paid during the eligible quarter	
Maximum Qualified Wages	\$10,000 per employee <b>per year</b>	\$10,000 per employee <b>per quarter</b>
Maximum Credit Amount	\$5,000 per employee <b>per year</b>	\$7,000 per employee <b>per quarter</b>
Full-Time Employee (FTE) Threshold to Determine Eligible Wages	2019 average FTEs of 100	2019 average FTEs of 500
Impact of FTE Threshold	<ul style="list-style-type: none"> <li>At or under FTE threshold: All wages paid during the qualified periods are qualified wages</li> <li>Over FTE threshold: Only wages paid during the qualifying periods to employees who are not working are qualified wages</li> </ul>	
FTE Aggregation	Entities that are aggregated for purposes of calculating gross receipts must also be aggregated to determine the average number of FTEs	
30-Day Wage Limitation if Over the FTE Threshold	Qualified wages cannot exceed what the employee would have been paid during an equivalent period during the 30 days immediately prior	N/A (Thus, bonuses, for example, may qualify)
Claim Advance Credit	Employers can reduce actual payroll tax deposits due by the expected credit amount	Employers with 500 or fewer FTEs may claim an advance credit based on 70% of the average quarterly wages paid in 2019

# ERTC PRESENTATION AND ACCOUNTING

- Follows ASC 958-605 – recognition of revenue from grants and contributions
  - ERC is a government grant without reciprocal benefit received by the government
  - Treated as a contribution, conditional on:
    - Incurring qualifying expenses
    - Meeting eligibility requirements
    - Filing an amended return
  - Recognized when all three above are met regardless of when the payment is received
  - Reported as income at gross

**Set of facts:** the Organization incurred qualifying costs in 2021, filed for the credit in 2022 and received the payment in 2023.

	2021	2022	2023
<b>ERTC transactions recorded</b>	No transaction is recorded	Recognize income and a receivable for the amount qualified for	Reduce receivable and increase cash upon receipt

# POLLING QUESTION 3

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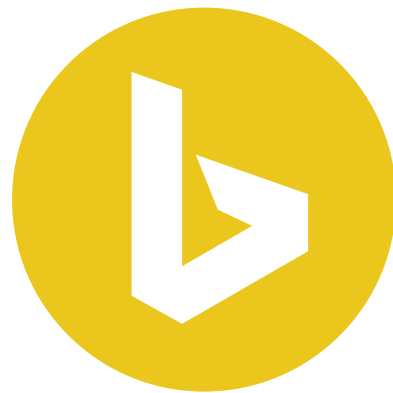
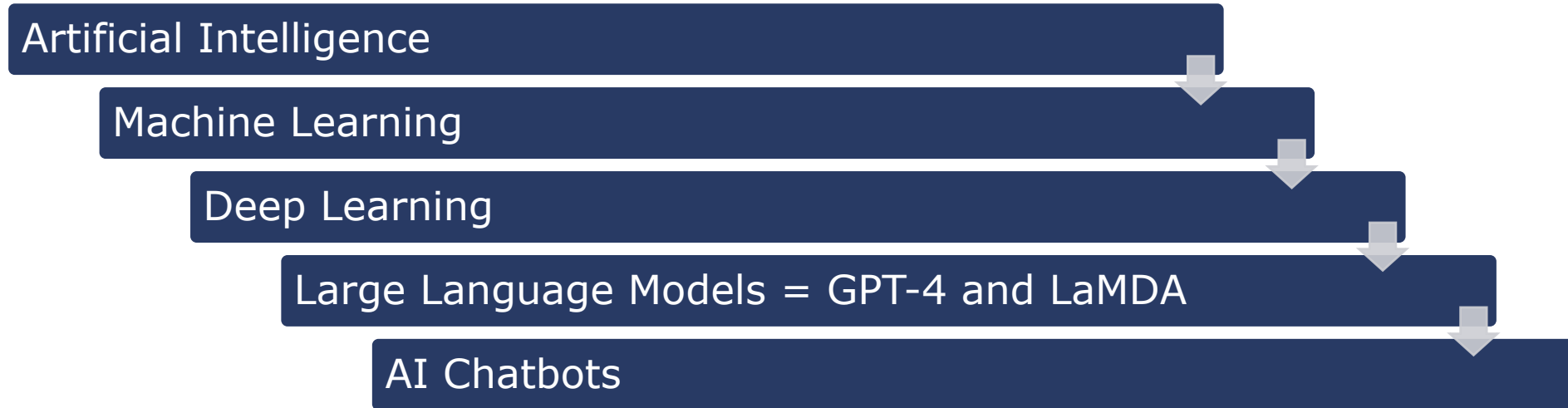
# TECHNOLOGY

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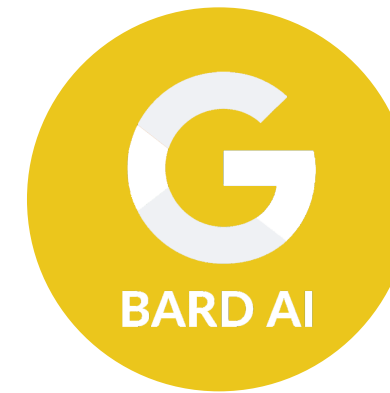
# ARTIFICIAL INTELLIGENCE



Microsoft's Bing  
Powered by GPT-4



OpenAI ChatGPT  
Powered by GPT-4  
<https://openai.com/research>



Google's Bard  
Powered by LaMDA

# USE CASES



Brainstorming



Assistance with drafting itineraries, emails and outlines for agendas



Excel formulas- finding errors and writing functions



Writing VBA and other types of code



Automating repetitive tasks



# WORDS OF CAUTION



## SENSITIVE DATA

- Donor, Employee and Grantee Data



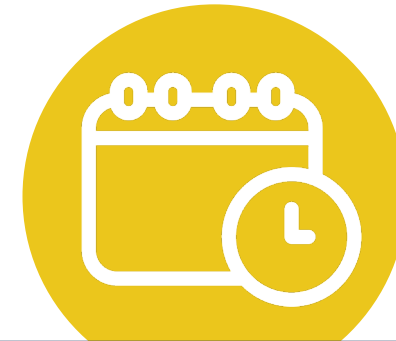
## ACCURACY OF INFORMATION

- Ensure you check against credible sources
- Verify



## PROMPT ENGINEERING

- Asking the right questions
- Not a search engine



## TIME LIMITATIONS

- Chat GPT – 2021
- Bing and Bard access live web sources



## INTELLECTUAL PROPERTY

- Plagiarism
- Ownership

**CONSIDER IMPLEMENTING AN ORGANIZATION WIDE POLICY TO ADDRESS ABOVE CONCERNS**

# AI VENDOR SELECTION CONSIDERATIONS

- How is AI utilized?
- Obtain references
- Request similar use cases
- Understand customization options
- Commitment to security and privacy
- Level of training, onboarding and customer support
- Point of view on ethics and AI

**PLEASE ENTER ANY  
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# SPEAKER BIOS

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# DONELLA WILSON

## PARTNER

**Donella Wilson**, CPA, leads GHJ's Nonprofit Practice and is also President and Chief Philanthropy Officer of GHJ Foundation, GHJ's vehicle for purposeful and proactive giving to the community.

A leader in both the nonprofit and accounting communities, Donella was named a finalist in the 2021 *Los Angeles Times's* "Inspirational Women in Business Awards" and *Los Angeles Business Journal's* "Nonprofit and Corporate Citizenship Awards" for her role as Chief Philanthropy Officer of GHJ Foundation. She was also recognized as a 2018 "Women Executive of the Year" and a 2017-2021 "Most Influential Women in Accounting" by the *Los Angeles Business Journal*. In 2018 she was also awarded the "Soroptimist Award" by Soroptimist International of Los Angeles. In 2017, Donella was also the recipient of a CalCPA "Women to Watch" Award, as well as the Trailblazer Award for her charitable activities. That year she was also honored as a Southern California Leadership Network (SCLN) "30-in-30," a year-long celebration honoring 30 outstanding SCLN alumni throughout 2017.

Committed to ending homelessness for women, Donella served on the Board of Directors of the Downtown Women's Center for 13 years. She is a member of Southern California Grantmakers Audit Committee as well as Southern California Grantmakers Corporate Leadership Council. She is also on the Board of Directors of Food Forward, a nonprofit organization committed to fighting hunger and food waste. Additionally, Donella is a member of the California Society of CPAs and the American Institute of Certified Public Accountants.

Donella obtained a Bachelor of Commerce degree from the University of Cape Town, South Africa and further obtained post-graduate diplomas in accounting and taxation.

Prior to joining GHJ in 2000, Donella worked as a qualified South African chartered accountant for an international accounting firm in Cape Town before relocating to England. In England, Donella worked in private industry, primarily for telecommunications and television companies, where she provided management accounting and special project services.

Donella enjoys volunteer work, travel and outdoor adventure, with reading and hiking being her favorite past-times.



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### RELATED INDUSTRIES AND SERVICES

- Audit and Assurance
- Board Governance
- Nonprofit Practice Leader
- Private Foundations
- Public Charities





# AMBER COATNEY MANAGER

**Amber Coatney**, CPA, has nine years of public accounting experience and is a member of GHJ's Audit and Assurance Practice. Amber provides accounting and auditing services to clients with a specialty focus on nonprofits.

Prior to joining GHJ in 2022, Amber worked for a regional accounting firm in Northern California and managed numerous audits for nonprofits, cities and special districts.

Additionally, Amber currently sits on the Board of Directors for the Center for Human Development, a Northern California nonprofit organization offering prevention and wellness services to vulnerable youth and families in Contra Costa County.

Amber graduated from St. Mary's College of California, where she received a Bachelor of Science degree in Accounting. She is a licensed CPA in the State of California.



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## RELATED INDUSTRIES AND SERVICES

- Audit and Assurance
- Nonprofits
- Nonprofit Audits
- Single Audits



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# AMY EYBSEN

## SENIOR MANAGER

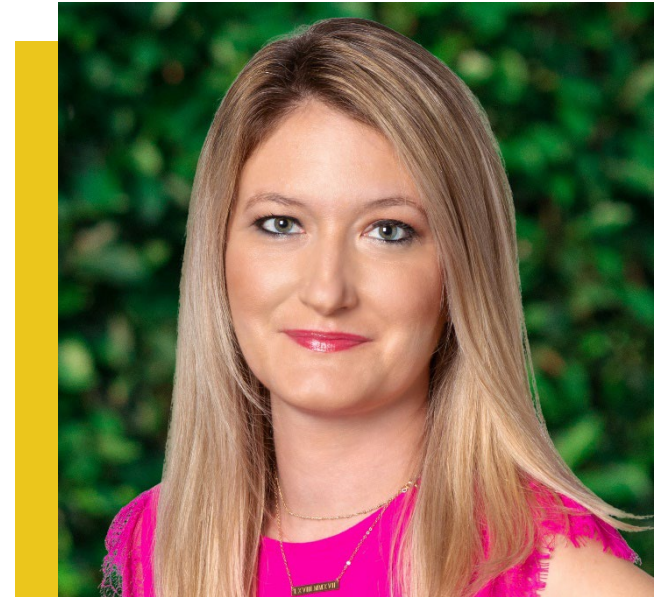
**Amy Eybsen**, CPA, has more than 10 years of public accounting experience and is a senior manager within GHJ's Audit and Assurance Practice. Amy provides accounting, auditing and transaction services to a wide variety of companies and organizations that span multiple industries within the greater Los Angeles area, with a specialty focus on nonprofits and private foundations.

In 2018, Amy was named "Young Accountant of the Year" by *The Accountant* and *International Accounting Bulletin* for her leadership and impact in the nonprofit and accounting world.

Additionally, Amy is affiliated with the Community Advisory Council of Voices For Children, the North County Philanthropy Council (North County San Diego), the California Society of CPAs and Southern California Grantmakers.

Prior to joining GHJ in 2015, she worked at a Big Four firm in its Audit Practice and managed audits involving international business combinations and purchase accounting.

Amy graduated from the University of Central Florida where she received a Bachelor of Science in Finance and continued to the University of Southern California where she received a master's in Accountancy.



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### RELATED INDUSTRIES AND SERVICES

- Financial Statement Audits and Reviews
- Nonprofits and Private Foundations
- Grantee Audits
- Internal Audit and Internal Controls Consulting





# BRETT CROWELL MANAGER

**Brett Crowell**, Esq., LL.M., has seven years of public accounting and law firm experience providing technical and strategic advice to businesses and individuals. He works with private equity clients and closely held businesses on both buy-side and sell-side domestic and cross-border transactions. Brett also provides general tax consulting services and advises clients on emerging tax issues and legislation.

Prior to joining GHJ in 2020, Brett worked at national firm as a law firm consultant and as a trust and estate specialist. In his previous role, Brett provided tax consulting and compliance services and represented clients in federal, state and local audits.

Brett obtained a BA from the University of California, Santa Barbara, a JD from the University of San Diego School of Law and an LLM in Taxation from the University of San Diego School of Law. During law school, he served as Editor-in-Chief of the *San Diego International Law Journal*. Brett is a licensed attorney in the State of California.



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## RELATED INDUSTRIES AND SERVICES

- Advisory Services
- Food and Beverage
- Healthcare
- High Net Worth
- Manufacturing
- Professional Services
- Tax Compliance and Consulting
- Transaction Advisory Services
- Trusts and Estates



# LIZBETH NEVAREZ

## MANAGING DIRECTOR

**Lizbeth Nevarez**, CPA, has more than 15 years of public accounting experience providing tax and consulting services and is GHJ's Nonprofit Tax Practice Leader. She is also Secretary for GHJ Foundation, GHJ's vehicle for purposeful and proactive giving to the community. Additionally, Lizbeth co-leads GHJ's Women's Empowerment Cohort, which is part of GHJ's DEIA initiative.

Lizbeth is a frequent guest speaker on nonprofit tax issues. She has completed the Riordan Leadership Institute's Board service program through the Los Angeles Junior Chamber of Commerce. The program's mission is to develop and cultivate business professionals for lifelong service in the nonprofit community. She has also taught courses on Form 990 basics and private foundations through CalCPA.

Lizbeth currently serves on the Board of Executive Service Corps (ESC), a leading nonprofit provider of high-impact, affordable management development services to other nonprofits in Southern California. She also serves on the Board of the Mexican American Opportunity Foundation, which supports the socio-economic betterment of the greater Latino community of California while preserving the pride, values and heritage of Mexican-American culture.

In 2019-2023, Lizbeth was recognized as "Most Influential Minority CPA" by the *Los Angeles Business Journal* for her contributions to the community and accounting industry. She was also a finalist for the *Los Angeles Business Journal's* 2023 Women's Leadership Awards for "Community Impact Advocate."

Lizbeth joined GHJ in 2008, after graduating California State University, Northridge where she received a Bachelor of Science degree in Accounting.

Lizbeth is a mother to two young boys and enjoys spending time with family and going on family trips in her free time.



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### RELATED INDUSTRIES AND SERVICES

- Nonprofit Tax
- Nonprofits and Private Foundations
- Tax Compliance and Consulting



# YULIA MURZAEVA

## MANAGING DIRECTOR

**Yulia Murzaeva**, CPA, CIA, exclusively serves nonprofit organizations, and provides audit and consulting services to a wide range of clients with an emphasis on GHJ's arts and culture, clinics and healthcare and social service sub-niches.

Yulia is a technical subject matter expert at the Firm and oversees the implementation of new accounting and auditing standards, as well as several other audit quality initiatives. As part of her focus on nonprofit organizations, Yulia leads GHJ's Nonprofit and Single Audit Learning and Performance Programs.

In 2022, Yulia spent several months working at the AICPA Governmental Audit Quality Center where she concentrated on advocacy for the latest regulatory and audit quality issues and serving as AICPA's subject matter expert on governmental and single audit accounting and auditing matters.

Yulia is passionate about opportunities for women and currently co-chairs GHJ's Women's Empowerment Cohort. In addition, she volunteers her time by being on the Board of Directors for The Pacific Heart, Lung & Blood Institute, a research institute committed to advancing medical research to improve the prevention, diagnosis and treatment of heart, lung and blood diseases through independent research, collaboration and education.

Yulia graduated from Minnesota State University, Moorhead, where she received a Bachelor of Science degree in Accounting and has worked with GHJ since 2017.

Yulia is married and has two daughters. She enjoys spending time with family, reading and an occasional Zumba class.



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### RELATED INDUSTRIES AND SERVICES

- Advisory Services
- Audit and Assurance
- Arts and Culture
- Clinics and Healthcare
- Education
- Health and Wellness
- Nonprofits
- Nonprofit Audits
- Private Foundations
- Single Audit
- Social Services







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