

ANNUAL NOT-FOR-PROFIT ACCOUNTING UPDATE

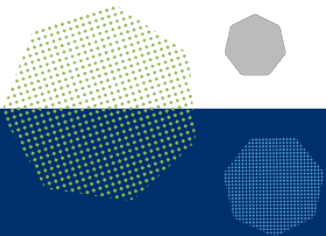


Thursday, November 17, 2022



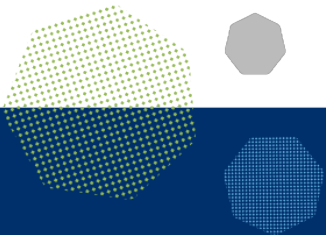
Webinar Housekeeping

- Our presentation today will be 90 minutes
 - 75-minute presentation
 - 5 polling questions, must answer 3
 - 15-minute question and answer session at the end
- A digital copy of the slides will be sent to attendees after the webinar concludes
- Survey will follow the session, please provide feedback
- You are muted. We will be answering questions/comments at the end of the presentation.
- Please use the Controls in the side panel:
 - To ask a question, type in the Question/Comment Box



Today's Agenda

- Introduction
 - UHY's NFP Practice Overview
 - Our Presenters
- First Annual NFP Survey Highlights
- Uniform Guidance
- Leases
- Contributed Nonfinancial Assets
- Governmental Assistance
- Alternative Investments Red Flag Alert



About UHY & Our NFP Practice

- Top 30 Accounting Firm in the U.S.
- 30 offices in the U.S.
- Nearly 1,500 employees
- We perform attest services for over 600 not-for-profit clients
- NFP Sector Experience Includes
 - Arts and Culture
 - Health and Human Service Organizations
 - Educational Institutions
 - Foundations
 - Private Clubs
 - Religious Organizations
 - Trade Associations
 - Government Agencies
 - Other Public Sector Organizations



Our Presenters



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Marlene Beach
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Nancy Johnson
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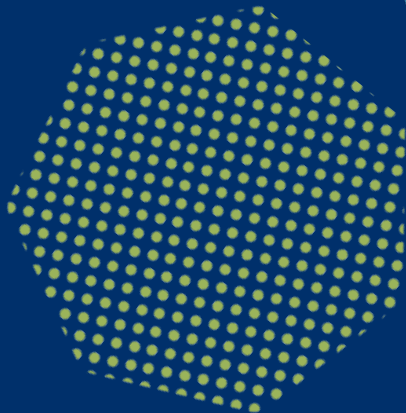
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First Annual NFP Survey Highlights



First Annual UHY NFP Survey

Background

- 116 people participated, nationally
- Most identified as being focused on social and community services
- Majority of respondents identified as a CEO, Executive Director or Finance Director



First Annual UHY NFP Survey

Top challenges

- Challenges with growth and scaling
- Not enough total funding available to the sector
- Donors reluctant to pay for full costs of evaluation, overhead, etc.

How are you and your peers adapting?

- New programs and services
- Implementation of new technologies
- Increased collaboration



How can we help ... services we offer

Audit & Assurance

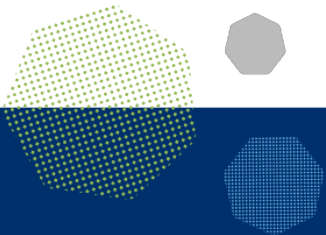
- Audits, reviews and compilations of financial statements
- Single audits
- Financial and compliance audits
- Attestation services including agreed-upon procedures reports and service auditor reports (SSAE16)
- Audits of financial statements of employee benefit plans
- Financial reporting assistance
- Collateral audits
- Implementation of accounting standards
- Audit committee advice
- Financial forecasts
- Employee benefit plan audits of 403b

Tax Planning & Compliance

- Preparation of Form 990, 990-T, 990-PF, and state equivalent returns
- Employee benefit plan filings (e.g., Form 5500)
- Related for-profit corporate, partnership and trust filings
- Tax incentives
- Unrelated business income tax (UBIT) planning
- Sales and use taxes
- Foreign reporting for alternative investments in foreign partnerships
- Property tax planning
- IRS resolution

Other Advisory Services

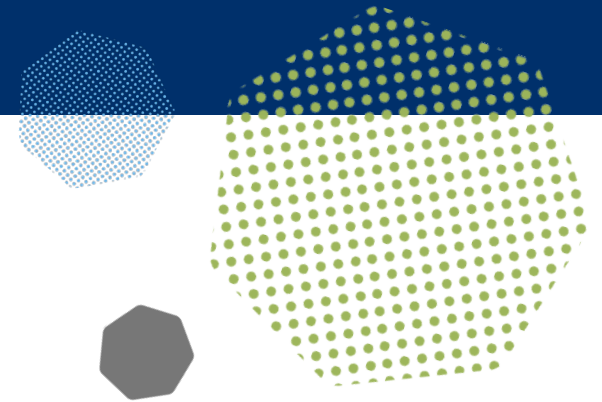
- Charitable and trust registration preparation
- Form 1023 application assistance
- Financial fraud examinations and investigations
- Review and development of fraud prevention policies and procedures
- Client accounting advisory services
- Resource solutions
- Financing assistance
- Transaction services
- Cost assignments and allocations
- Profit enhancement solutions
- Benchmarking
- Enterprise risk management
- Design, implementation and testing of internal controls
- Contract compliance



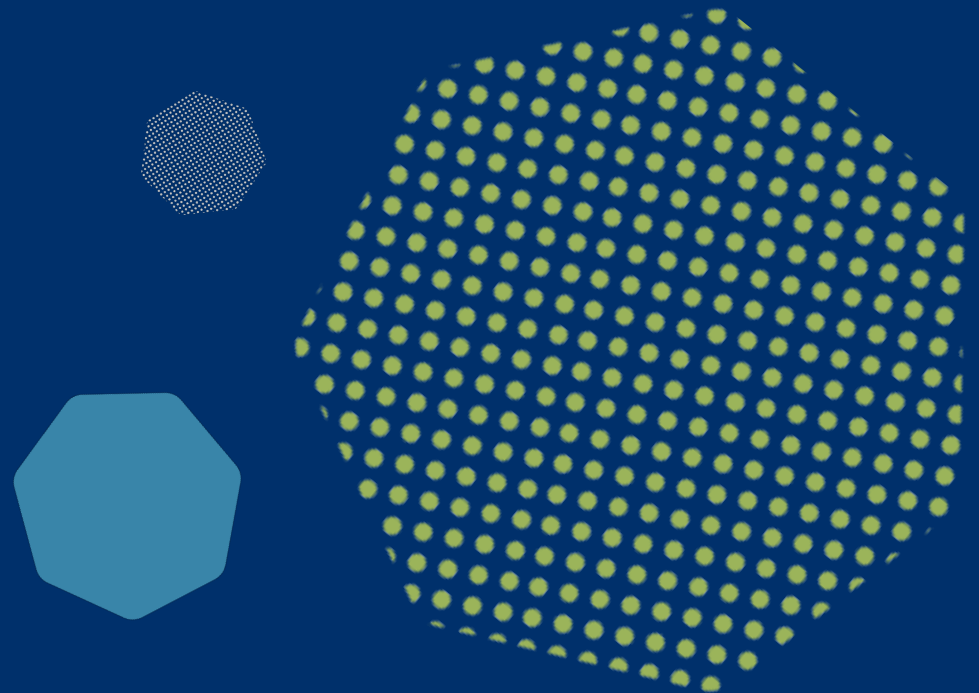
Polling Question #1

**Did you participate in our annual
Not-For-Profit survey?**

- A. Yes
- B. No



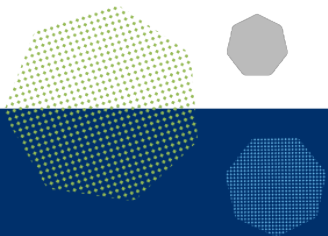
Uniform Guidance/ARPA Funding (Single Audits)



AMERICAN RESCUE PLAN ACT of 2021

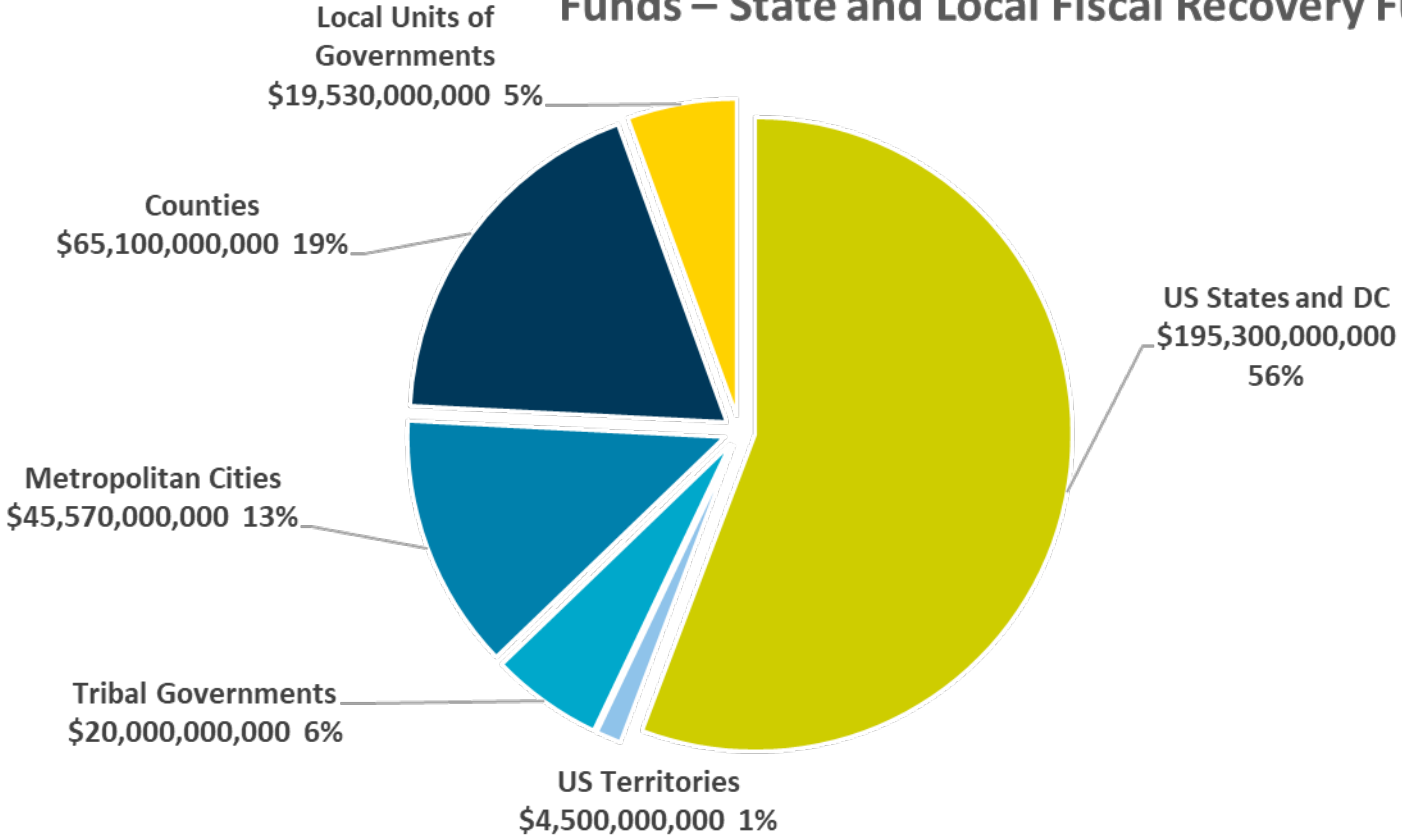
Also called the COVID-19 Stimulus Package

- Signed in law by President Biden on March 11, 2021
- Provided for \$1.9 trillion to provide additional relieve to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals and businesses



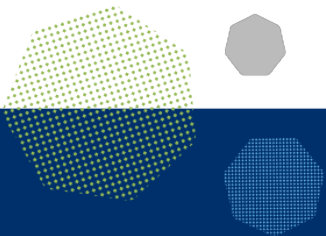
AMERICAN RESCUE PLAN ACT of 2021

Allocation of \$350 Billion of Funds – State and Local Fiscal Recovery Funds



State and Local fiscal Recovery Funds – Assistance to Not For Profits

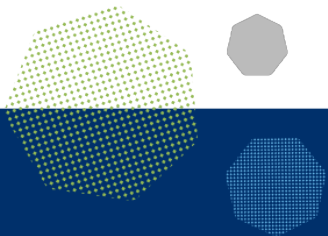
- Nonprofits have faced significant challenges due to the pandemic's increased demand for services and changing operational needs, as well as declines in revenue sources such as donations and fees.
- Nonprofits eligible for assistance are those that experienced negative economic impacts or disproportionate impacts of the pandemic and meet the definition of “nonprofit” —specifically those that are 501(c)(3) or 501(c)(19) tax-exempt organizations.



State and Local Fiscal Recovery Funds

Funds available for Not for profits in two manners:

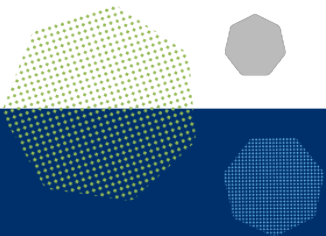
- Beneficiary
- Subrecipient



State and Local fiscal Recovery Funds – Assistance to Not For Profits

Assistance received as a Beneficiary:

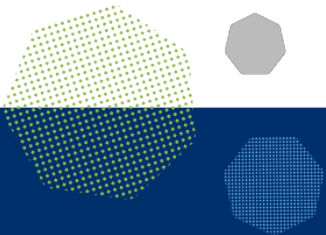
- Aid to mitigate financial hardship, such as supporting payroll costs, lost pay and benefits for returning employees, support of operations and maintenance of existing equipment and facilities
- Technical assistance, counseling, or other services to support business planning
- Subject to reporting requirements as dictated by the grantor



State and Local Fiscal Recovery Funds

Assistance received as a Subrecipient:

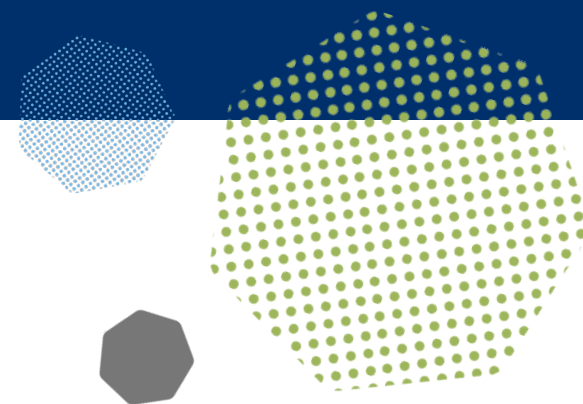
- Carry out eligible uses on behalf of a recipient
- Reporting requirements – All Uniform Guidance rules apply
 - Single Audit - \$750,000 in federal expenses
- Expenses must be allowable under ARPA guidelines AND uniform guidance



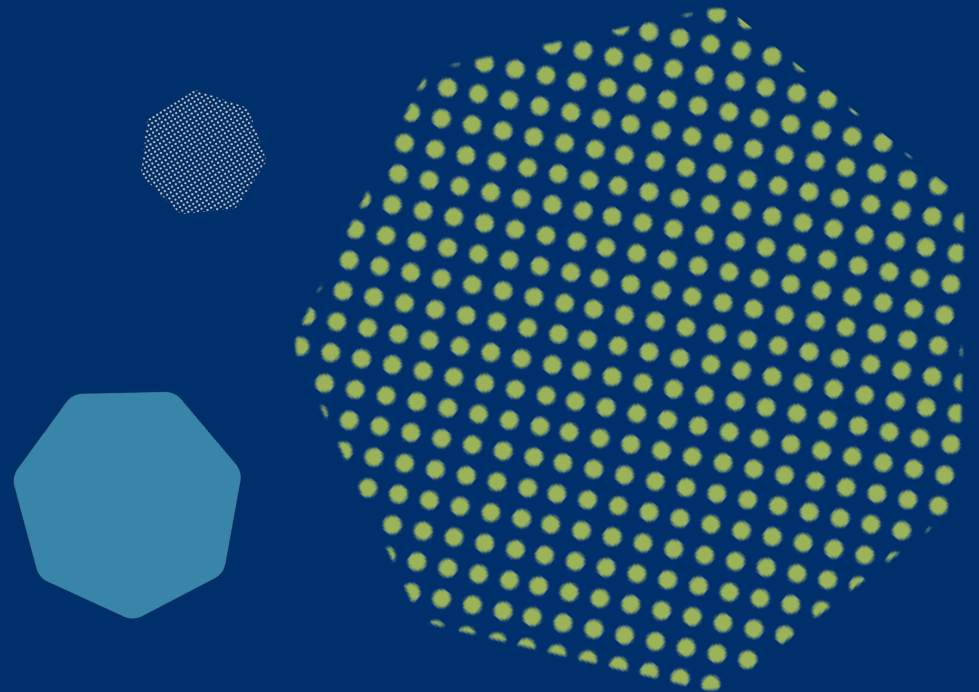
Polling Question #2

Have you received any ARPA funding?

- A. Yes
- B. No



Lease Accounting



OVERVIEW - LEASE ACCOUNTING

Primary Objectives

- To increase transparency and comparability of financial statements.
- To align U.S. GAAP with IFRS and minimize off-balance sheet items.

Scope

- Generally similar to current U.S. GAAP
- ASC 842 only applies to the lease of property, plant and equipment.
- Excludes: lease of intangible assets, biological assets, inventory, asset under construction and lease to explore for/use nonregenerative resources
- No scope exceptions for small-ticket leases (e.g., leases of low value assets such as personal computers or copiers)

IMPLEMENTATION STEPS

#1

- Determine transition approach

#2

- Consider practical expedients and accounting policy elections

#3

- Identify lease term, determine discount rates and lease payments

#4

- Classify the lease (if necessary)

#5

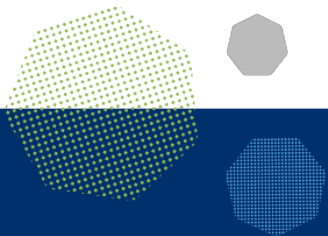
- Initial and subsequent measurement and recognition

#6

- Disclosure

TRANSITION OPTIONS

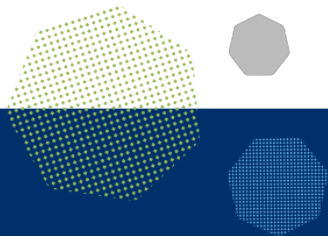
- Method 1: modified retrospectively to each prior reporting period presented
 - The date of initial application is the beginning of the earliest comparative period
- Method 2: cumulative effect recognized at beginning of the period of adoption
 - Apply ASC 840 in the comparative periods
 - Provide the disclosures required by ASC 840 for all periods that continue to be presented in accordance with ASC 840
 - Recognize the effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of January 1



PRACTICAL EXPEDIENTS

Several optional practical expedients are available

Must be elected as a package at the adoption date	An entity may elect not to reassess: <ul style="list-style-type: none">• Whether expired or existing contracts contain leases under the new definition of a lease• Lease classification for expired or existing leases• Whether previously capitalized initial direct costs would qualify for capitalization under the new standard
May be elected individually or with the other practical expedients	<ul style="list-style-type: none">• An entity may use hindsight in determining the lease term (e.g., evaluating options to extend or terminate or to purchase ROU assets) and in assessing impairment of ROU assets

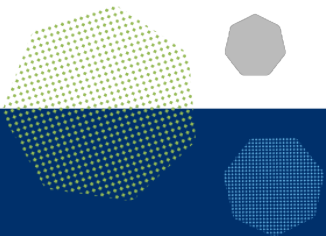


ACCOUNTING POLICY ELECTIONS

Portfolio approach – if the company has many leases with similar characteristics, this may simplify the process of identifying the lease classification, applying one discount rate, etc.

Short-term lease exemption – likely the most popular election and will enable a company to exclude short-term leases from the ROU asset and lease liability calculations

Materiality thresholds – if the present value of the ROU asset is below your capitalization threshold it can be excluded



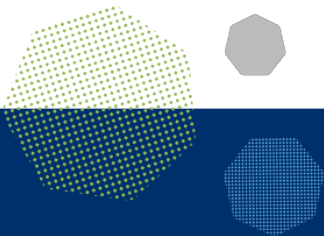
LEASES TERM

Noncancelable period for which the lessee has the right to use the underlying asset, adjusted for:

Lessee-controlled options: Extension/renewal periods or termination options, if lessee is reasonably certain to exercise (or not exercise).

If lessee subsequently changes its assessment of lease term, it will trigger remeasurement of lease payments and lease liability

Lessor-controlled options: Assume that lessor will trigger the extension/renewal option and not terminate the lease.



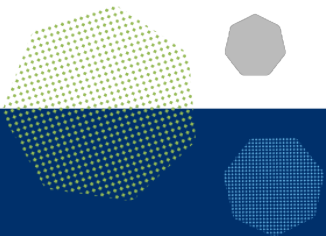
DISCOUNT RATE

Lessee uses the following discount rate to determine the present value of future lease payments

Rate implicit in the lease if the rate is readily determinable

Otherwise, use the lessee's **incremental borrowing rate** equal to what a lessee would have to pay for a collateralized borrowing over a similar term as the lease

Private-company lessees can elect to use a **risk-free rate** (normally the federal funds rate); HOWEVER, this usually will result in a higher liability and asset.



DISCOUNT RATE

At what date should the discount rate be calculated?

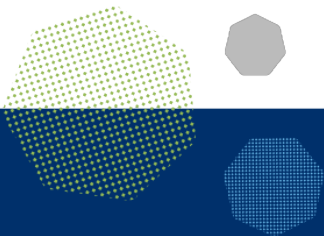
New Leases

Lease
Commencement
Date

Existing
Leases

ASC 842
Adoption Date

- Unless the hindsight practical expedient is elected
- If the incremental borrowing rate is utilized you can either use the original term or remaining lease term, but must be consistent



DISCOUNT RATE

Lease Implicit Rate

- Pro: Will be most accurate / applicable for the lease
- Con: May not be easily determinable

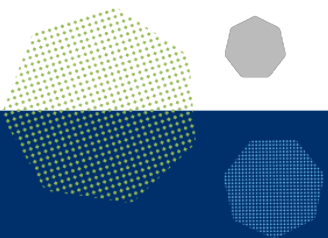
Incremental Borrowing Rate

- Pro: Easier to determine than implicit rate*
- Con: May be difficult to determine if the Company does not have any debt

Risk-Free Rate

- Pro: Easiest to determine
- Con: Will result in significantly higher ROU asset and lease liability balance

* Must be over a similar term and an amount equal to the lease payments in a similar economic environment



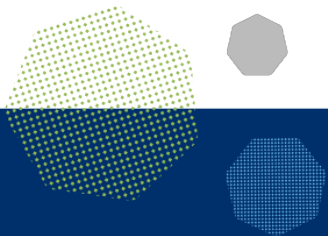
LEASE ACCOUNTING

	Current Lease Accounting (ASC 840)	New Lease Model (ASC 842)
Lessee accounting	<p>Leases are either:</p> <ul style="list-style-type: none"> • <u>Operating leases (off balance sheet)</u> • Capital leases 	<ul style="list-style-type: none"> • <u>All leases recorded on balance sheet</u> (except short-term) • Two income statement presentations <ul style="list-style-type: none"> • Operating lease • Finance lease
Lessor accounting	<ul style="list-style-type: none"> • Operating leases • Sales-type or direct finance leases • Leveraged leases 	<ul style="list-style-type: none"> • Operating leases • Sales-type / direct-finance leases • No more leveraged leases



STATEMENT OF FINANCIAL POSITION- LEASES

Lessee	Lessor
<p>Non-current assets:</p> <ul style="list-style-type: none">• Finance lease right of use assets• Operating lease right of use assets <p>Classified as current or non-current liabilities:</p> <ul style="list-style-type: none">• Finance lease liabilities• Operating lease liabilities• If not presented separately, disclose which line items and amounts in the balance sheet include those ROU assets and lease liabilities.	<p>Sales-type and direct financing leases:</p> <ul style="list-style-type: none">• Derecognizes the leased asset and recognizes a lease net investment. The aggregate net investment in the lease is presented separately.• Classified as current or noncurrent assets. <p>Operating leases:</p> <ul style="list-style-type: none">• As PPE or as a separate line item (e.g., assets subject to operating leases).



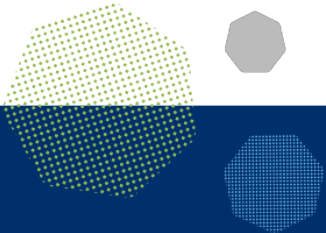
STATEMENT OF ACTIVITIES- LEASES

In the Statement of Activities—

	Finance Lease	Operating Lease
Lessee	Interest and amortization expense are presented separately, consistently with how the entity records similar expenses	Lease expense, which includes both an interest and amortization component, is presented on the income statement as rent expense
Lessor	If lease income not presented separately, the lessor shall disclose which line items include lease income	

In the statement of cash flows —

	Finance Lease	Operating Lease
Lessee	Operating activities (interest) Financing activities (principal)	Operating activities
Lessor	Cash lease payments received are presented within operating activities	

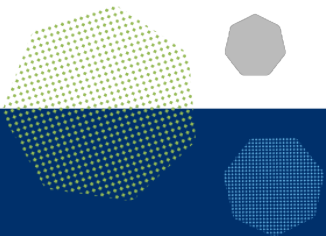


LEASE ACCOUNTING – INITIAL MEASUREMENT

Most leases are on balance sheet using a right-of use (ROU) asset approach; regardless of lessee's classification as a finance or an operating lease, recognizes a ROU asset and a lease liability.

Initial measurement – on the lease commencement date

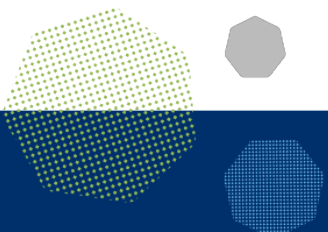
- **ROU asset:** right to use the leased asset over the lease term.
[Initial lease liability + initial direct cost – lease incentives]
- **Lease liability:** obligation to make lease payments
[PV of lease payments]



LEASES – ADJUSTMENTS TO ROU ASSET

- At adoption, the ROU asset and lease liability will agree, unless you have the following items:
 - Lease incentives
 - Initial direct costs
 - Beginning deferred rent
- Any difference between the cash expenditure for leases and the expense recorded on a straight-line basis will flow through the ROU asset
- Example initial journal entry to record ROU asset and lease liability:

Account	Debit	Credit
ROU asset	\$10,000	
Deferred rent	\$2,000	
Lease liability		\$12,000



INITIAL DIRECT COSTS

#2

• Consider practical expedients and accounting policy elections

What are initial direct costs (IDCs)?

Incremental costs that would not have been incurred if the lease had not been obtained

What are NOT initial direct costs?

Costs to negotiate or arrange a lease that would have been incurred regardless of whether the lease was obtained are NOT initial direct costs

How do you account for IDCs?

Companies should include any initial direct costs in the initial and subsequent measurement of ROU assets

Lessees are required to allocate initial direct costs to the separate lease components on the same basis as lease payments

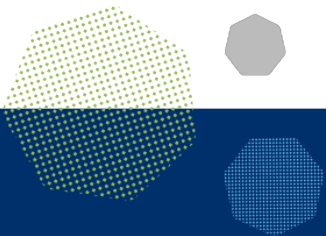
LEASES ILLUSTRATION

Lease payments of \$100,000 in year 1, \$105,000 in year 2, and \$115,000 in year 3

Initial direct costs - \$15,000

Incremental borrowing rate – 6.8172%

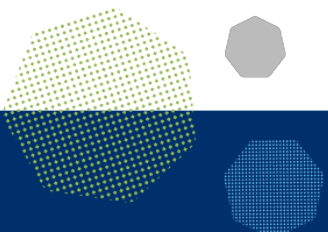
3 year term with annual payments



FINANCE LEASE ILLUSTRATION

Year	Right of Use Asset			Lease Liability			
	Beg. Balance	Amortization	Ending Balance	Beginning Balance	Interest	Payments	Ending Balance
1	295,000	98,333	196,667	280,000	19,088	100,000	199,088
2	196,667	98,333	98,334	199,088	13,572	105,000	107,660
3	98,334	98,334	-	107,660	7,339	115,000	(0)

Finance Lease Example - Summary				
	Year 1	Year 2	Year 3	Total
Interest	19,088	13,572	7,340	40,000
Amortization	98,333	98,333	98,334	295,000
Total Expense	117,421	111,905	105,674	335,000



OPERATING LEASE ILLUSTRATION

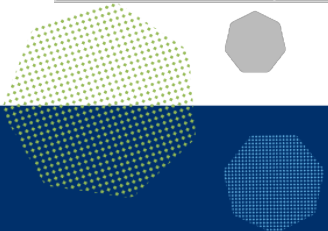
Year	Right of Use Asset					Lease Liability			
	Beg. Balance	Straight-line expense	Interest	Amortization	Ending Balance	Beginning Balance	Interest	Payments	Ending Balance
1	295,000	111,667	19,088	92,579	202,421	280,000	19,088	100,000	199,088
2	202,421	111,667	13,572	98,094	104,327	199,088	13,572	105,000	107,660
3	104,327	111,667	7,339	104,327	(0)	107,660	7,339	115,000	(0)

Operating Lease Example - Summary				
	Year 1	Year 2	Year 3	Total
Lease liability accretion	19,088	13,572	7,340	40,000
Amortization	92,579	98,094	104,327	295,000
Total Rent Expense	111,667	111,667	111,667	335,000



FINANCIAL STATEMENT IMPACT COMPARISON

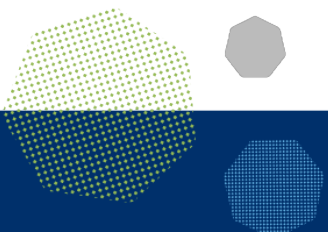
				Operating lease	Finance lease
Balance Sheet, lease commencement					
	ROU Asset			295	295
	Lease liability			(280)	(280)
Income Statement, 1st year					
	Amortization expense				98
	Interest expense				19
	Lease expense			111	
	Pre-tax income			(111)	(117)
Balance Sheet, end of year 1					
	ROU asset, net of accumulated amort			202	197
	Lease liability			(199)	(199)



OVERVIEW

Statement of Financial Position Example:

	<u>2022</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 10,100
Accounts Receivable	125,450
Inventory	320,800
Other current assets	5,000
	<u>461,350</u>
Property, Plant and Equipment	
Land	10,000
Buildings	250,000
Furniture and fixtures	53,000
Finance Leases	197,000
	<u>510,000</u>
Less Accumulated Depreciation	(156,000)
	<u>354,000</u>
Operating Lease Right-of-Use Assets	202,000
Other Non-Current Assets	15,000
	<u>1,032,350</u>



OVERVIEW

Statement of Financial Position Example:

Liabilities

Current Liabilities

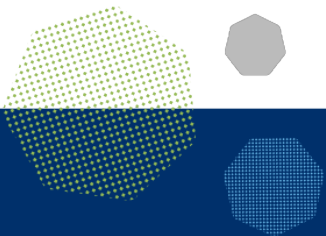
Current portion of long-term debt	\$	15,200
Accounts payable		45,000
Other accrued expenses		13,200
Current operating lease liabilities		111,000

184,400

Long-term Debt 85,000

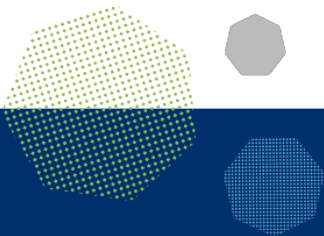
Non-Current Operating Lease Liabilities 88,000

357,400



LEASE DISCLOSURES

- Additional disclosure requirements apply to lessees and lessors:
 - Qualitative information
 - Description of leases
 - Basic terms and conditions of leases
 - Existence of options to extend or terminate the lease and which options are recognized as part of its ROU assets and lease liabilities
 - Right of use asset and lease liability policies
 - Quantitative information
 - Details of lease cost
 - Weighted average remaining lease term
 - Weighted average discount rate
 - Transition disclosures
 - Use of practical expedients
 - Required by ASC 250, Accounting Changes and Error Correction

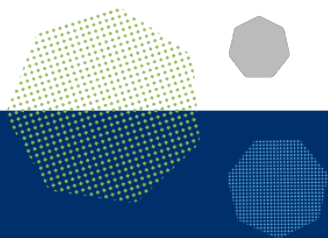


LEASE DISCLOSURES

Accounting Policy

The Company leases certain buildings, equipment, and vehicles. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

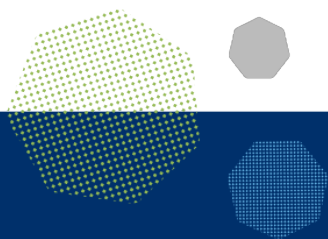
Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our balance sheets.



LEASE DISCLOSURES

Accounting Policy (Continued)

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company uses the implicit rate when it is readily determinable. Since most of the Company's leases do not provide an implicit rate, to determine the present value of lease payments, management uses the Company's incremental borrowing rate based on the information available at lease commencement. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option.

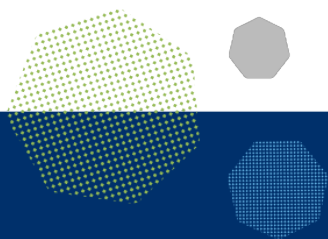


LEASE DISCLOSURES

Note Disclosure

The following summarizes the weighted average remaining lease term and discount rate as of December 31:

	<u>2022</u>	<u>2021</u>
Weighted Average Remaining Lease Term		
Operating leases	7 years	7 years
Finance leases	12 years	12 years
Weighted Average Discount Rate		
Operating leases	2.61%	2.4%
Finance leases	5.1%	4.6%



LEASE DISCLOSURES

Note Disclosure

The maturities of lease liabilities as of December 31, 2022 were as follows:

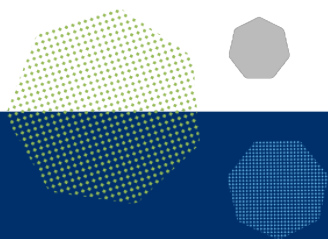
Year Ending December 31:	Operating	Finance
2023	\$746,528	\$193,527
2024	\$674,521	\$197,439
2025	\$543,139	\$201,258
2026	\$452,638	\$204,783
2027	\$361,057	\$205,951
Thereafter	\$1,076,516	\$2,018,637
Total Lease Payments	\$3,854,399	\$3,021,595
Less: interest	(\$370,827)	(\$869,541)
Present Value of Lease Liabilities	\$3,483,572	\$2,152,054

LEASE DISCLOSURES

Note Disclosure

The following summarizes the line items in the statements of activities which include the components of lease expense for the year ended December 31:

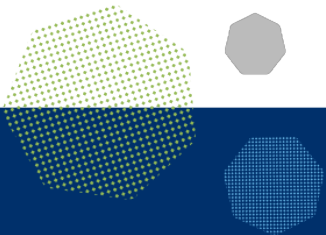
	<u>2022</u>	<u>2021</u>
Operating lease expense included in SG&A	<u>\$ 753,518</u>	<u>\$ 746,984</u>
Finance lease costs:		
Amortization of lease assets included in depreciation		
And amortization expense	\$122,363	\$ 52,141
Interest on lease liabilities		
included in interest expense	<u>87,857</u>	<u>34,959</u>
Total finance lease costs	<u>\$ 210,022</u>	<u>\$ 87,100</u>



LEASE DISCLOSURES

Note Disclosure

As of December 31, 2022, we have additional operating and finance leases, primarily for datacenters, that have not yet commenced of approximately \$292,000 and \$809,000, respectively. These operating and finance leases will commence between 2023 and 2025 with lease terms of 1 year to 15 years.

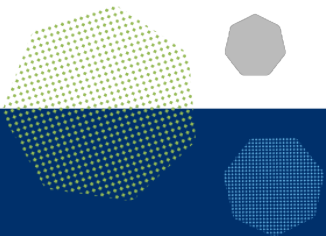


BUSINESS IMPLICATIONS

Debt/equity ratios and covenants; Debt agreements may need to be amended to reflect adjusted financial ratios and covenants or exclude lease-related debt and/or amortization expense.

More expense in early years (finance leases)

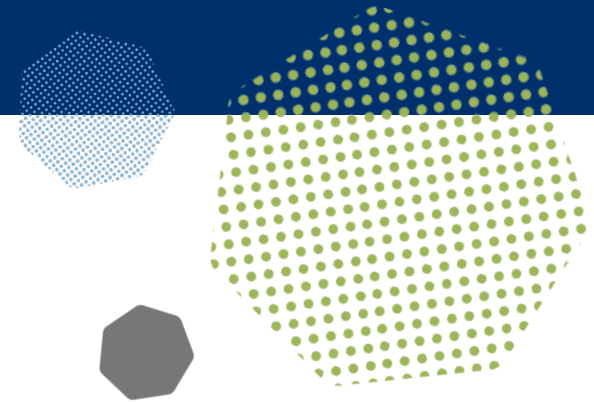
Detailed asset, amortization and debt records; Current systems, controls and resources may need to be upgraded or replaced to apply the new accounting rules.



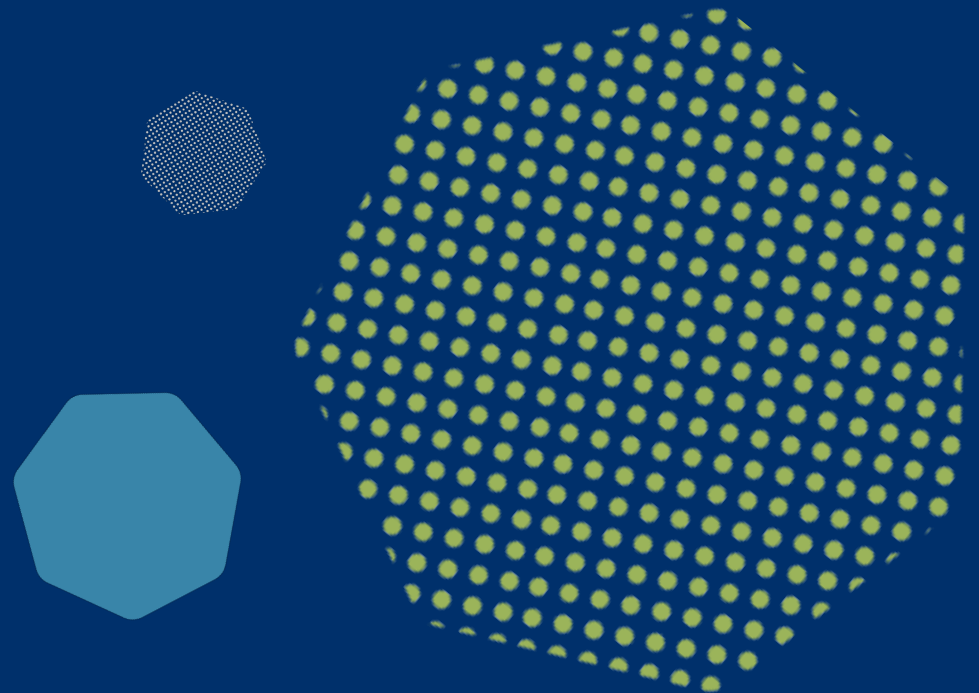
Polling Question #3

Which of the following items must be disclosed separately in the lease footnote for lessees?

- A. Finance lease cost
- B. Operating lease cost
- C. Variable lease cost
- D. Short-term lease cost
- E. All of the above



Contributed Nonfinancial Assets (Gifts in Kind)



GIFTS-IN-KIND

Requires:

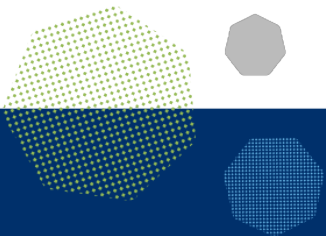
- Change in financial statement presentation and disclosure

Purpose:

- To improve transparency in reporting nonprofit gifts-in-kind.

Adoption:

- Must be applied retrospectively
- Effective for annual reporting periods beginning after June 15, 2021
- Early adoption permitted



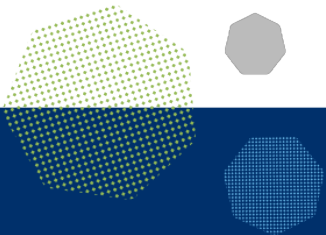
GIFTS-IN-KIND

What are gifts-in-kind?

Gifts-in-kind are contributed nonfinancial assets donations made to eligible nonprofits for goods or services the organization would purchase in the normal course of business.

Gifts-in-kind of tangible property include items like operating facilities, utilities, office furniture, and supplies provided to your organization; items donated to your organization to be auctioned through your charitable events; and items used in program activities, such as medical supplies, building supplies, appliances, and fixtures.

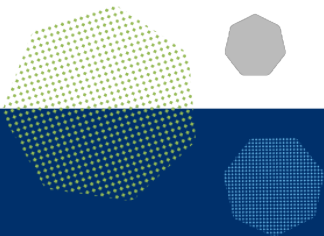
Intangible gifts-in-kind include items like copyrights, patents, and royalties; specialized volunteer services, such as those from nurses for medical organizations or project managers and builders for construction projects; and expertise, such as accounting, legal, and consulting services.



GIFTS-IN-KIND

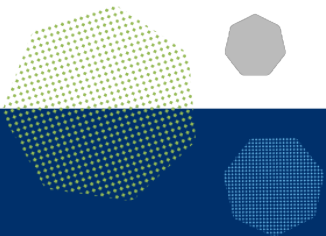
What changes?

1. Requires more prominent presentation of contributed nonfinancial assets
2. Enhanced disclosures about the valuation of those contributions and their use in programs and other activities
3. Presentation as a separate line item; cannot be grouped with contributions of cash or other financial assets.
4. Disaggregation into categories based on the type of gift received, with the following disclosures for each category:
 - Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used
 - The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets
 - Description of any donor-imposed restrictions
 - Description of valuation techniques and inputs used to arrive at a fair value measure at initial recognition
 - Description of principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets



GIFTS-IN-KIND EXAMPLE STATEMENT OF ACTIVITIES

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Contributions of cash and other financial assets	\$ 6,790	\$ 7,430	\$ 14,220
Contributions of nonfinancial assets	1,850	960	2,810
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			
Satisfaction of program restrictions	8,990	-8990	
Satisfaction of equipment acquisition restrictions	1,500	-1500	
Expiration of time restrictions	1,250	-1250	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	-7500	
Total net assets released from restrictions	19,240	-19,240	-
Total revenues, gains, and other support	40,080	7,450	47,530



GIFTS-IN-KIND FOOTNOTES

Contributed Nonfinancial Assets - Illustration of Valuation

	Revenue Recognized	Utilization in Program/Activities	Donor Restrictions	Valuation Techniques and Inputs
Building	\$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	\$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis estimates of wholesale values that would be received for selling similar products in the United States.
Food	\$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis estimates of wholesale values that would be received for selling similar products in the United States.
Medical supplies	\$90,389	Natural Disaster Services	No associated donor restrictions	NFP K estimated the fair value on the basis estimates of wholesale values that would be received for selling similar products in the United States.
Clothing	\$85,765	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	In valuing clothing, NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Vehicles	\$127,900	It is NFP K's policy to sell all contributed vehicles immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Proceeds from vehicles sold are valued according to the actual cash proceeds on their disposition
Services	\$73,890	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.

GIFTS-IN-KIND FOOTNOTES

Note X - Contributed Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets for the year ending June 30, 2021:

Medical equipment and supplies	\$ 2,000,000
Auction items	20,000
Rent	90,000
Nursing services	700,000
TOTAL CONTRIBUTED NONFINANCIAL ASSETS	<u>\$ 2,810,000</u>

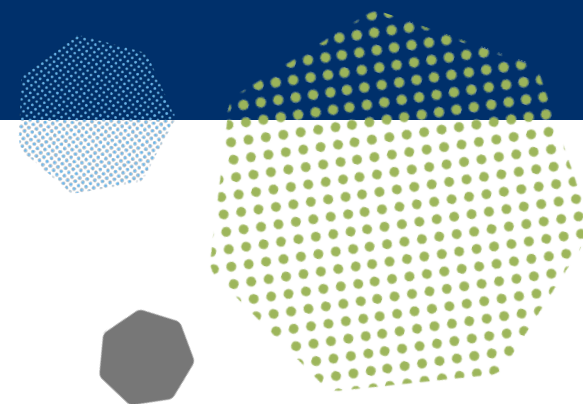
During the fiscal year 2021, the Organization received donated services for tax preparation, legal consultation, and other consulting services. The organization also received contributions of the use of facilities and donated goods.

Program or Supporting Services	Donated Equip/Supp	Donated Auction	Donated Rent	Donated Nursing	Total
Tax services program	\$ -	\$ -	\$ 15,000	\$ -	\$ 15,000
Tax clinic program	1,650,000	-	45,000	700,000	2,395,000
Financial capability	350,000	-	15,000	-	365,000
Total program services	2,000,000	-	75,000	700,000	2,775,000
Management and general	-	-	10,000	-	10,000
Fundraising	-	20,000	5,000	-	25,000
TOTAL	\$ 2,000,000	\$ 20,000	\$ 90,000	\$ 700,000	\$ 2,810,000

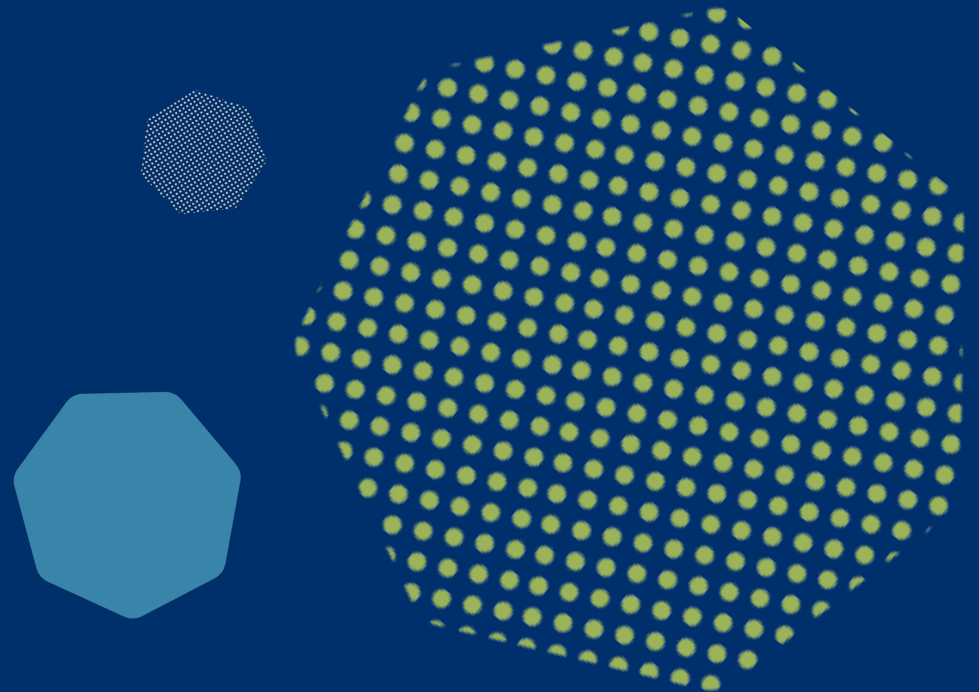
Polling Question #4

Which of the following are NOT considered contributions of non-financial assets:

- A. Donated time from skilled nurses
- B. Donated legal services
- C. Donated shares of mutual funds
- D. Donated vehicle for programs

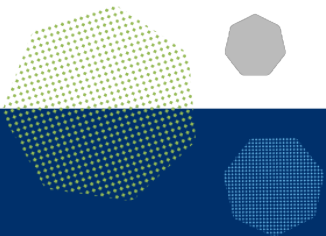


Governmental Assistance



GOVERNMENTAL ASSISTANCE

- ASU No. 2021-10, Government Assistance (Topic 832)
- Effective Date: For annual periods beginning after 12/15/2021.
- Transition Method: Either prospectively or retrospectively with early application permitted.
- Disclosures by Business Entities about Government Assistance to increase transparency about assistance provided to businesses by a government that has been accounted for by analogizing to a grant or contribution accounting model.



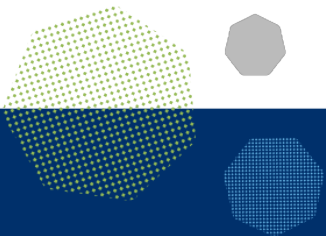
GOVERNMENTAL ASSISTANCE (CONT'D)

- The ASU do not apply to not-for-profit entities!!!



GOVERNMENTAL ASSISTANCE (CONT'D)

- There are no specific US GAAP standards on accounting by business entities for government assistance.
- What do we have?
 - ASC 958-605 Not-for-profit Entities, contribution accounting by not-for-profit entities
 - IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- Upon implementation of ASU 2021-10, the business entities account for government assistance by analogizing to a grant or contribution accounting model with additional disclosures



GOVERNMENTAL ASSISTANCE (CONT'D)

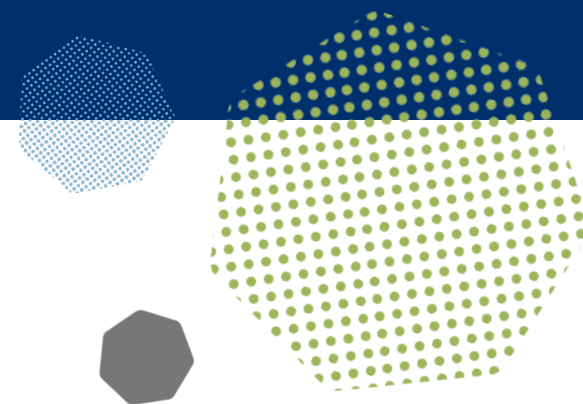
Significant Difference between NFP model and Grant model

NFP Model (ASC 958-605)	Grant Model (IAS 20)
<p>ASC 958-605 does not consider the probability of whether a condition has been or will be met.</p> <p>Recognized when the grant is awarded or, if conditional, immediately once the conditions are substantially met or waived. The entity should also consider whether there are any government-imposed restrictions that exist.</p>	<p>Recognized when there is reasonable assurance that:</p> <ul style="list-style-type: none">• The entity will comply with the conditions attached to the grant; and• The grants will be received. <p>For grants related to income recognize in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.</p> <p>For grants related to assets recognize as either deferred income or deducting the grant from the carrying amount of the asset.</p>

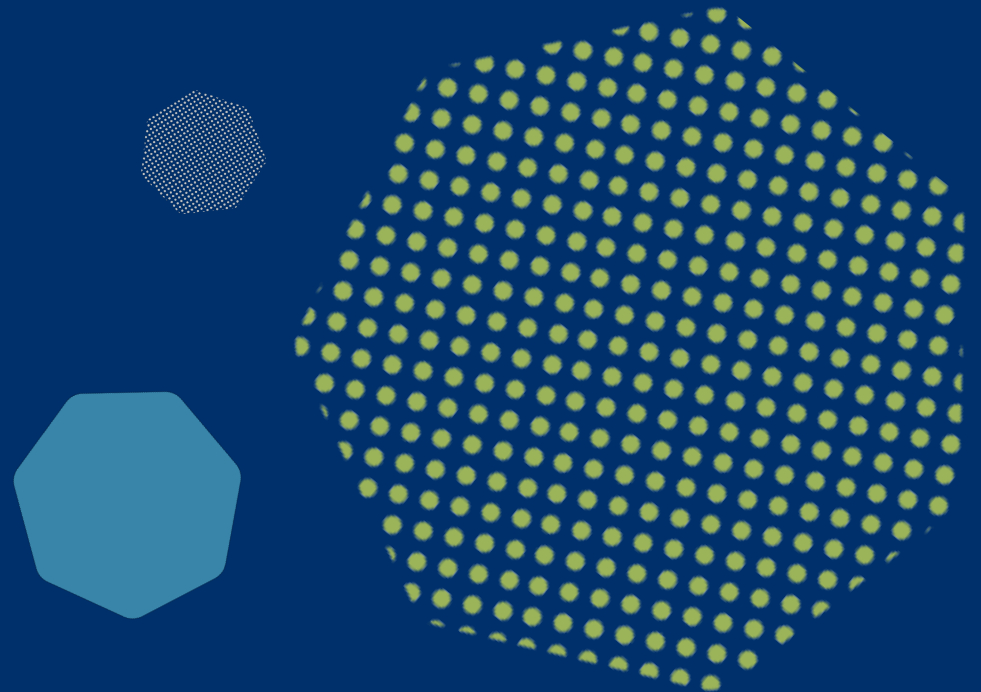
Polling Question #5

With the effective ASU 2021-10: Governmental Assistance, how should a NFP organization accounts for the governmental assistance defined in the scope of this guidance?

- A. Grant Model (IAS 20)
- B. Contribution Model (ASC 958-605)
- C. A or B at my choice
- D. I don't know



Alternative Investments: Red Flag Alert



ALTERNATIVE INVESTMENTS RED FLAG ALERT

	Fair Value Measurements at Report Date Using					Investments Measured at NAV
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets						
Cash and money market funds (at cost)	\$ 1,403,828	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of deposit	1,211,544	-	1,211,544	-	-	-
U.S. Government obligations	2,237,782	-	2,237,782	-	-	-
Global equity mutual funds	10,630,571	10,630,571	-	-	-	-
Global equity funds	1,572,375	-	-	-	-	1,572,375
Long/short hedge funds	7,022,540	-	-	-	-	7,022,540
Private equity funds	8,456,648	-	-	-	-	8,456,648
Real estate funds	14,491,843	-	-	-	-	14,491,843
	<u>\$ 47,027,131</u>	<u>\$ 10,630,571</u>	<u>\$ 3,449,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,543,406</u>

ALTERNATIVE INVESTMENTS RED FLAG ALERT

NFPs with larger investment portfolios may include investments in alternative investments that include:

- Private equity funds
- Offshore partnerships
- Real Estate Investment Trusts (REITs)
- S-Corporations

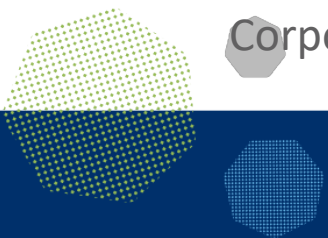
The book/GAAP accounting for these is at Net Asset Value (NAV).

The tax basis accounting may be on a different method and depending on the activities of the investments, some of the income might be subject to income tax (unrelated business taxable income or “UBTI”). UBTI might include debt- financed property, investments in S-corps, hedging, capital gains/portfolio income, royalty income, etc. These investments almost always include a Form K-1 from a Form 1065 of the investee’s tax positions per IRC 6031(d).

ALTERNATIVE INVESTMENTS RED FLAG ALERT

Reporting requirements:

- Book/GAAP – Footnote disclosures including NAV funding requirements/commitments and income taxes on UBTI.
- Tax – form 990 schedules and forms that might apply (general reporting requirements under IRC section 6038: investments > \$100,000 per year or investments > 10% ownership)
 - Sch F – Statement of Activities Outside the United States (e.g., grants, assistance and investments)
 - Form 5471 “Information Return of U.S. Persons with Respect to Certain Foreign Corporations”
 - Form 5472 “Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business”
 - Form 8865 “Return of U.S. Persons with Respect to Certain Foreign Partnerships”
 - Form 926 “Return by a U.S. Transferor of Property to a Foreign Corporation”

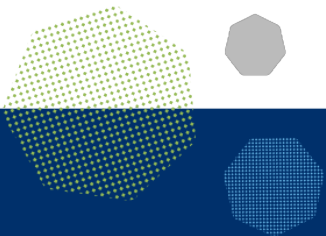


ALTERNATIVE INVESTMENTS RED FLAG ALERT

Note 1: For UBTI, the partnerships reporting of taxable activities is on Form 1065, Sch K-1, box 20v. Additionally, the NFP will need to consider filing Form 990-T and the related state/local equivalent to report related tax liabilities for UBTI.

Note 2: many investment funds allow tax-exempt investors to invest through a foreign corporation, which can block UBTI from flowing out to the tax-exempt partner and eliminate a form 990-T filing. However, this strategy could lead to effectively connected income, and a filing of Form 1120-F “U.S. Income Tax Return of a Foreign Corporation”, by the foreign “Blocker” corporation, which may be equally as costly in terms of compliance and costs.

Source the IRS and The Tax Adviser Aug 1, 2015 “UBTI reporting requirements for partnerships and s corporations” and *“Penalty Relief for Forms 5471, 5472 and 8865”* .



ALTERNATIVE INVESTMENTS RED FLAG ALERT

Schedule F (Form 990) - reporting of activities outside of the United States or foreign investments valued at \$100,000 or more.

Form 5471 - **Filing requirement- simplified**

- i. nonprofit owns directly/indirectly/constructively 10% or more of voting power or value of foreign corp, or
- ii. the year in which they dispose or reduce a previously above 10% ownership down to zero or <10% ownership of foreign corp, or
- iii. are an officer or director of a foreign corp where certain transactions have taken place during the year

Penalties: \$10,000 per form per year plus more if IRS catches them instead of voluntary compliance

Form 5472 - Filing requirement: if incorporated nonprofit is owned 25% or more, directly or indirectly, by foreign business or individual

Penalties: \$25,000 per form per year plus more if IRS catches them instead of voluntary compliance

Form 8865 - Filing requirement simplified: same as 5471 above, replace foreign corp. with foreign partnership. Also, if they transfer \$100k or more in cash or FMV property combined.

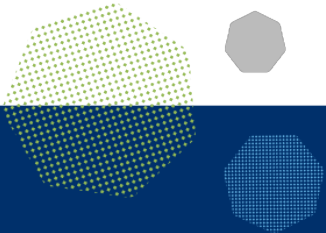
Penalties: 10% of the value of cash/property transferred to foreign partnership maxed at \$100,000

Form 926 - Filing requirement: if combined direct or indirect contributions to a foreign corp exceed \$100,000 equivalent or org owns 10% or more of foreign corp after transfer. Again, this would likely be through hedge funds or partnerships and not a direct contributions

Penalties: same as 8865, replace foreign partnership with foreign corporation

Note: FBARs and/or 8938s and/or 3520s and/or 3250-As are not covered in this presentation.

QUESTIONS?

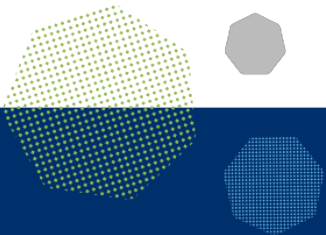


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