Not-for-Profit Industry Webinar

January 20, 2021
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AGENDA

8:30am – 8:35am
Webinar Introduction
Molly Klein, Senior Marketing Coordinator, Kreischer Miller

8:35am – 9:00am
Changes Ahead for the Paycheck Protection Program
Tom Yankanich, Director, Audit & Accounting, Kreischer Miller
Chris Pekula, Director, Tax Strategies, Kreischer Miller

9:00am – 9:05am
Break

9:05am – 9:50am
2021 Financial Check-Up
Robert Stiles, Vice President, Business Development & Director, Endowments & Foundations, The Haverford Trust Company
Becky Farnsworth, Vice President & Institutional Portfolio Manager, The Haverford Trust Company

9:50am – 9:55am
Break

9:55am - 10:45am
Accounting Standards & Tax Update
Maxine Romano, Director, Audit & Accounting, Kreischer Miller
Chris Pekula, Director, Tax Strategies, Kreischer Miller

10:45am - 10:50am
Break

10:50am - 11:15am
State of the Not for Profit Insurance Marketplace
Brian Heun, Partner, KMRD Partners

11:15am - 11:20am
Break

11:20am – 11:45pm
COVID-19 Funding Compliance Guidance
Elizabeth Pilacik, Director, Audit & Accounting, Kreischer Miller

Changes Ahead for the Paycheck Protection Program

Thomas C. Yankanich,
Director, Audit & Accounting

Chris Pekula
Director, Tax Strategies

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Agenda

1. 2nd Round of PPP
2. Changes to Original PPP
3. Employee Retention Credit
4. Other Notable Changes

PPP and PPP Second Draw

- $284,450,000,000 allocated to PPP and PPP 2
- Program expires March 31, 2021
- Prior qualified first time PPP borrowers - 500 employee limit and gross receipts reduction does not apply

PPP second draw qualifications:

- 300 employees or less (NAICS 72 - Accommodation & Food Service is 300 per location)
- Gross receipts reduction >=25% in Q1, Q2, Q3, **OR** Q4 of 2020 vs same quarter in 2019
  - New business in 2019 or by 2/15/20 special quarterly reduction rules
  - New entity after 2/15/2020 - quarterly reduction is not addressed
- Have to use or will use full amount of first draw funds
- Excluded - lobbying/politics, China, Hong Kong, publicly traded companies
- Open to Small Lenders January 15, 2021 and All Lenders January 19, 2021

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Gross Receipts – 25% Reduction Example

	Gross Receipts			
	2020	2019	Change	Qualified
Q1	400,000	250,000	60%	No
Q2	250,000	300,000	-17%	No
Q3	**200,000**	**325,000**	**-38%**	**Yes**
Q4	300,000	300,000	0%	No
Total	1,150,000	1,175,000	-2%	

PPP Second Draw Amount

- Maximum loan amount $2 million
- General calculation - 2.5x avg. monthly payroll (1 year period before loan application or calendar year 2019)
- Seasonal employers - 2.5x avg. monthly payroll (12-week period selected between 2/15/19 and 2/15/20)
- New entities – 2.5x the quotient obtained from the sum of the monthly payroll / the number of months those payroll costs were paid or incurred
- NAICS 72 (Accommodation & Food Service) – 3.5x avg. monthly average payroll

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Additional Covered Expenses

- Covered Operational Costs
- Covered Property Damage Costs
- Covered Supplier Costs
- Covered Worker Protection Expenditures
- All previously Covered Expenses **STILL APPLY!**
- New Covered Costs apply for all PPP loans, with the exception of already forgiven loans.

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PPP Forgiveness Application Changes

- Simplified Forgiveness Application for Loans of $150,000 or less.
- EIDL Advances **NO LONGER** are required to be deducted from borrower loan forgiveness.

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2020 Employee Retention Credit

	Original Retention Credit as part of CARES ACT	Retroactively Amended
Eligibility	Business in 2020 with quarters that had 1) full or partial shut-downs due to government orders, or 2) decline in gross receipts of 50% or more compared to the same quarter in previous year (2019)	No change
PPP borrowers	**Ineligible for the credit**	**Eligible, can't double dip using same wages**
Credit	Payroll tax credit for 50% of qualified wages	No change
Qualified wages	Employers over 100 employees - wages limited to amounts paid to employees not providing services.	No change
	Employers 100<= employees - wages includes all wages paid to employees during the applicable quarter	No change
Wage Limit	$10,000 total per employee for all eligible quarters (leading up to a maximum $5,000 credit per employee)	No change
Applicable wages	Wages paid after March 12, 2020 and before January 1, 2020	No change

2021 Employee Retention Credit Expansion

	Employee Retention Credit Expansion January 1, 2021 to July 1, 2021
Eligibility	Businesses in 2021 with quarters that had 1) full or partial shut-downs due to government orders, or 2) **decline in gross receipts of 20% or more** compared to the **same quarter in calendar year 2019. If not in existence in 2019 substitute same quarter in 2020.**
PPP borrowers	**Eligible for the credit, can't double dip using same wages**
Credit	**Payroll tax credit for 70% of qualified wages**
Qualified wages	Employers over **500 employees** - wages limited to amounts paid to employees not providing services.
	Employers 500<= employees - wages includes all wages paid to employees during the applicable quarter
Wage Limit	$10,000 for any **calendar quarter** (a maximum $7,000 credit per employee per quarter and $14,000 per employee if qualify in Q1 and Q2 2021)
Applicable wages	Wages paid after December 31, 2020 and before July 1, 2021

Example: Scenario #1 (PPP Only)

Facts
$50,000 Weekly Compensation
50 Employees
$1,000 - Compensation / FTE / Week

Assuming 4 week month
$50,000 x 2.5 month (10 weeks)

Loan Amount = $500,000

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Example: Scenario #2 (ERTC Only)

<u>Facts</u>
$50,000 Weekly Compensation
50 Employees
$1,000 - Compensation / FTE / Week

Calculated Employee Limit
Assuming 4 week month
$1,000 x 3 month (12 weeks) = $12,000
$10,000 Limit per Employee

50 Employees x $10,000 = $500,000
$500,000 x 70%

$350,000 Credit ***<u>PER QUARTER</u>***
<u>(No Application and Forgiveness)</u>

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Example: Scenario #3 (PPP and ERTC)

Facts
$50,000 Weekly Compensation
50 Employees
$1,000 - Compensation / FTE / Week

Loan Amount = $500,000

PPP2
$300,000 Salaries + $200,000 Other Qualifying Costs
(60% Salary Costs)

ERTC
$200,000 Salaries
$140,000 Eligible for ERTC (70%) x 2 quarters
$280,000 Total Credits

$780,000 Total Benefit

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Gross Receipts: CARES / CAA Clarification

- The CAA clarifies that “Gross Receipts” for purposes of ERTC eligibility shall have the same meaning as in IRS Section 6033, used to determine return filing requirements:
  - Regulation 1.6033-2(g)(4)

(4) For purposes of this paragraph and paragraph (a)(2) of this section, “gross receipts” means the gross amount received by the organization during its annual accounting period from all sources without reduction for any costs or expenses including, for example, cost of goods or assets sold, cost of operations, or expenses of earning, raising, or collecting such amounts. Thus “gross receipts” includes, but is not limited to (i) the gross amount received as contributions, gifts, grants, and similar amounts without reduction for the expenses of raising and collecting such amounts, (ii) the gross amount received as dues or assessments from members or affiliated organizations without reduction for expenses attributable to the receipt of such amounts, (iii) gross sales or receipts from business activities (including business activities unrelated to the purpose for which the organization qualifies for exemption, the net income or loss from which may be required to be reported on Form 990-T), (iv) the gross amount received from the sale of assets without reduction for cost or other basis and expenses of sale, and (v) the gross amount received as investment income, such as interest, dividends, rents, and royalties.

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Other Notable Items

- Families First Coronavirus Response Act (FFCRA):
  - FFCRA **leave** is no longer *required*
  - FFCRA **credit** is available through March 31, 2021
- 501(c)(6) organizations are eligible
  - Chambers of commerce, business leagues, boards of trade
  - Lobbying receipts must be less 15% of total receipts
  - Lobbying activities are less than 15% of total activities
  - Cost of lobbying activities does not exceed $1 million

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Contact the Presenters:

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Thank you for your participation!

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Haverford Nonprofit Solutions

2021 Financial Check-Up

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QUALITY INVESTING

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What is an Investment Policy Statement?

- *Systematic approach to documenting guidelines, constraints, and governance considerations*
- *Blueprint designed to help achieve investment objectives and manage total portfolio risk*
- *Best practice when a fiduciary relationship exists*

What are the goals of an Investment Policy Statement?

- *Clear and well defined investment goals and objectives*
  - *Adequate guidance without being unnecessarily restrictive*
- *Provides consistency and focus on objectives*
  - *Strategic allocation that is customized to meet long term goals*
  - *Guidelines for monitoring*
- *Establish organizational investment risk tolerance*

Components of a Well-Crafted Investment Policy Statement

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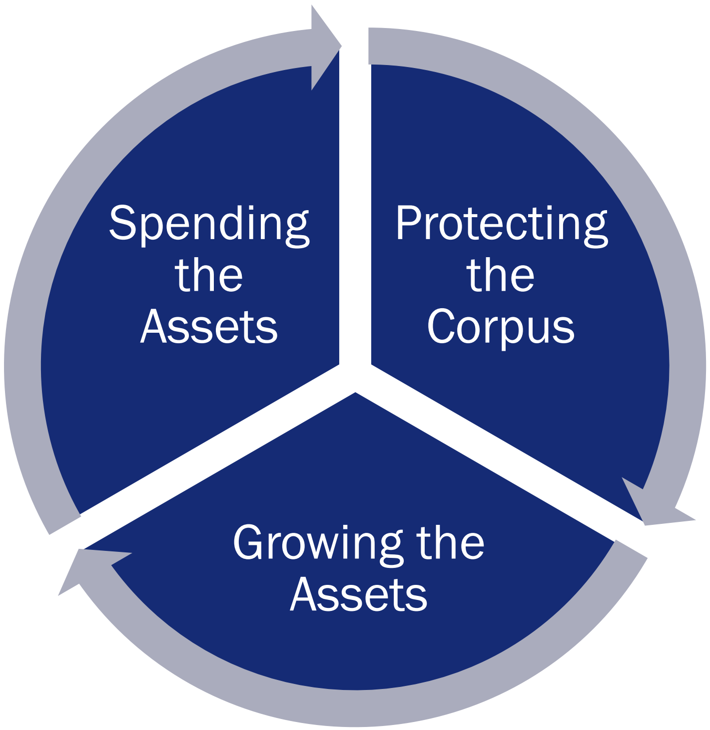
Goals & Objectives



- *Decide on Your Measure of Success*
- *Define Various Pools of Assets*
- *Revisit Periodically*

Risk Assessment

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Risk Tolerance	**"EMOTIONAL"** ▪ *Organizations are not individuals – but they are composed of individuals* ▪ *Your advisor should help mitigate behavioral biases*
Risk Capacity	**"FINANCIAL"** ▪ *Other Financial Resources* ▪ *Time Horizon*

Spending Policy

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Key Components of the Spending Policy

Near Term

Cash flow available to support services and mission

Long Term

Impact sustainability of your funds

Associated Risk

Can provide uncertainty or potential volatility

Spend Rate

How much is distributed?

Spending Methodology

The terms by which the rate is calculated

- ***Example Spending Rate Calculation:*** *Target Endowment spending rate at 5% of a three year rolling average of the ending market value of the endowment assets.*

Capital Market Expectations

The hypothetical portfolios below show varying asset allocations and the effects on long-term return expectations and expected risk measured by standard deviation.

Asset Class Allocations	60% Equity/ 40% Fixed Income	65% Equity/ 35% Fixed Income	70% Equity/ 30% Fixed Income	75% Equity/ 25% Fixed Income	80% Equity/ 20% Fixed Income
Equities	60%	65%	70%	75%	80%
US Large Cap Equities	39%	42%	46%	49%	52%
Developed Intl Markets	6%	7%	7%	8%	8%
Emerging Markets	9%	10%	11%	11%	12%
U.S. Small & Mid Cap Equities	6%	7%	7%	8%	8%
Fixed Income	40%	35%	30%	25%	20%
Expected Outcomes					
Total Return	4.8%	5.1%	5.3%	5.6%	5.8%
Volatility	9.8%	10.3%	10.9%	11.4%	11.9%
Potential Bear Market Drawdown	-21.0%	-22.8%	-24.5%	-26.3%	-28.0%

Past performance is not a guarantee of future results. Assumptions as of June 2020 reflect hypothetical portfolios consisting of asset classes with similarities to the following indices S&P 500, MSCI EAFE (Europe, Australasia, Far East), MSCI Emerging Markets, S&P 400 and S&P 600. Haverford's analysis focuses on ten-year return assumptions determined by macro analysis of the global financial markets, historic correlations, risk, and performance characteristics. Our analysis of expected returns incorporates conservative and realistic assumptions based on historical data and prospective valuation analysis. Volatility is measured by standard deviation. Expected Outcomes are hypothetical and shown for illustrative purposes only and do not represent the performance of any specific Haverford portfolio and there can be no assurance that any specific investment or investment strategy will achieve its stated goals or performance objectives.

Capital Market Expectations

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10-Year Treasury Bond Rate Yield Chart

January 15, 1962 through January 14, 2021

Past performance is not a guarantee of future results.

Source: www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart

Capital Market Expectations

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Frame your expectations within the context of what you are reasonably able to expect given current market conditions.

Reasonable Expectations Inform Sound Investment Decisions

Asset Allocation That Supports Spending Needs

Consider the Risk Associated with the Potential Return

Investment Strategy & Asset Allocation

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Select an Investment Manager

- Qualified & Reputable
- Experience with Nonprofits
- Value through Advice

Select an Asset Allocation

- Drives Investment Return
- Also Drives Risk
- Aligned with Long-Term Objectives

Prudently Diversify

- “The only free lunch in Investing”
- Mitigate Volatility

Understand the Costs

Organizational Values

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Experienced Nonprofit Resource

- Education
- Objective Collaboration
- Develop Actionable Outcomes

Keep Organizational Values at the Forefront

Accounting Standards and Tax Update

Maxine Romano
Director
Not-for-Profit Industry Group

Chris Pekula
Director
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ASU Implementation Timeline
Reporting Periods (Non-public Entities)

Y/E 2020 & FY 2020-2021

Revenue Recognition

Collections

Y/E 2020 & FY 2020-2021

Y/E 2020 & FY 2020-2021

Fair Value Measurement

Presentation and Disclosures for Contributed Nonfinancial Assets

Y/E 2022 & FY 2021-2022

Y/E 2022 & FY 2022-2023

Leases

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Revenue Recognition - ASU 2014-09

Recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled

1. Identify the contract(s) with a customer
2. Identify the performance obligations 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

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Disclosures – Contracts With Customers

Disaggregation of revenue	➢ Disaggregate revenue into categories that depict how revenue and cash flows are affected by economic factors
Information about contract balances	➢ Opening and closing balances ➢ Amount of revenue recognized from contract liabilities ➢ Revenue recognized from performance obligations previously satisfied ➢ Explanation of significant changes in contract balances
Performance obligations	➢ Description of when performance obligations are satisfied and when amounts will be recognized as revenue ➢ Transaction price allocated to all remaining performance obligations

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Disclosures – Application of Guidance

Significant Judgments

- Determining the timing of satisfaction of performance obligations
- Determining the transaction price and amounts allocated to performance obligations

Contract Assets

- Assets recognized from the costs to obtain or to fulfil a contract with a customer in accordance with Subtopic 304-40, *Other Assets and Deferred Costs – Contracts with Customers*

Practical Expedients

- Use of practical expedients should be disclosed

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Collections - ASU 2019-03

- Main Provisions
  - To improve and realign the definition of the term “collections”
  - To clarify the accounting and disclosure guidance for collections
    - Disclose policy for use of proceeds from when collection items are deaccessioned (removed from a collection)
      - Acquire other items for the collections
      - Direct care of existing collections – need to define “direct care”

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Fair Value Measurement - ASU 2018-13

- ASU 2018-13, Fair Value Measurement (Topic 820):
  - Contains 2 new disclosures that are not applicable to non-public entities
  - Eliminates and reduces disclosures (most notably)
    - Non-public entities no longer have to present a roll-forward of Level 3 assets; however, still need to disclose purchases and transfers into and out of Level 3 assets
    - The valuation processes for Level 3 fair value measurements no longer need to be disclosed.
    - For investments that utilize NAV, timing of liquidation and the date that restrictions on redemption may expire when it has been communicated. Importantly, if it has not been communicated, and timing is unknown, just need to disclose that fact

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Presentation and Disclosure for Contributed Nonfinancial Assets – ASU 2020-07

- Contributed securities and financial assets are outside the scope of this ASU
- Does NOT change the recognition and measurement requirements for gifts in kind. The requirement to use the principal (or most advantageous) market to measure fair value remains.
- Nonfinancial Assets:
  - Land
  - Buildings
  - Use of facilities or utilities
  - Material and supplies
  - Intangible assets and services
- Note: prior to this ASU, contributed services were the only type of contributed gifts-in-kind with specific disclosure requirements. Those requirements remain in place. The disclosure of contributed services is required regardless of whether the services are recognized as revenue.

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Main Provisions of ASU 2020-07

- Contributed nonfinancial assets are presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.
- The amount of these contributions must be disaggregated by type in the notes.
- Disclosures for each type/category:
  - qualitative information about whether the contributions were either monetized or utilized during the reporting period
  - if utilized, the entity must disclose a description of the programs or other activities in which the contributions were used
  - policy (if any) about monetizing contributed nonfinancial assets
  - description of any donor-imposed restrictions
  - description of valuation techniques and inputs used in determining fair value at initial recognition
  - the principal (or most advantageous) market used to arrive at a fair value measurement, if it is a market in which the NFP recipient is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets

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Lessee Accounting Overview - ASU 2016-02

	Balance Sheet	Income Statement	Cash Flow Statement
Finance Lease	Right-of-use asset Lease liability	Amortization expense Interest expense	Cash paid for principal and interest payments
Operating Lease	Right-of-use asset Lease liability	Single lease expense on a straight-line basis	Cash paid for lease payments

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Lessor Accounting Overview - ASU 2016-02

	Balance Sheet	Income Statement	Cash Flow Statement
FASB: Direct Financing & Sales-Type **IASB:** Finance	Net investment in the lease	Interest income and any selling profit on the lease	Cash received for lease payments
Operating	Continue to recognize underlying asset	Lease income, typically on a straight-line basis	Cash received for lease payments

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Preparing for ASU 2016-02 – Start Now

- Get familiar with the requirements of ASU 2016-02
- Take an inventory of all operating leases – property, plant and equipment
- Engage others in the organization: IT, program or procurement officers
- Look for embedded leases in any business arrangements
- Determine software needs to track and manage lease activity
- Calculate anticipated lease liability as the present value of lease payments not yet made, discounted (risk free rate)
- Estimate the financial impact on your statement of financial position
- Check impact on debt covenant ratios
- Contact your bank and other users of your financial statements so there are no surprises
- Update capitalization policies

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Statement on Auditing Standards (SAS Nos. 134-140)

- Good news – SAS 141 amended the effective dates delaying them 1 year so now they are effective for years-ending December 31, 2021 and June 30, 2022. They should be implemented concurrently and early implementation is now permitted
- Known as the suite of standards since they are all related to auditors communication, documentation and reporting
  - SAS 134 – Auditor Reporting – significant changes – see example attached
    - Format changes
    - Expansion of auditors and management's responsibilities
    - Redefined reasonable assurance

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Statement on Auditing Standards (SAS Nos. 134-140)

- SAS 135, 136,137,139 and 140: incorporate auditor reporting standards to various other auditor communications and to other information included in annual reports
  - Engagement letters
  - Audit documentation – related parties
  - Supplementary information
  - Evaluation of misstatements
  - Communications with those charged with governance
- SAS 138 – Concept of Materiality

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Independent Auditor's Report

Board of Directors and Stockholders

[*Entity Name*]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of [*Entity Name*], which comprise the balance sheets as of [*Month XX, 20X2*] and [*20X1*], and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [*Entity Name*] as of [*Month XX, 20X2*] and [*20X1*], and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 [*Entity Name*] and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Include a description of each key audit matter in accordance with AU-C Section 701,* Communicating Key Audit Matters in the Independent Auditor's Report.]

Or

We have determined that there are no key audit matters to communicate in our report.

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 [*Entity Name*]'s ability to continue as a going concern for one year after the date that the financial statements are issued [or when applicable, one year after the date that the financial statements are available to be issued].[2]

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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 GAAS 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 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 GAAS, 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 [*Entity Name*]'s internal control. Accordingly, no such opinion is expressed.[3]
- 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 [*Entity Name*]'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.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in AU-C Section 720,* The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Signature*]

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Available Resources

- https://www.fasb.org/
  - Menu items: "Standards" – "Projects"
- Revenue Recognition
  - AICPA Webpage – www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/
  - AICPA Audit & Accounting Guide – Revenue Recognition
  - AICPA Alert – Revenue Recognition: Accounting & Auditing Considerations (2016/17)
- Leases https://www.aicpa.org/interestareas/frc/accountingfinancialreporting/leases.html

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2021 IRS Program Letter (AKA Work Plan)

- 2021 Program Letter (Work Plan):
  - Written by:
    - Tammy Ripperda (TE/GE Commissioner)
    - Edward Killen (TE/GE Deputy Commissioner)
- *Outlines the goals of the IRS TE/GE group for 2021*
- *“New Look” from previous Letters*
  - *“Multi-Page Model” vs. “Compact Summary”*
  - *Updating information online*

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2021 IRS Program Letter (AKA Work Plan)

- 2019 Program Letter (Work Plan):
  - Delivers a compliance platform in 6 programs:
    - Strengthen Compliance Activities
    - Improve Operational Efficiencies
    - Maintain a Taxpayer-Focused Organization
    - Ensure Awareness and Collective Understanding
    - Leverage Technology and Data Analytics
    - Develop our Workforce

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2021 IRS Program Letter (AKA Work Plan)

- Strengthen Compliance Activities:
  - Issues approved to identify, prioritize and allocate resources within the filing population:
    - Collaborate across IRS on existing and emerging issues
      - Conservation Easements and abusive Charitable Remainder Annuity Trusts
    - Support Tax Compliance in the Global High Wealth Arena
      - Private Foundations, Retirements Plans, Employee Stock Ownerships Plans

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2021 IRS Program Letter (AKA Work Plan)

- Strengthen Compliance Activities (Cont.):
  - Foster Voluntary Compliance (Use of enhanced techniques)
    - Civil and Criminal Fraud
    - Recommend Criminal Prosecutions
    - Avoidance of payment of taxes

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2021 IRS Program Letter (AKA Work Plan)

- Improve Operational Efficiencies:
  - Internal Operations
    - Review Systems and Processes
    - Migration: Enterprise Case Management
      - Rapid resolution of issues
      - Support development
    - Expansion of strategic goals
    - Establish key risk indicators

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2021 IRS Program Letter (AKA Work Plan)

- Maintain a Taxpayer-Focused Organization:
  - IRS efforts implementation of Taxpayer First Act
    - July 1, 2019 – Re-imagine the IRS and enhance taxpayer services
  - Expand e-filing services (990, 5500, etc…)
  - Development of additional online tools and resources
    - Interactive tax assistance
    - Avoiding excess 401K contributions

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2021 IRS Program Letter (AKA Work Plan)

- Ensure Awareness and Collective Understanding:
  - Proactive Communications
    - Encourage Compliance
  - Enhance Tax Administration
    - Identify, Develop and Deliver TE/GE messaging
  - Compliance in underserved communities
    - TE/GE Small Entity Compliance Initiative

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2021 IRS Program Letter (AKA Work Plan)

- Leverage Technology and Data Analytics:
  - Data Analytics
    - Detect emerging issues (990-N and 1023-EZ)
    - High Risk Non-Compliance
  - Robotic Process Automations
    - Efficient and Effective Processes
  - Health & human Services/Centers Partnership
    - Affordable Care Act Review

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2021 IRS Program Letter (AKA Work Plan)

- Develop Our Workforce:
  - Encourage information sharing
    - TE/GE Knowledge Management & IRS Knowledge Management
  - Employee Training Needs
  - Employee and Management Development
    - Coaching and Mentoring Programs

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Thank you for your participation!

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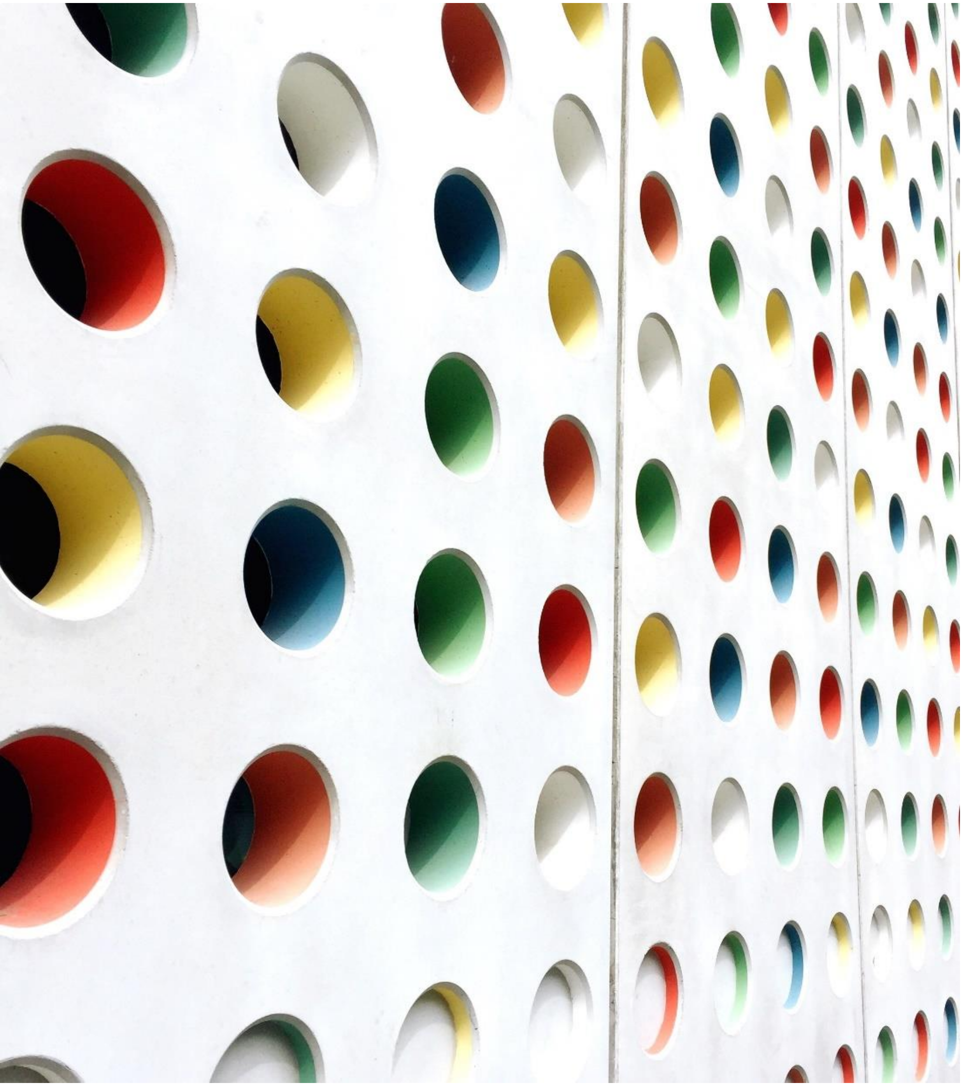

State of the Not for Profit Insurance Marketplace

Presenter Info

Brian Heun, Partner, KMRD Partners

- Certified Insurance Counselor (CIC)
- 15 years of insurance and brokerage experience
- Is an extension of client's management team – provides outsourced risk management support

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About KMRD

A group of outsourced risk managers and insurance brokers. KMRD is a regional boutique firm with global expertise and capabilities.

KMRD frequently acts as a mid-sized companies risk management department, involved in all areas including insurance placement, contractual risk transfer and claims management. When executed proactively, these services improve a client's risk profile while reducing insurance costs over time.

KMRD's Human Capital and Employee Benefits Group provides value added services such as management training, HR training, strategies for sourcing and retaining staff, and organizational development. In short we focus on total rewards solutions with the goal of having a positive impact on organizational performance, benefit compliance and human resources management.

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"Not for Profit" is a Broad Term

Education –
- Charter Schools
- Intermediate Schools
- Higher Education

Human Services –
- Social Services
- Youth Development
- Arts & Culture

Healthcare –
- Continuing Care Retirement Communities
- Senior Care
- Hospitals, etc.

Memberships or Clubs / Religious

Governmental Authorities

Recent Study Findings

September 2020 – Alliance for Not Profit Broker Survey

78% of brokers reported difficulty finding insurance companies willing to insure foster family agencies

Nearly 56% of brokers say carriers are nonrenewing certain classes for businesses without regard to loss history.

In February 2020 one nonprofit saw their renewal quote increase from $76,000 to $750,000

	Difficult	Neutral	Not Difficult
Animal Rescues	64%	16.4%	20%
Boys & Girls Clubs	34%	29.2%	37%
Camps	50%	20.3%	30%
Charter Schools	30%	30.1%	40%
Child-serving Organizations	55%	19.2%	26%
Civil Justice Organizations	55%	29.5%	15%
Daycare Centers	40%	22.6%	38%
Environmental Protection	39%	35.5%	26%
Fiscal Sponsors	39%	40.9%	20%
Foster Family Agencies (including Kinship Care)	78%	15.5%	6%
Homeless Shelters	66%	20.8%	14%
Homeowners Associations	18%	28.6%	53%
Low Income Housing	60%	25.8%	14%
Residential Treatment Centers	60%	22.3%	18%
Trade Associations	21%	29.3%	50%

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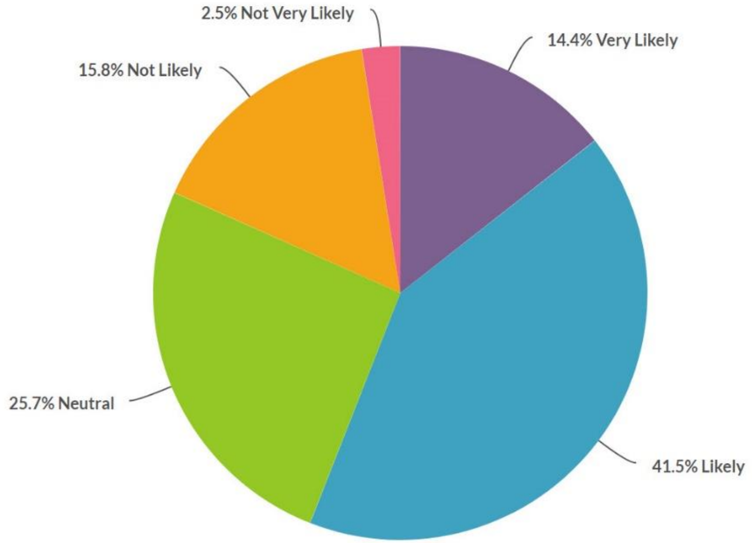
Non-Renewing

September 2020 – Alliance for Not Profit Broker Survey

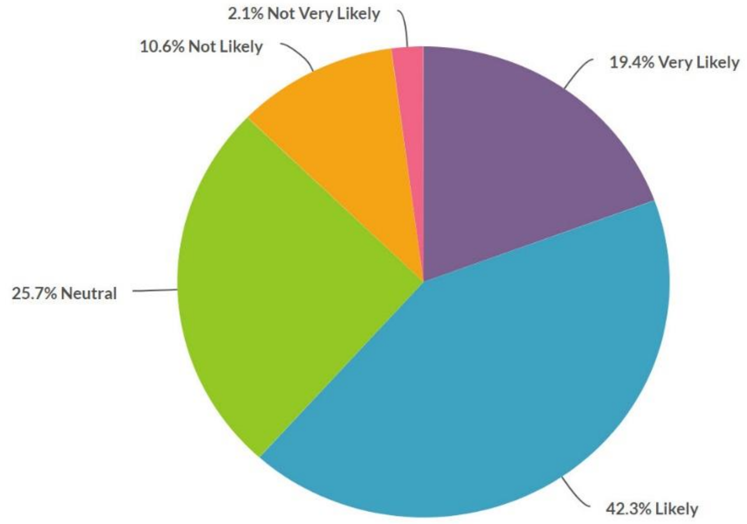
Question - how likely is it that some commercial carriers are nonrenewing certain classes of nonprofits, across the board, without regard to loss history?



Increasing Rates

September 2020 – Alliance for Not Profit Broker Survey

Question - how likely is it that some commercial carriers are raising prices by 25% or more on certain classes of nonprofit organizations?



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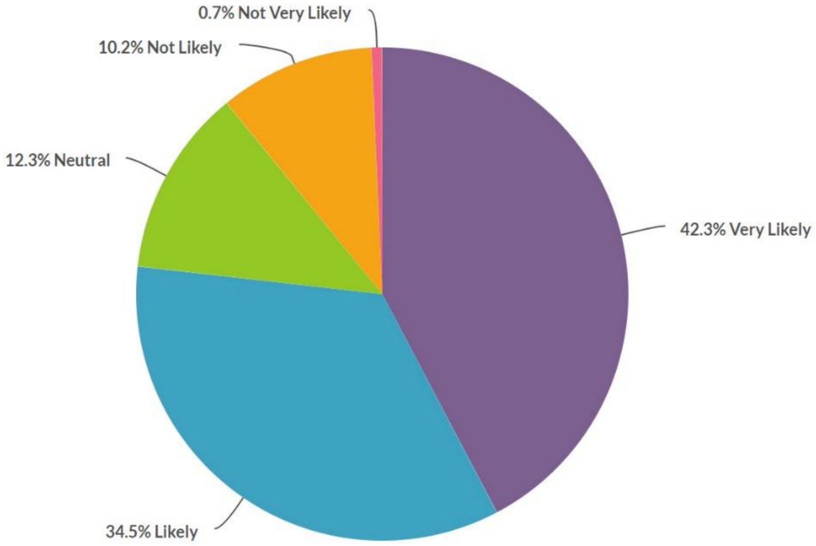
Limiting Sexual Abuse Coverage

September 2020 – Alliance for Not Profit Broker Survey

Question - how likely is it that standard commercial carriers are restricting coverage and limits for sexual abuse (improper sexual conduct) for child-serving and social service nonprofits?



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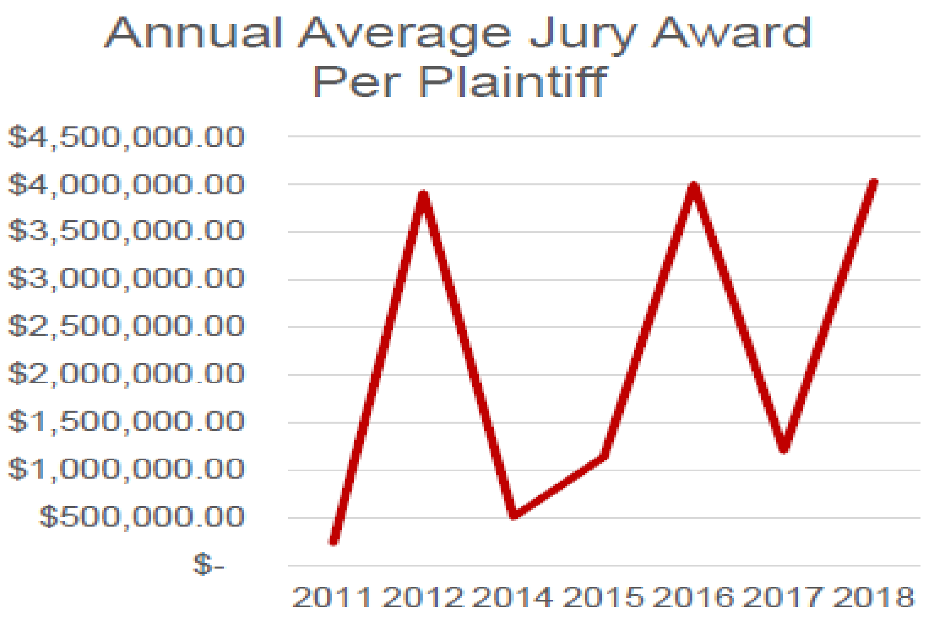
Philadelphia Insurance Avg Jury Awards for Sexual Abuse Cases



What is the Catalyst?

Depends on Industry

Social Service –

Opioid Epidemic - more children into welfare services and social service agencies are not growing at the same rate adversely impacting staff to case ratios.

Changes in Law - change in New York extended the statute of limitations from 5 years to several decades for filing of claims abuse and molestation allegations. This resulted in 400 new lawsuits, almost all of which will be paid by insurance companies.

In Pennsylvania Governor Wolf enacted law which extends the ability to bring an abuse lawsuit until age 55.

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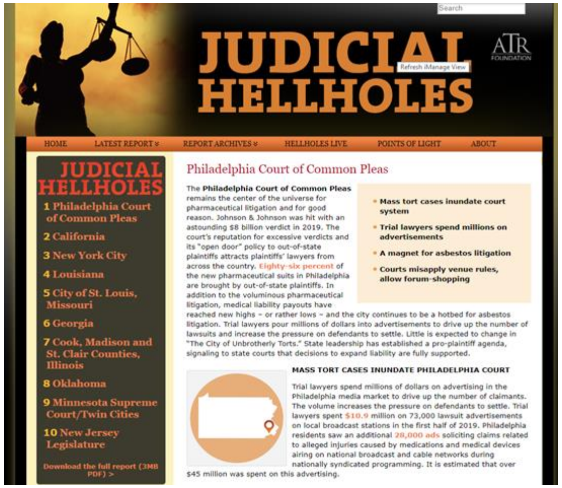
Human / Social Services

Legal Venue - Philadelphia is clearly the worst in the country. Kline & Spector
a plaintiff's attorney in the City has been successful in large multi-million-dollar verdicts.

In 2016 50% of all abuse claims nationwide arose from the Philadelphia market. The premium associated with the accounts tied to the claims accounted for less than 1% of nationwide premium.

This trend continued through 2019. Slowed only in early 2020 due to the courts being closed during the COVID shut down.



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Social Inflation

Jeffrey Epstein – Values unknown

Harvey Weinstein - Values unknown

Erin Andrews - $55,000,000

Catholic Priest Abuse – Too much to count

Jerry Sandusky Penn State Abuse– Over $109,000,000 and counting

Larry Nasar MD Abuse of Athletes - $500,000,000 for Michigan State Univ so far

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Social Inflation - Locally

PHILADELPHIA, Oct. 5, 2020 /PRNewswire/ -- More than one dozen survivors who were sexually assaulted as minors sued the Devereux Foundation and several of its affiliated corporations as they begin a journey to justice, attorneys for the group of 12 women and one man announced after the complaint was filed today in the Philadelphia Court of Common Pleas. The lawyers, from Saltz Mongeluzzi & Bendesky, PC, and Helm Law Group, said the lawsuit is believed to be the largest single survivor-group complaint filed against the Pennsylvania-based provider of a wide range of services to society's most vulnerable citizens.

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Education

Higher Education lines of coverage rose 18% on average as of July 1, 2020

Rates for Charter and Intermediary schools have typically seen larger increases. Coupled with a reduction in sexual abuse and traumatic brain injury limits and increases in deductibles for property and transportation /auto

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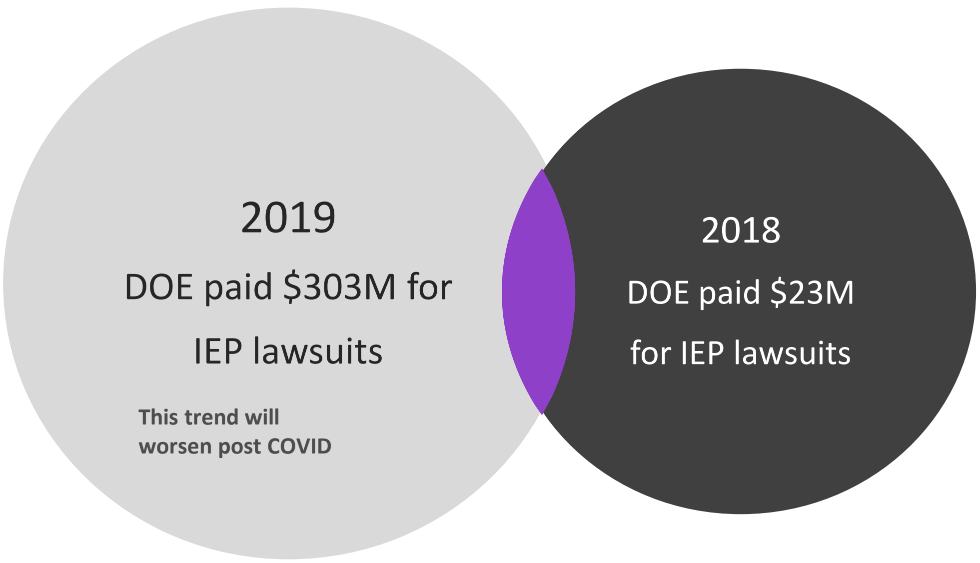
Education

Individual Education Plans (IEP) - A plan developed to ensure a child with an identified disability who is attending an elementary or secondary educational institution receives specialized instruction and related services.



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What is the Catalyst?

Nuclear Verdicts –

A jury award in which the penalty exceeds $10M and is significantly higher than would be expected given the injuries in the case.

These verdicts have been on the rise, driven by both financial and *social* factors. One hundred verdicts in 2018 were over $22M each.

*Abuse claims settling for 4x what they did 7 years ago – per Phila Insurance Co.

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What is the Catalyst?

Catastrophic Events to Property –

In 2019 alone, there were 14 separate billion-dollar weather and climate disaster events across the United States, with a total cost of $45.0 billion. The total cost over the last 3 years (2017-2019) exceeds $460.0 billion

Floods. These are more common in the Midwest and Northeast.

Precipitation. Heavy downpours have increased over the last 3-5 decades, especially in the Midwest and Northeast.

Hurricanes. Frequency has increased in the North Atlantic since the early 1980s.

Wildfire season in the West starts earlier, lasts longer, and burns more acreage.

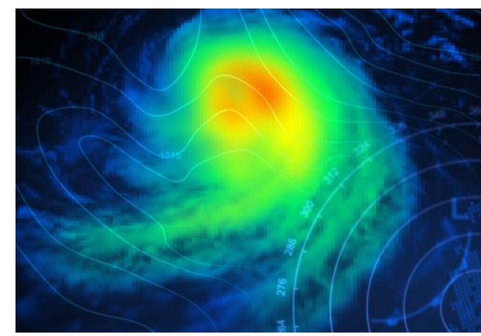
Heat waves have become more frequent and intense, especially in the West.

Drought has increased in the West. And in the last 10 years, the Southwest has seen the most persistent droughts on record.

Average temperatures have risen 1.3-1.9ºF since 1985, with the greatest warming in the North and West.

Winter storms have increased in severity and frequency since the 1950s, and shifted north. **Cold waves** are less frequent and intense.

Sea level has risen about 8" along the Mid-Atlantic and Gulf coasts over the last 50 years.



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Healthcare

Post COVID - Rates soaring as high as 300%

Insurance Company's have moratorium on new business

Policies include exclusions for:

- COVID-19
- Communicable Disease
- Class Action Lawsuits
- Punitive Damages

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Healthcare

Almost every line of coverage is suffering.

Directors & Officers – fear of bankruptcies, broken loan covenants, allegations D&O's did not prepare or manage COVID well.

Employment Practices Liability – #MeToo, Social Injustice, how will employers handle vaccination?

Professional Liability - The average total cost of a paid claim connected to aging services was $141,185.

Cyber Liability - In 2020, more than half of the companies worldwide were hit with a ransomware attack. 94% of the time a ransom is paid, it's paid by the insurance company. The global average to remediate these attacks is now over $761,000 per incident.

Property - Hurricane Laura caused estimated insurable losses of $8 billion to $12 billion. Insurable losses from the summer riots in the US were around $775 million. Losses from the numerous wildfires that hit the West Coast will be high.

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Summary

Not for Profit Industry losses and increases in insurance rates are unsustainable

It may be difficult for some Not for Profits to secure affordable insurance in near future. (ie: Abuse coverage for Foster care in Phila)

Companies need to act now to improve their risk profile and stand out as “best in breed” risks.

Not for Profits need to understand the exclusions in their policies and place emphasis on loss control in those areas which could lead to business ending uninsured or underinsured loss.

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Questions ?

Thank You

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COVID-19 Funding Compliance Guidance

Elizabeth Pilacik
Director
Not-for-Profit Industry Group

www.kmco.com

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What We Will Cover

- COVID-19 Funding - Background
    - Key programs
    - Federal requirements
    - Resources
- Single Audit – The Basics
- OMB 2020 Compliance Supplement & Compliance Supplement Addendum
- Overview of Key Programs
- Available Resources

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COVID-19 Funding – Background

- Funding authorized under various "Acts", including the Coronavirus Aid, Relief, and Economic Security (CARES) Act
- Key programs
  - Provider Relief Fund (PRF) (HHS)
  - Education Stabilization Fund (ESF) (DOE)
  - Coronavirus Relief Fund (CRF) (Treasury)
- Federal requirements
  - Federal source of funding
  - Subject to audit under Uniform Guidance

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COVID-19 Funding – Background

- Federal requirements (continued)
  - Understand the compliance and reporting requirements under Uniform Guidance, and applicable to each program
- Resources
  - Program guidance and resources posted to the federal agency's web page
    - **Frequently Asked Questions**
  - Award agreements, attestations, and / or related communications
  - OMB Compliance Supplement Addendum

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Single Audit – The Basics

- A Single Audit is an organization-wide financial statement and federal award audit of a nonfederal entity that **<u>expends</u>** $750,000 or more in federal awards (either direct or indirect awards) in the current fiscal year under audit
  - Determination of the $750,000 threshold includes the total amount **<u>expended</u>** of federal assistance
  - Provides assurance to the federal government as to whether or not a nonfederal entity is in compliance with the requirements of federal statutes and regulations, and with the types of compliance requirements that could have a direct and material effect on its *<u>major</u>* federal program(s)
  - Performed in accordance with generally accepted auditing standards (GAAS), *Government Auditing Standards* (GAGAS), and Uniform Guidance

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Single Audit – The Basics

- Scope of a Single Audit
  - Financial Statement Audit
    - Covers the operations of the entity
    - Auditor provides an opinion on whether the financial statements are presented fairly
  - Federal Award(s) Audit
    - Includes tests of compliance with certain provisions of laws, regulations, contracts, and agreements; and tests of internal controls over compliance and the compliance requirements that are direct and material to the *major* federal program(s)
    - Auditor provides an opinion on compliance with the types of compliance requirements that could have a direct and material effect on the *major* federal program(s)

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Single Audit – The Basics

- Auditee Responsibilities
  - Maintain internal control over federal programs and ensure compliance with applicable requirements
  - Comply with federal statutes, regulations, and the terms and conditions of federal awards
  - Evaluate and monitor compliance with statutes, regulations, and the terms and conditions of federal awards
  - Take prompt action when noncompliance is identified
  - Safeguard protected personally identifiable information

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Single Audit – The Basics

- Schedule of Expenditures of Federal Awards (SEFA)
  - Prepared by management
  - Reports expenditures of all federal awards
    - COVID-19 expenditures **<u>should</u>** be identified separately, both new and existing programs
  - Utilized by auditors to perform risk assessments and to determine the *<u>major</u>* federal program(s)
  - Auditor issues an opinion as to whether the SEFA is fairly stated in all material respects in relation to the financial statements as a whole
  - Certain footnote requirements as defined by Uniform Guidance
    - New disclosure of fair market value of donated personal protective equipment (PPE) received – mark as "unaudited"

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Single Audit – The Basics

- Schedule of Findings & Questioned Costs (SFQC)
  - Required elements
    - Summary of Auditors' Results
    - Financial Statement Findings
    - Federal Award Findings & Questioned Costs
  - **<u>Should</u>** include the COVID-19 identification for audit findings that are applicable to COVID-19 new or existing programs
- Data Collection Form (DCF)
  - Submitted to the Federal Audit Clearinghouse (FAC)
  - Includes a copy of the Single Audit reporting package
  - Includes a copy of the Corrective Action Plan prepared by management

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Single Audit – The Basics

- Reporting Deadlines
  - Uniform Guidance requires submission of the reporting package within the earlier of 30 days after receipt or 9 months after the end of the audit period
    - FYE June 30, 2020 – Due by March 31, 2021
  - 2020 Compliance Supplement Addendum
    - Provided a 3-month extension for single audits with year-ends through September 30, 2020, **only** for entities that received COVID-19 funding
      - FYE June 30, 2020 – Due by June 30, 2021

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OMB 2020 Compliance Supplement & Compliance Supplement Addendum

- 2020 Compliance Supplement
  - Issued August 18, 2020
- 2020 Compliance Supplement Addendum
  - Issued December 22, 2020
  - Addresses COVID-19 programs and other existing programs that have changes
    - Eight (8) new COVID-19 funded programs
    - Six (6) pre-existing program supplements to which COVID-19 funding and compliance requirements have been added
  - New cross-cutting provisions for "Reporting" – for the review of subrecipient reporting requirements under the Federal Funding Accountability and Transparency Act (FFATA)
  - Treatment of donated personal property equipment (PPE)

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OMB 2020 Compliance Supplement & Compliance Supplement Addendum

- Both the 2020 Compliance Supplement and the Addendum are effective for audit periods beginning *after* June 30, 2019
- Addendum **must** be used in conjunction with the 2020 Compliance Supplement in determining the appropriate audit procedures to support the auditors' opinion on compliance

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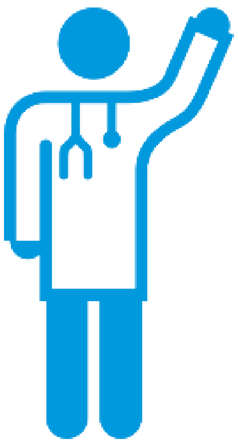
Overview of Key Programs



- Provider Relief Fund (PRF) – CFDA #93.498
  - U.S. Dept. of Health & Human Services (HHS)
  - Part of a $175B distribution to hospitals and healthcare providers
    - General Distributions & Targeted Distributions
  - PRF payments to cover healthcare-related expenses or lost revenue due to COVID-19
  - Need not be repaid to the U.S. Government, assuming providers comply with terms and conditions
  - Impact on Single Audits
    - Many new first-time Single Audits
    - Increased risk – recipient / auditor / federal agency
    - Measurement period for reporting of expenditures on the SEFA
    - Compliance requirements consist of Activities Allowed/Unallowed, Allowable Costs, and Reporting

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Overview of Key Programs

- Provider Relief Fund (PRF) – CFDA #93.498
  - Timing / Measurement period for reporting expenditures on the SEFA

Year End	What is included on the SEFA?	How are amounts calculated?	Other Information
Prior to 12/31/20	No 93.498	N/A	Recipients will report the 2020 93.498 expenditures and lost revenue in the 2021 audit
12/31/20	2020 93.498 expenditures and lost revenue	Based on 12/31/20 93.498 reporting to HHS	Disclose that SEFA amounts are based upon the 12/31/20 PRF report
After 12/31/20 but before 6/30/21	2020 93.498 expenditures and lost revenue	Based on 12/31/20 93.498 reporting to HHS	Disclose that SEFA amounts are based upon the 12/31/20 PRF report
6/30/21 or after	?	?	2021 Supplement will provide guidance

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Overview of Key Programs

- Education Stabilization Fund (ESF) – CFDA #84.425"X"
  - U.S. Dept. of Education
  - $30.75B distribution to prevent, prepare for, and respond to coronavirus, domestically or internationally
    - Costs associated with significant changes to the delivery of instruction, capital acquisitions and improvements to prevent the spread of COVID-19
    - Emergency aid to students to help cover expenses incurred due to the disruption of campus operations
  - Need not be repaid to the U.S. Government, assuming providers comply with terms and conditions

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Overview of Key Programs

- Education Stabilization Fund (ESF) – CFDA #84.425“X”
  - Impact on Single Audits
    - Increased risk – recipient / auditor / federal agency
    - Funds under the ESF were distributed through various programs
      - Compliance requirements vary under each program
      - Some recipients may receive and expend funds under multiple programs
      - For major program purposes, auditors **must** evaluate the fund in its entirety

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Overview of Key Programs

- Coronavirus Relief Fund (CRF) – CFDA #21.019
  - U.S. Dept. of the Treasury
  - $150M fund established to provide direct payments to States, U.S. territories, tribal governments, and certain eligible local governments
    - Necessary expenditures incurred due to the public health emergency
    - Costs not accounted for in the government's most recently approved budget as of March 27, 2020
    - Costs incurred during the period March 1, 2020 thru December 31, 2020, as defined by the CARES Act
      - Date has been extended to December 31, 2021

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Overview of Key Programs

- Coronavirus Relief Fund (CRF) – CFDA #21.019
  - Impact on Single Audits
    - Increased risk – recipient / auditor / federal agency
    - Compliance requirements consist of Activities Allowed/Unallowed, Allowable Costs, Period of Performance, Reporting, and Subrecipient Monitoring

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Available Resources

- COVID-19 Funding
  - CARES Act Provider Relief Fund | HHS.gov
  - CARES Act: Higher Education Emergency Relief Fund
  - The CARES Act Provides Assistance for State, Local, and Tribal Governments | U.S. Department of the Treasury
- Single Audit
  - GAAS - AU-00150.pdf (aicpa.org)
  - GAGAS - U.S. GAO - The Yellow Book
  - Uniform Guidance - 2 CFR §200 Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards - Code of Federal Regulations (ecfr.io)
  - Federal Audit Clearinghouse - Federal Audit Clearinghouse - Home (census.gov)
- 2020 Compliance Supplement & Compliance Supplement Addendum
  - 2020 OMB Compliance Supplement and Related Addendum (By Section) (aicpa.org)

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