

# 2025 Nonprofit Update



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# Meet the Presenters



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# Session Outline

-  **New ASU Impacting NFPs**
-  **Refreshers – Revenue Recognition & CECL**
-  **Uniform Guidance Updates**
-  **Tax Update – Exempt Organizations**
-  **Earned Sick Time Act (ESTA)**

# Polling Question #1

# **Newly Effective Pronouncement**

**ASU 2023-08:**

**Intangibles – Goodwill  
and Other –  
Crypto Assets (Subtopic 350-60):  
*Accounting for and Disclosure  
of Crypto Assets***



# ASU 2023-08: Crypto Assets



## Current Guidance:

Initial recording: at cost

Subsequent measurement: assess for impairment

*No cost recovery!*

## New Guidance:

Initial recording: at fair value

Subsequent measurement: fair value

*Assets become subject to volatility!*



Effective for all entities for fiscal years beginning after December 15, 2024

# What are crypto assets?

Crypto assets are defined as those which:

Meet the US GAAP definition of <i>intangible assets</i>	Are created or reside on a distributed ledger based on blockchain or similar technology	Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
Are secured through cryptography	Are fungible	Are not created or issued by the reporting entity or its related parties

 Implementation is on the modified retrospective basis, with a cumulative-effect adjustment

## Statement of financial position

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- Crypto assets presented separately from other intangible assets

## Statement of activities

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- Changes in fair value presented separately

## Statement of cash flows

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- If received in the ordinary course of business, including a contribution, and liquidated - presented as operating cash flows
- If donor-restricted to long-term purpose - presented as financing cash flows



# ASU 2023-08: Disclosure

## **Holding details** *(for each significant crypto asset holding)*

- Name of the crypto asset
- Cost basis
- Fair value
- Number of units held

## ★ **Roll forward** *(of opening and closing balances - in aggregate)*

- Additions
- Dispositions
- Gains
- Losses

## **Other**

- ★ • Description of the type of activity that resulted in the additions and dispositions.
- Methods used for determining cost basis

★ = *Not required for crypto received as noncash consideration in ordinary course of business (including as contribution) and nearly immediately converted to cash*



# Revenue Refresher

# Treatment of Conditional vs. Unconditional Contributions

## Conditional Contribution

Revenue not recognized

- If cash is received, treat as liability (“refundable advance”)
- Remains conditional until barrier, or its related right of return/right of release is overcome
- Conditional contributions should be tracked and disclosed

## Unconditional Contribution

Recognize revenue immediately

- Recipient has the right to expect that the promised asset will be transferred
- Receipt of cash is not required
- Classification of revenue (restricted vs unrestricted) needs to be determined

# More on Conditions

ASC 958-605-25-5E discusses how to address ambiguity:

*In cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution.*

# Barriers vs. Restrictions

ASC 958-605-25-5D clarifies the distinction between a *barrier* and a *restriction*:

*Restrictions limit the use of a contribution to a specific activity or time but do not necessarily place limitations on how the activity is performed.*

Restrictions focus on *what* activities the money can be spent on, but don't dictate *how* the NFP spends it on that activity.

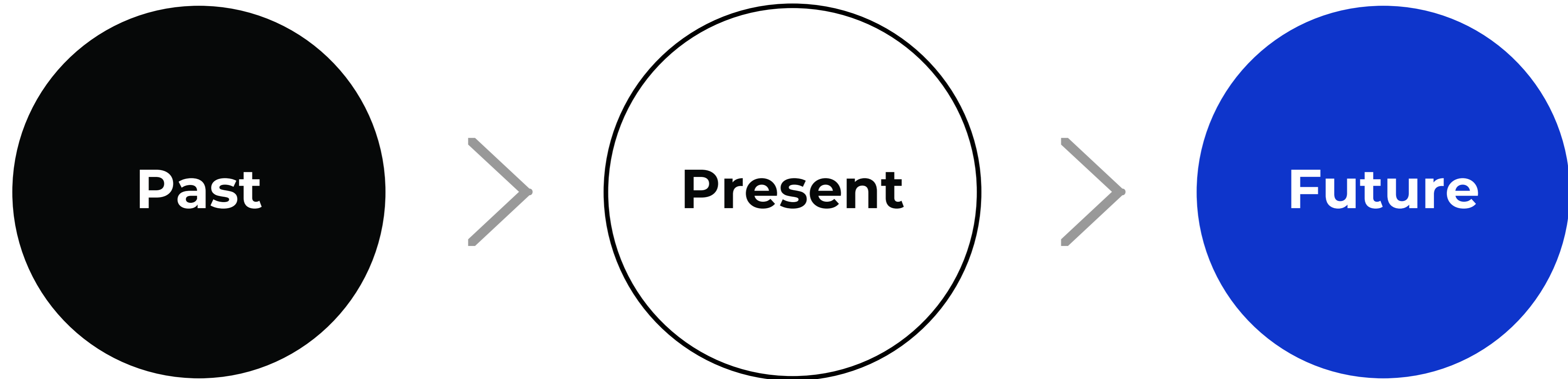
# Polling Question #2

# **CECL Refresher**

**ASU 2016-13, *FINANCIAL  
INSTRUMENTS –  
CREDIT LOSS (ASC 326)***



# Current Expected Credit Losses



The CECL standard requires establishing a methodology for estimating credit losses of balances within the scope of the standard that considers past, present and future events. Documentation and calculation of the analysis is also required.



# In Scope vs. Out of Scope

## In Scope

- Trade receivables
- Loans receivables
- Held-to-maturity debt securities
- Receivables from repurchase agreements
- Net investments in sales-type and direct financing leases
- Reinsurance receivables
- Financial guarantees



## Out of Scope

- Investments at fair value with changes in fair value reported through change in net assets
- Available-for-sale debt securities
- Loans receivables that are held for sale
- Contributions receivable
- Loans and receivables between entities of common control
- Operating lease receivables
- Equity method investments
- Derivatives



# Programmatic Investments (Loans)

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Track and analyze programmatic investments more thoroughly than before.

Need additional information to determine the expected credit losses:

- Borrowers
- Risk assessments
- More comprehensive records

Consideration should be given to those loans with forgiveness terms.

- What portion is a promise to give (contribution guidance – not subjected to CECL)
- What portion of payment is expected



# Proposed Changes to Uniform Guidance

208.8

1,235.0

0.0

5,187.7

7,645.0

12,411.8

27,752.9

# Office of Management and Budget

## Proposed Changes to Uniform Guidance

### Proposed changes effective October 1, 2024:

- Increasing the single audit threshold from \$750,000 to \$1,000,000 (this includes increasing the threshold for Type A programs)
- Expands what must be reported on the SEFA (Schedule of Expenditure of Federal Awards) for audits covering multiple recipients (such as departments, agencies, and other organizational units). In these situations, the recipient of the federal award will need to be identified.
- Raises the de minimus indirect cost rate from 10% to 15%

Office of Management and Budget  
**Proposed Changes to Uniform Guidance:  
Implementation – Audit Implications**

The compliance supplement specifies that the new uniform guidance requirements will be implemented for audits of entities with fiscal years “Beginning on or after October 1, 2024”

**First applicable year ends will be September 30, 2025, and after.**

# Office of Management and Budget

## Proposed Changes to Uniform Guidance






### Proposed changes effective October 1, 2024:

- Raises equipment and “unused supplies” threshold from \$5,000 to \$10,000
- Modifies and expands many definitions such as “period of performance” and “questioned costs”
- Modifies the definition of “Modified Total Direct Costs” to exclude subaward costs above \$50,000
- Removes prior written approval for certain items (subawards)



# Tax Update – Exempt Organizations

# Section Outline

-  **Priority Guidance Plan and TCJA Sunset**
-  **Clean Energy Tax Incentives**
-  **Penalties**
-  **Compensation**
-  **Unrelated Business Income**



# 2024-2025 Priority Guidance Plan

- Guidance revising Rev. Proc. 80-27 regarding group exemption letters. Notice 2020-36 was published on May 18, 2020.
- **Guidance illustrating the application of the regulations under §501(r).**
- Regulations under §512 regarding the allocation of expenses in computing unrelated business taxable income and addressing how changes made to §172 net operating losses by section 2303(b) of the CARES Act apply for purposes of §512(a)(6).
- Guidance addressing the SECURE 2.0 Act changes relating to §529.
- Guidance under §4941 regarding a private foundation's investment in a partnership in which disqualified persons are also partners.
- Final regulations under §4966 regarding donor advised funds, including excise taxes on sponsoring organizations and fund management. Proposed regulations were published on November 14, 2023.
- Regulations under §4967 regarding prohibited benefits, including excise taxes on donors, donor advisors, related persons, and fund management.
- Regulations under §4958 regarding donor advised funds and supporting organizations.
- Guidance regarding the public-support computation with respect to distributions from donor advised funds.
- Final regulations designating an appropriate high-level Treasury official under §7611. Proposed regulations were published on August 5, 2009.

# TCJA Sunset



The following will expire at the end of 2025:

- Lower tax rates
- Higher standard deduction
- State and Local Tax Deduction Limitation

What is going to happen?

- Charitable Act

# Clean Energy Tax Incentives

## Inflation Reduction Act (IRA)

- What is eligible?
  - Solar panels, wind turbines, geothermal, and others
  - Alternative energy vehicles and charging stations
  - Energy storage technology
  - Certain energy-efficient building property
- What is the benefit?
  - Direct pay (elective pay)
  - Energy Efficient Building Property Deduction (179D) Allocation
- Changes for 2025
  - Investment Tax Credit and Production Tax Credit
  - Clean Electricity Production Tax Credit and Clean Electricity Investment Tax Credit

# Polling Question #3

# Penalties for returns filed in 2025

## Failure to file Form 990

- Based on gross receipts
  - \$25/day, maximum of \$12,500 or 5% of GR (whichever is less)
  - \$125/day, maximum of \$63,500 (applicable with GR > \$1,274,000)

## Failure to file Form 990-T

- 5% of unpaid tax for each month/part of month, maximum of 25% of unpaid tax
- Minimum penalty for returns >60 days late is the smaller of tax due or \$510

## 1099s

- Minimum of \$60 per return with a maximum of \$660 per return



# Compensation

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## Reasonable compensation

- Section 4958 – Excise tax
- Excess benefit transactions

## Excess executive compensation

- Section 4960
- 21% tax

## Transparency

- Public document

# Unrelated Business Income (UBI)

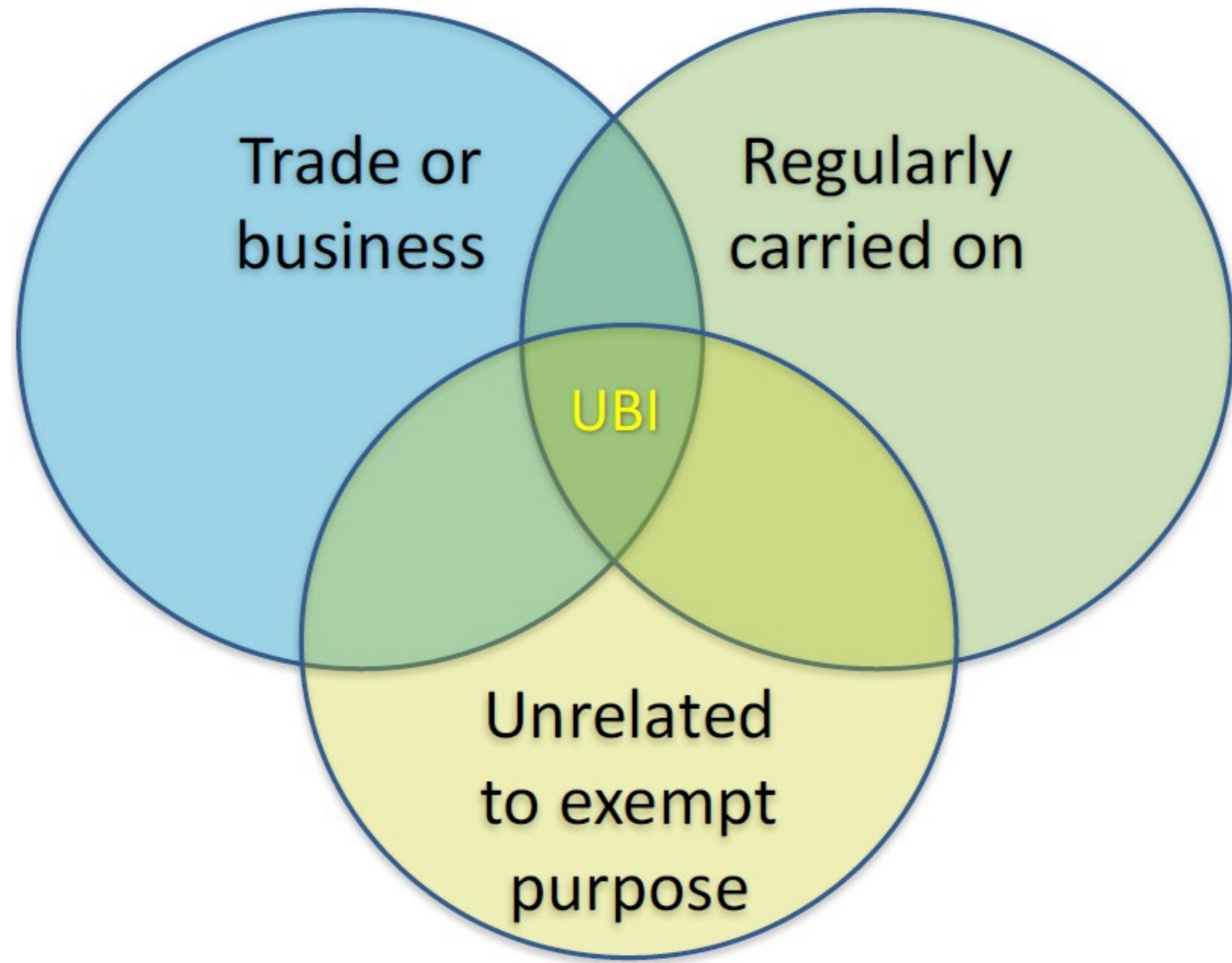
## What is UBI?

- Income that a tax-exempt organization (TEO) receives from a trade or business activity that is unrelated to its exempt purpose.
- “Significant”
- Loss of tax exemption
- Various exclusions
- Tax rate of 21%

## Applies to most organizations under IRC Section 501(a), including:

- Charitable, religious, scientific and other organizations described in IRC Section 501(c).
- Employees’ trusts forming part of a pension, profit sharing and stock bonus plans described in IRS Section 401(a).
- See IRS Publication 598

# When do we have UBI?





## Common Types of UBI

- Advertising in publications, website or on property
- Selling or leasing the use of organization's name, assets or membership lists
- Selling of merchandise or fees for services
- Corporate sponsorship payments – excess benefits
- Debt financed rental income
- Rentals of facilities to other organizations or individuals
- Cell tower rentals
- Catering of meals/food services
- Day care
- Non-related travel tours
- Providing management, administrative or consulting services to other organizations
- Some gaming activities (lotteries)
- Joint ventures with other organizations or individuals
- Alternative investments - - socially responsible or impact investments, expansions of portfolio beyond traditional stock and bond holdings

## Exclusions/Exceptions

- Dividends, interest, certain other investment income, royalties, certain rental income, and gains or losses from the disposition of property.
- Volunteer labor
- Convenience of members
- Selling donated merchandise
- Certain bingo games

## “Siloing” Rules

- More than one unrelated trade or business
- Losses are not shared
- Two-digit NAICS code
- Net Operating Losses

# Polling Question #4



# **Earned Sick Time Act (ESTA)**



## **Earned Sick Leave**

**Original Legislation Set - 2/21/25 Implementation**  
**Senate Bill 15**  
**House Bill 4002**

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# Paid Medical Leave Act vs. Earned Sick Time Act At a Glance

Issue	PMLA (prior law)	ESTA	CHANGES
<b>Covered Employers</b>	50+ employees	All employers except federal government (but only MI employees receive sick time)	Includes business with 1-49
<b>Covered Employees</b>	Nonexempt; 25 hours or more; many exceptions.	“an individual engaged in service to an employer in the business of the employer”	Independent contractors , part time , seasonal , variable hour
<b>Accrual</b>	1 hour for every 35 hours worked; 1 per week cap.	1 hour for every 30 hours worked; no weekly or annual cap	Reduce hour threshold No cap
<b>Use</b>	Capped at 40 hours per year.	Capped at 72 hours per year.*	Increased cap
<b>Carryover</b>	Capped at 40 hours per year.	Unlimited. All unused time can carry over.	Unused can carryover but still limits use to 72 in any year
<b>Paid</b>	40 hours for those over 35 hours a week	Larger employer (10+ employees): 72 hours paid Small Business (< 10 employees**): 40 hours paid and 32 unpaid	

# ESTA - Who is Covered



## PMLA

- Effective March 29, 2019
- All employers with 50 or more employees

## ESTA

- Effective February 21, 2025
- All employers with 1 or more employees

# ESTA - Leave Accrual and Usage



## PMLA

- Accrue paid time off at 1 hour for every 35 hours worked
- Maximum of 40 hours to be utilized in a year
- Carryover capped at 40 hours

## ESTA

- Accrue paid time off at 1 hour for every 30 hours worked
- 72 hours can be utilized if business has 10 or more employees
- 40 hours paid can be utilized if business has less than 10 employees, additional 32 unpaid.
- Carryover is not capped, [employers can limit annual use](#) to no more than [72 hours](#)

# Permissible Uses of Earned Sick Time

## Family Member's Medical Care

Employee's family member's mental or physical illness, injury, or health condition; medical diagnosis, care, or treatment of the employee's family member's mental or physical illness, injury, or health condition; or preventative medical care for a family member of the employee.

## Employee Medical Care

Employee's mental or physical illness, injury, or health condition; medical diagnosis, care, or treatment of the employee's mental or physical illness, injury, or health condition; or preventative medical care for the employee.

## Closure of a Business

For closure of the employee's place of business by order of a public official due to a public health emergency; for an employee's need to care for a child whose school or place of care has been closed by order of a public official due to a public health emergency

## Domestic Violence

If the employee or the employee's family member is a victim of domestic violence or sexual assault, for medical care or psychological or other counseling for physical or psychological injury or disability; to obtain services from a victim services organization; to relocate due to domestic violence or sexual assault; to obtain legal services; or to participate in any civil or criminal proceedings related to or resulting from the domestic violence or sexual assault.



# Notification Requirements When Using ESTA

Employees must provide reasonable advance notice of their intent to use paid earned sick time, based on the circumstances.

Where the need to take leave is foreseeable, such as a medical appointment, employees should notify their supervisor or manager at least seven (7) days in advance.

Where the need to take leave is not foreseeable, such as a medical emergency or sudden illness, the employee should notify the Company as soon as practicable, in most cases the day before he or she is expected to report to work the day of the absence.

# ESTA Documentation

- Supporting documentation only permitted after 3 consecutive days of sick time
- Employer must reimburse for any out-of-pocket expenses related to obtaining the documentation



# Documentation Dos and Don'ts

Do	Don't
Employers may require “reasonable documentation”* for absences of 4+ days.	Require documentation for absences of 3 days or less
Pay all of employee’s out of pocket costs in obtaining documentation.	Require documentation explain nature of illness or details of violence.
Employers may require employees provide documentation in a “timely manner.”	Disclose details of domestic violence or sexual assault, or medical conditions, to anyone.

\*Documentation is “reasonable” if it is signed by a health care professional (including nurses, doctors, midwives, emergency room personnel, and others licensed to provide health care services) indicating that earned sick time is necessary.

\*For domestic violence-related earned sick time, police reports, signed statements from a victim and witness advocate, or court document indicating that employee or employee’s family member is involved in legal action related to domestic violence or sexual assault are types of “reasonable documentation.”



# ESTA – Definition of Family Member

A “family member” means:

- (1) a biological, adopted or foster child, stepchild or legal ward, a child of a domestic partner, or a child to whom the employee stands in loco parentis;
- (2) a biological parent, foster parent, stepparent, or adoptive parent or a legal guardian of an employee or an employee’s spouse or domestic partner or a person who stood in loco parentis when the employee was a minor child;
- (3) a person to whom the employee is legally married under the laws of any state or a domestic partner;
- (4) a grandparent;
- (5) a grandchild;
- (6) a biological, foster, or adopted sibling; or
- (7) any other individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship.

# Will my current PTO policy satisfy ESTA?

Possibly, if employees may use PTO for the same reasons and under the same terms & conditions permitted by ESTA.

Consider:

- Does PTO accrue at an equal or faster rate as ESTA (i.e., 1 hour per 30 hours worked)?
- Does the PTO policy have a waiting period of < 90 days?
- Does the PTO policy require advance notice of at most 7 days for foreseeable PTO?
- Does the PTO policy permit all time to rollover year to year?
- May employees use PTO in the smaller of 1-hour increments, or the smallest increment allowed by payroll system?
- Are all employees eligible for PTO (including part-time and temporary employees)?
- Is PTO reinstated for rehires within 6 months of termination?



# Polling Question #5

# Notice & Recordkeeping

Employers must post a notice informing employees of ESTA rights. LEO has a form notice on its website.

Must provide written notice to all employees by effective date of ESTA, and to all new hires upon hire.

Must retain for 3 years records of hours worked and earned sick time taken by employees.  
Failure to provide records = presumption of a violation.

ESTA does not require reporting earned sick time on pay stubs

# ESTA - Other Considerations

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CBA's – Will revisit and bargain during next contract negotiation

3-year recordkeeping requirement

Time keep increments

Retaliation

No payout at termination

Posting requirements





# Additional Legislation

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# House Bill 4002 & Senate Bill 215

## House Bill 4002

- Exempts independent contractors, out of state employees, seasonal workers (25 weeks or less per year) part-time employees (25 hours or less per week), and variable hour workers
- Exempts small business retains 50 employee threshold
- **Allows payout for accrued time to avoid carryover**
- Frontloading time eliminates, tracking and carryover
- Eliminates language requiring PTO/ESATA to be used under same conditions
- Provide employers with ability to notice, set policy and discipline
- Defaults to 1- hour increments
- **Strikes rebuttable presumption and private right of action**

## Senate Bill 215

- Does not currently address exempt, seasonal, variable and contractual employees
- “Small business” changed from less than 10 employees to less than 25 employees
- **Allows payout for accrued time to avoid carryover**
- If using accrual method, an employer can cap usage to 72 hours per year and limit carryover to 72 hours
- Permits a 90-day waiting period for new hires to begin using time
- **Strikes rebuttable presumption and private right of action**

# What Should You Be Doing?

- Review current leave policy
- Review how are you currently providing the Paid Medical Leave time (over 50 employees)
- Review your current PTO cashout policies and timing of the cashout
- Review your process for requesting time off PTO/SICK
- Identify the smallest increment of time your Payroll system can account for
- Review your current definition of a full time and time employee as it relates to hours
- Determine if accrual of time or frontloading will work best in your organization
- Develop a policy to be rolled out if nothing changes
- Develop an employee communication plan to be executed regardless of the changes in legislation
- Be prepared to modify your updated policy to be compliant
- Be prepared to communicate the policy to employees
- Sit tight and await any changes in the legislation



**If you need help, we are here ready & willing to assist you.**

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# 2025 Public Sector Webinar Series

## 2025 Governmental GAAP Update

Date: Jan. 22

Presenter: Dan Merritt

A deep dive into 2025 accounting pronouncements and other implementation guidance from the Governmental Accounting Standards Board (GASB).



## 2025 Nonprofit Update

Date: Jan. 23

Panel Presentation

A deep dive into 2025 accounting pronouncements and other implementation guidance from the Financial Accounting Standards Board (FASB).

## Seamless Transitions: Effective Succession Planning for the Public Sector

Date: April 30

Presenters: Kerreen Conley & Cheryl Kuch

An interactive session covering actionable strategies to set up your organization for smooth transitions during these critical times.



## 2025 Single Audit Update

Date: July 23

Presenter: Dan Merritt

Hear the latest updates on recent guidance provided by the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the American Institute of CPAs (AICPA) and more.



## From Risk to Resilience: Key Strategies to Improve Your Organization's Internal Controls

Date: Oct. 8

Panel Presentation

This webinar will provide essential insights and best practices for public sector leaders and board members to safeguard their organizations.

Click [here](#) or visit [Rehmann.com](https://Rehmann.com) to register for our upcoming webinars

**Thank you for joining us!**

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**Questions?**

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