Welcome

2021 National Labor Union Virtual Conference ~Annual Update~

CALIBRE CPA GROUP
JUNE 17, 2021

2021 National Labor Union Conference

JUNE 17, 2021

A&A Update

MARY MARGARET PRANGE, CPA | PARTNER
CALIBRE CPA GROUP, PLLC

Accounting Standards Updates

- 2014 – Revenue Recognition
- 2016 - Leases
- 2018 Accounting Standards Updates
- 2020 Accounting Standards Updates
- 2021 Accounting Standards Updates

2014 Accounting Standards Update

ASU 2014-09 (Effective for 2018)

- Revenue from Contracts with Customers (Topic 606)

Purpose of the Update (2014-09)

- An effort between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to develop a common revenue recognition standard (principle-based)
- Supersedes Topic 605: Revenue Recognition
- Supersedes most industry specific, transaction specific standards

Scope

- All contracts with customers, except
  - Lease contracts
  - Insurance contracts
  - Financial instruments
  - Guarantees
  - Non-monetary exchanges in the same line of business to facilitate sales to customers
- Contracts not with customers are excluded:
  - Contributions
  - Collaborative arrangements

Core Principle

- Aims to improve accounting for contracts with customers by:
  - Providing a robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and capital markets
  - Requiring better disclosure
- Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

The New Model

0 • Do we have a contribution or exchange transaction?

1 • Identify the Contract

2 • Identify the Performance Obligation

3 • Determine the Transaction Price

4 • Allocate the Transaction Price

5 • Recognize the Revenue as the Obligation is Satisfied

Step 1: Identify the Contract

- Contract: An agreement between two or more parties that creates enforceable rights and obligations
  - Can be written, oral, or implied
  - Approved by both parties
  - Identifiable rights
  - Identifiable payment terms
  - Collectability is probably

Must have a "commercial purpose"- obligations of both parties spelled out

Step 2: Identify Performance Obligation

- Defined: A promise in a contract with a customer to transfer either
  - A good or service that is distinct; or
  - A series of goods or services that are substantially the same

Step 3: Determine the Price

- The amount of consideration an entity expects to receive in exchange for transferring promised goods or services.
- Determine the stand-alone selling price-3 approaches

Step 3: Determine the Price

- All Standalone Selling Prices need to be estimated if the selling price is not readily available. 3 standard methods:
  - Adjusted market approach
  - Expected Cost plus margin approach
  - Residual Approach

Step 4: Allocate the Transaction Price

- Allocate to each performance obligation:
  - In a systematic manner
  - Based on the standalone selling price (most common)
  - Estimate

Step 5: Recognize Revenue

- Revenue is recognized as the performance obligation is satisfied
  - Service is transferred
  - Customer obtains control of the asset

Not-For-Profit Impact

Contributions: OUT OF SCOPE!

- Nonreciprocal contributions are not within the scope of this standard….but another ASU was issued in 2018…2018-08 which addresses

2016 Accounting Standards Update

ASU 2016-02

- Leases (Topic 842)

ASU 2016-02 (Issued February 2016)

Effective

- On July 17, 2019, the Financial Accounting Standards Board (FASB) unanimously approved to propose delaying the effective date for private companies and nonprofit organizations.
- Expected to be effective for private companies for annual reporting periods beginning after December 15, 2020 (2021 calendar year). One-year deferral of the previous effective date.

Application

- Early adoption is permitted

General Overview

- Targets to improve financial reporting regarding leasing transactions and will affect non-profits that lease assets (property and equipment)
- Require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by those leases.

ASU 2016-02 More Specifics

Prior to ASU 2016-02 (Current GAAP)

- Recognition, measurement and presentation of lease expenses and cash flows depended on whether it was a capital or operating lease
- Only capital leases were required to be recognized on the balance sheet

After ASU 2016-02 (Balance Sheet)

- Recognize right-of-use asset and a lease liability for virtually all leases over 12 months in term
- Liability equal to the present value of lease payments
- Asset will be based on the liability, subject to adjustment for initial direct costs.

ASU 2016-02 More Specifics

For Lessees

After ASU 2016-02 (Income Statement)

- Leases will be required to be classified as either operating or finance
- Operating Leases - result in straight-line expense (similar to current operating leases)
- Finance Leases - result in a front-loaded expense pattern (similar to current capital leases).

New Disclosure Requirements

ASU 2016-02 More Specifics

For Lessors

- Similar to current GAAP.
- Leases still classified as either operating, direct financing, or sales-type (Leveraged lease accounting has been eliminated)

Disclosure Requirements

Information about the nature of leases (and subleases)

- General description of leases
- Basis, and terms and conditions, on which variable lease payments are determined
- Existence, terms and conditions of options to extend or terminate the lease
- Existence, terms and conditions of lessee residual value guarantees
- Restrictions or covenants imposed by leases

Disclosure Requirements

Information about leases that haven't yet begun, but that create significant rights and obligations for lessees

Information about significant judgements and assumptions made in accounting for leases

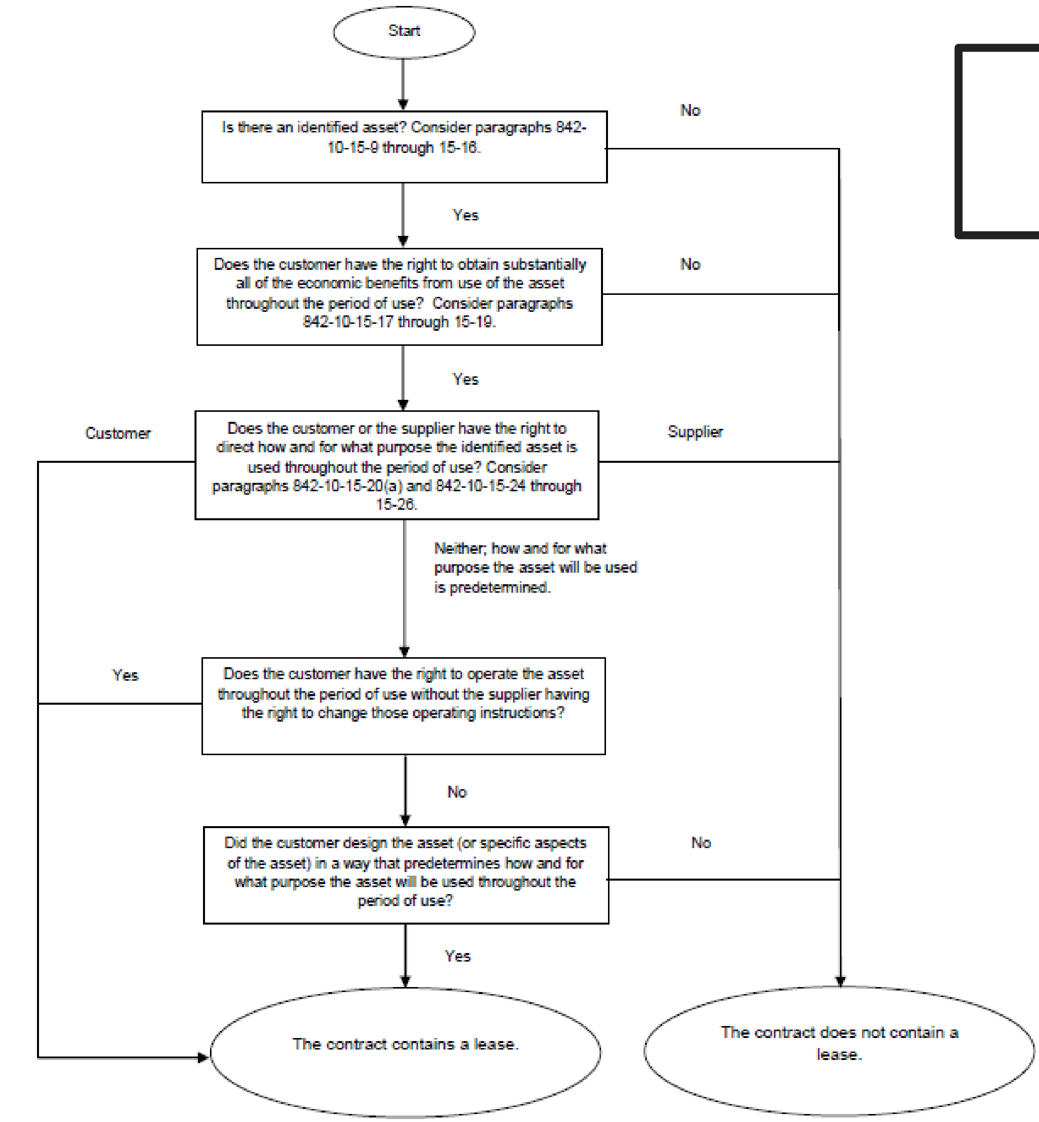
- Determination of whether a contract contains a lease
- Allocation of the consideration in a contract between lease and non-lease components
- Determination of the discount rate

Disclosure Requirements

Main terms and conditions of any sale-leaseback transactions

Whether an accounting policy election was made for the short-term lease exemption. If so, lessees should disclose if the short-term lease expense doesn't reflect amounts attributable to the lessee's short-term lease commitments and the amount of its short-term lease commitments

Identifying a Lease



Flow chart for identifying a lease

Key Questions to Ask – WHY ASK?

Do I have a lease?	If not within the scope of lease standard, must look to different ASC.
What is the term?	Required for initial accounting.
What is the discount rate?	Required for subsequent accounting.
Any non-lease components?	Accounts for non-lease components differently.

Key Questions to Ask – Guidance

Do I have a lease?

GUIDANCE:

Lease defined as *"the right to control the use of an identified asset for a period of time in exchange for consideration."*

- CONTROL:
  - Right to economic benefits
  - Right to direct use of asset
- Determining "right to direct use" may require judgement
- If supplier has substantive substitution rights, customer does not have control; therefore no lease.

Key Questions to Ask – Guidance

What is the term?

GUIDANCE:

- Term is Noncancelable period for which lessee has right to use asset plus periods covered by:
  - Option to extend if lessee is *reasonably certain* to exercise the option
  - *Option to terminate if lessee is* reasonably *certain* not to exercise option
  - Renewals or extensions of lease at option of lessor
- Exception to the general rule to recognize all leases on the balance sheet for leases with terms of 12 months or less

Key Questions to Ask – Guidance

What is the discount rate?

GUIDANCE:

- Rate implicit in the lease is rate that causes the PV of the new investment in the lease to equal sum of:
  - Fair value of asset minus related investment tax credit
  - Capitalized initial direct costs incurred by lessor
- If rate can not be determined, use incremental borrowing rate
- Private companies may elect a policy for all leases to use risk-free discount rate

Key Questions to Ask – Guidance

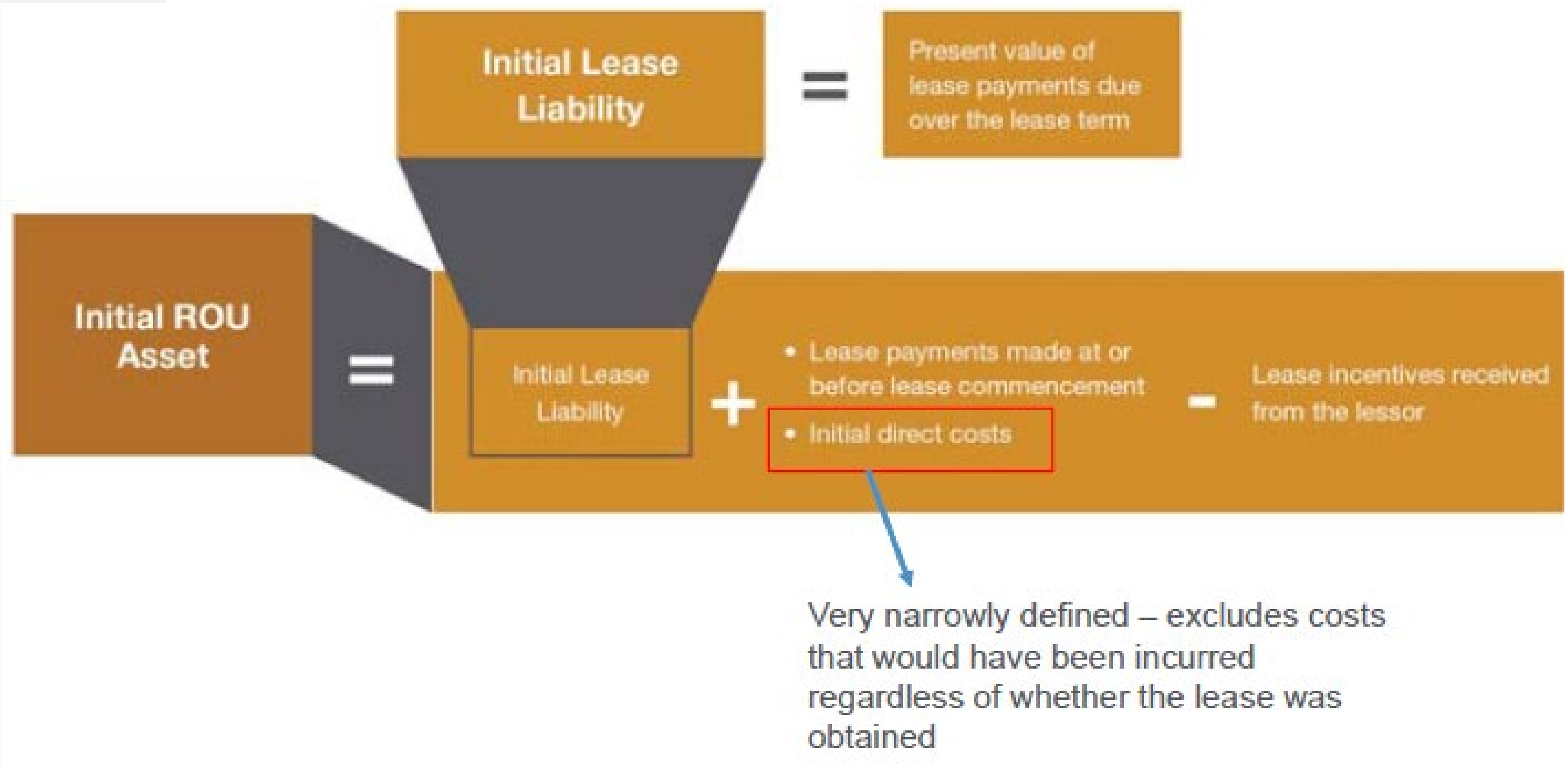
Any non-lease components?

GUIDANCE:

- Non-lease components accounted for separately
- Example: equipment lease contract also includes maintenance services
- Allocate contract consideration and initial direct costs to components based on relative standalone price of separate components.

Initial Measurement

Initial Measurement



Classification of Initial Lease

- 842-10-25-2 Finance lease for lessee & sales-type lease for lessor…if any of the following are met at commencement:
  - The lease transfers ownership of the underlying asset to lessee by end of lease term
  - Lease grants lessee option to purchase the underlying asset that the lessee is reasonably certain to exercise
  - Lease term is for the MAJOR part of the remaining economic life of the underlying asset
  - Present value of the sum of the lease payments & any residual value equals or exceeds substantially all of the fair value of the underlying asset
  - The underlying asset is of such a specialized nature & would have no alternative use at the end of the lease term

Lease ASU Transition: Practical Expedients

You may be able to elect "practical expedients" to ease the burden of adoption

You do not need to:

- Reassess whether expired or existing contracts are or contain leases
- Reassess lease classification for any expired or existing leases
- Reassess initial direct costs for existing leases

You may

- Use hindsight in determining lease term

Leases – What can you do now?

1

- Inventory all existing lease contracts

2

- Assess implementation challenges and options

3

- Estimate impact implementation will have on financial statements, key ratios and metrics

Leases-Discount Rate for Lessees that are NOT Public Business Entities

- Objective
  - To reconsider the risk free discount rate accounting policy election afforded to lessees that are not public business entities
- Scope
  - Includes all non-profit entities and employee benefit plans
- Tentative Board Decisions
  - Level of accounting policy election
  - Discount rate specified in accounting policy election
  - Interaction between the rate implicit in the lease and the accounting policy election
- Proposed update expected in Q2 2021

2018 Accounting Standards Updates

ASU 2018-08

- Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

ASU 2018-13

- Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

ASU 2018-14

- Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans

ASU 2018-15

- Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

ASU 2018-08 (Issued June 2018)

Effective

- Calendar year beginning after 12/15/18 and interim periods beginning after 12/15/19

Application

- Early adoption is permitted. See next slide

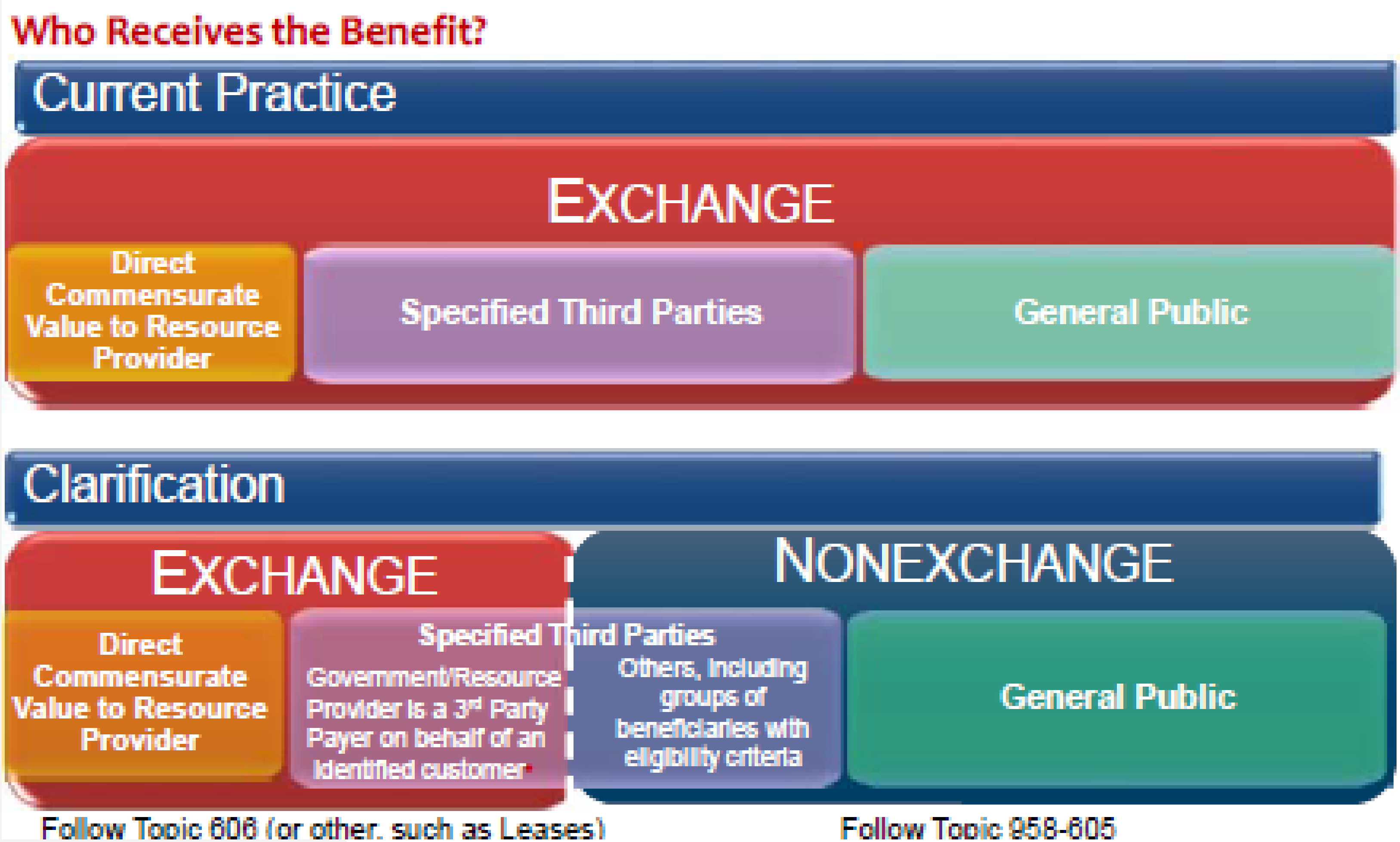
General Overview

- FASB's reaction to apply the new revenue recognition concept in ASU 2014-09 to contributions received (and made) by NFPs and other organizations

Biggest Change from ASU 2018-08

- First test – Determine whether the transaction should be accounted for as contributions (nonreciprocal transaction) or exchange transactions(reciprocal transactions)
- The resource provider is not synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal transaction.
- If the primary beneficiary of a grant or contract is a third party, an NFP must use judgment to determine if the transaction is reciprocal or nonreciprocal.
- Furthering a resource provider's mission or "feel good" sentiment does not constitute commensurate value received.
- The type of resource provider should not override the substance of the transaction.

Revenue recognition



Accounting for Exchange Transactions

- Follow guidance in ASU 2014-09 (now known as Topic 606) on Revenue from Contracts with Customers
- Critical point – Whether resource provider is receiving commensurate value in return for resources provided?
  - For example, government agencies or foundations providing benefits to the public are not considered to be the equivalent of receiving commensurate value
    - **Results in transaction NOT being an exchange transaction**
    - **Transaction would then have to be subjected to the conditional tests (to be discussed later)**
  - Resource provider's mission also does not constitute commensurate value received for purposes of determining whether the transfer of assets is a contribution or exchange transaction

Accounting for Exchange Transactions

- If resource provider is not receiving commensurate value, receiving entity must determine whether transfer of assets is a payment from third party on behalf of an existing exchange transaction between recipient and an identified customer.
  - Then you default to Topic 606 and it is not a nonreciprocal transaction (contribution)

Accounting for Contributions Received

- Once a transaction is determined to <u>NOT</u> be an exchange transaction
  - Next step – determine if it is an unconditional or conditional contribution
  - "Conditional" criteria create the problems
    - **Determine the conditional attribute on basis of whether transaction contains one or more *barriers* that must be overcome and. . .**
    - **Either a right of return of assets or right of release of the promiser from its obligation must be determinable from the agreement**
    - **Presence of BOTH a barrier and a right of return/right of release indicates a recipient is NOT entitled to the use of the assets until it has overcome the barriers in the agreement**

Accounting for Contributions Received

- Indicators of a *barrier* being present
  - **Measurable performance-related or other measurable barrier**
    - **e.g., recipient must attain the achievement of a certain level of service, a specific number of units or output, or a specific outcome**
  - **Agreement contains a stipulation that limits discretion by the recipient on the conduct of an activity (this is not a restriction)**
    - **e.g., specific guidelines about qualifying allowable expenses**
  - **Whether a stipulation is related to the purpose of the agreement**

Accounting for Contributions Received

- Revenue recognition
  - Conditional Contributions – accounted for as a liability or not recognized as revenue until the *barrier(s)* to entitlement are overcome
  - Unconditional contributions – recognize revenue in appropriate asset category
    - **Are restrictions stipulated by the donor?**
      - **YES = Assets with donor restrictions**
      - **NO = Assets without donor restrictions**

Contributions Made

- Do the same analysis as performed for contributions received
  - Does each party receive commensurate value (exchange)
  - Is there a donor-imposed condition?
    - **Unconditional –recognize expense**
    - **Conditional –recognize expense when conditions met**

Not-For-Profit Impact

- Bifurcation of Revenue
  - A sponsorship or membership may be entirely exchange, entirely a contribution, or a combination of the two.
  - Example: A membership organization charges $200 per year for a membership. As part of the membership you receive a monthly newsletter at no charge. This newsletter can be purchased for $50 by nonmembers for an annual subscription.
  - This is both a contribution & an exchange contract!

Not-For-Profit Impact

Bifurcation of Revenue

1. What is the contract? What is the contribution?
2. What is the performance obligation?
3. What is the transaction price?
4. Allocate the transaction price to the obligation.
5. Recognize the revenue.

ASU 2018-13 (Issued August 2018)

Effective	• Calendar year beginning after 12/15/19
Application	• Early adoption is permitted. Some amendments should be applied prospectively; all others retrospectively
General Overview	• Amendments to Fair Value Measurement Disclosures

Removed Disclosure Requirements

- The amount of and reasons for transfers between Level 1 and level 2 of the fair value hierarchy
- The policy for timing of transfers between levels
- The valuation processes for Level 3 fair value measurements
- For nonpublic entities, the changes in unrealized gains/losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period

Modified Disclosure Requirements

- In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities
- For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly
- The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date
- Term "at a minimum" is removed from the disclosure requirements to make it clear that materiality and discretion are appropriate considerations

Added Disclosure Requirements*

- The changes in unrealized gains/losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period
- The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements

*Not required for nonpublic entities

ASU 2018-14 (Issued August 2018)

Effective	• Calendar year ending after 12/15/20 (public business entities)year ending after 12/15/21, for all other entities
Application	• Early adoption is permitted. See next slide
General Overview	• Applies to all employers that sponsor defined benefit pension or other postretirement plans.

Removed Disclosure Requirements

- The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
- The amount and timing of plan assets expected to be returned to the employer.
- Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
- For nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets.
- For public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits.

Added Disclosure Requirements

- The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates
- An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

ASU 2018-15

Effective	• Calendar year beginning after 12/15/21 (for nonpublic entities)
Application	• Early adoption is permitted.
General Overview	• Diversity in practice, issued to help entities evaluate the accounting for fees paid in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license.

ASU 2018-15

- License to internal-use software
  - Accounted for in accordance with Subtopic 350-40
  - Intangible asset is recognized for the software license.
  - If payments are made over time, a liability is also recognized
- NO license to internal-use software
  - Accounted for as a service contract
  - Generally, fees associated with the hosting element (service) of the arrangement are expensed as incurred.
- Update focuses on accounting for implementation, setup and other upfront costs

2020 Accounting Standards Updates

ASU and Topic	Effective Date
2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)	Years beginning after 12/15/21 (CY22, FY23)
2020-02 Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (SEC Update)	Not applicable to non-profit organizations
2020-03 Codification Improvements to Financial Instruments	Immediately, but these are just codification improvements.
2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	Effective for all entities as of March 12, 2020 through December 31, 2022.
2020-05 Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities	**Revenue - Defer effective date 1 year (CY20, FY21)** **Leases - Defer effective date 1 year. (CY22, FY23)**

2020 Accounting Standards Updates

ASU and Topic	Effective Date
2020-01 Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity	Varies by type of entity, Years beginning after 12/15/21 (SEC Filers) and Years beginning after 12/15/23 (all other filers) (CY24, FY25)-NOT applicable to our clients.
2020-07 Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets	**Years beginning after 6/15/21. Early adoption permitted**
2020-08 Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs	Not applicable to non-profit organizations– related to callable debt security
2020-09 Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762	Not applicable to non-profit organizations
2020-10 Codification Improvements	Years beginning after 12/15/20 (CY 21, FY 22) – One item about NFPs and equity transfers (Issue 53)
2020-11 Financial Services—Insurance (Topic 944): Effective Date and Early Application	Varies by type of entity, Years beginning after 12/15/22 (SEC Filers) and Years beginning after 12/15/24 (all other filers) (CY25, FY26)-NOT applicable to our clients. (Insurance companies only)

ASU 2020-07

- Objective
  - Increase transparency about contributed nonfinancial assets through enhancements to presentation & disclosure
- Who is Affected?
  - NFPs that receive contributed nonfinancial assets. (Gifts, donations, grants, gifts-inkind, donated services, or other terms)
  - Amendments address presentation and disclosure of contributed nonfinancial assets
  - The term nonfinancial asset includes **fixed assets** (such as land, buildings, and equipment), **use of fixed assets** or **utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets**

ASU 2020-07

- Transition- Retrospective application required
- Which entities might this impact?
  - Related 501(c)(3) Organizations
  - Materiality will need to be contemplated

ASU 2020-07

- Main Provisions
  - Present as a **separate line item** in the statement of activities
  - Disclose:
    - **Disaggregation of the amount by category that depicts the type of contributed nonfinancial assets**

ASU 2020-07

- How does this differ from current GAAP?
  - Subtopic 958-605, specifies requirements for the recognition and initial measurement of contributions and disclosure requirements for contributed services
  - Subtopic 958-605 does not include specific presentation requirements for contributed nonfinancial assets or specific disclosure requirements for contributed nonfinancial assets other than contributed services.
  - The amendments in this Update improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for NFPs, including additional disclosure requirements for recognized contributed services.
  - The amendments will not change the recognition and measurement requirements in Subtopic 958-605 for those assets.

ASU 2020-07 Illustrations

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

	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	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	19,240	(19,240)	-
Total revenues, gains, and other support	40,080	7,450	47,530

ASU 2020-07 Illustrations

Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	20X9	20X8
Building	$ 550,000	$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	$ 1,220,783	$ 565,556

ASU 2020-07 Illustrations

NFP K recognized contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, medical supplies, pharmaceuticals, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

The contributed building will be used for general and administrative activities. 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.

Contributed food was utilized in the following programs: natural disaster services, domestic community development, and services to community shelters. Contributed household goods were used in domestic community development and services to community shelters. Contributed clothing was used in specific community shelters. Contributed medical supplies were utilized in natural disaster

ASU 2020-07 Illustrations

services. In valuing household goods, food, clothing, and medical supplies, 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.

Contributed pharmaceuticals were restricted by donors to use outside the United States and were utilized in international health services and natural disaster services. In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Prices (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale (that is, the principal markets).

Contributed services recognized comprise professional services from attorneys advising NFP K on various administrative legal matters. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar legal services.

ASU 2020-07 Illustrations

Contributed Nonfinancial Assets

	Revenue Recognized	Utilization in Programs/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 of 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 of estimates of wholesale values that would be received for selling similar products in the United States.

2021 Accounting Standards Updates

ASU and Topic	Effective Date
2021-01 Reference Rate Reform (Topic 848): Scope	Not applicable to non-profit organizations
2021-02 Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient	Not applicable to non-profit organizations
2021-03 Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events	**Immediately**
2021-04 Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)	Not applicable to non-profit organizations

ASU 2021-03

- Update provides non-profit entities with an **accounting alternative** to perform goodwill impairment **triggering event** evaluation at end of reporting period
- If elected, not required to monitor during the period (prior practice)
- Rather, at end of reporting period
  - Evaluate facts & circumstances to determine whether a triggering event exists
  - Evaluate whether more likely than not goodwill is impaired

ASU 2021-03

- Triggering event?
  - Defined in ASC 350
  - Occurs when there are indicators that the fair value of an entity (or a reporting unit) may be below its carrying amount
  - Examples (not exhaustive)
    - deterioration in general economic conditions,
    - an increased competitive environment,
    - increases in the costs of raw materials or labor,
    - negative or declining cash flows and
    - changes in key personnel.

New Auditing Standards & Other releases

1. SAS 134 - 136 - Issued 2019
2. SAS 141 – Issued 2020

SAS 134

- Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements
  - Issued in May 2019
  - New Section: AU-C 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
  - Amends:
    - **Various AU-C sections**

SAS 134

- Effective Date – Audits of financial statements for periods ending on or after December 31, 2020*
- Early implementation-NOT Permitted

* Pushed 1 year out due to COVID

SAS 134

- Section 700-Forming an Opinion and Reporting on Financial Statements
  - Changes the form & content for all auditor’s reports issued for audits of “non-issuers” (except for EBPs)
    - **Consistent with IAASB’s new and revised ISAs**
    - **Consistent with PCAOB auditor reporting model (positioning of opinion and basis for opinion sections)**
    - **EBP SAS conforms to SAS 134**

Auditor’s Report - Significant Changes

- Opinion section presented first, followed by “Basis for Opinion”
- “Basis for Opinion”- includes a statement that auditor is required to be independent of entity and meet auditor’s other ethical responsibilities
- **Key Audit Matters** (new AU-C Section 701- Not mandatory, only include if engaged
- Management Responsibilities expanded (e.g. Going concern evaluation)
- Auditor Responsibilities expanded (e.g. Going concern and communication with Governance)

SAS 134-More significant amendments relate to:

- AU-C 570 (Going Concern)
  - Management responsibility to evaluate whether there are conditions or events that raise substantial doubt
  - Specifies heading & wording for new section replacing EOM paragraph when substantial doubt remains
- AU-C 260 (Communication with Those Charged with Governance)
  - Auditor required to communicate with TCWG about the significant risks identified by the auditor

SAS 134- What will report look like?

- Opinion paragraph is 1st!!!!

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, 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 ABC Company as of December 31, 20X1 and 20X0, 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.

SAS 134- What will report look like?

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 ABC Company 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.

SAS 134- What will report look like?

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

SAS 134- What will report look like?

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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

SAS 134- What will report look like?

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 ABC Company's internal control. Accordingly, no such opinion is expressed.[2]
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

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

SAS 135

- Omnibus Statement on Auditing Standards - 2019
  - Issued in May 2019
  - Proposed amendments to AU-C 260, *Communication with TCWG,* and AU-C 550, *Related Parties,* as well as various other sections
  - Amendments intended to focus to enhance audit quality by heightening the auditor's focus on:
    - **Related parties and relationships and transactions with related parties**
    - **Significant unusual transactions**
    - **Matters that are difficult or contentious for which the auditor consulted outside engagement team**
    - **Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if auditors has concluded that the uncorrected misstatements are immaterial to the financial statements under audit**
  - Effective for periods ending on or after December 15, 2020

SAS 136

- Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA
  - Issued in July 2019
  - Amends:
    - **SAS 119 (as amended by AU-C sec. 725)**
    - **Various sections in SAS 122 (as amended by AU-C secs. 220, 240, 330, 450, 501, 540, 550, 560, 580, and 708)**
    - **SAS 132**

SAS 136

- Effective Date – Audits of ERISA plan financial statements for periods ending on or after December 31, 2020*
- Early implementation-NOT Permitted

* Pushed 1 year out due to COVID

SAS 141

SAS No. 141 delays by one year the effective dates of SAS Nos. 134–140 (which, among other things, substantially changes the auditor’s report) from December 15, 2020, to **December 15, 2021**

2021 National Labor Union Conference

JUNE 17, 2021

Labor Best Practices

(Financial/Other)

GLENN M. EYRICH, CPA | PARTNER
JAMES A. POULOS, CPA | SENIOR MANAGER
CALIBRE CPA GROUP, PLLC

Agenda for Today

- DOL Update Summary
- DOL Review of Problem Areas and Focus of Audits

Department of Labor

[Department of Labor/LMRDA]

- The Office of Labor-Management Standards (OLMS) of the U.S. Department of Labor's Employment Standards Administration administers and enforces most provisions of the LMRDA.

- The Labor-Management Reporting and Disclosure Act of 1959 (LMRDA) provides standards for the reporting and disclosure of certain financial transactions and administrative practices of labor organizations and employers; the protection of union funds and assets; and the election of officers of labor organizations.

DOL Compliance Activity

DOL OLMS - Program Activities

1) Safeguarding Union Assets
2) Protecting Union Democracy
3) Labor Union and Labor-Management Transparency
4) Employee Protections
5) Compliance Assistance

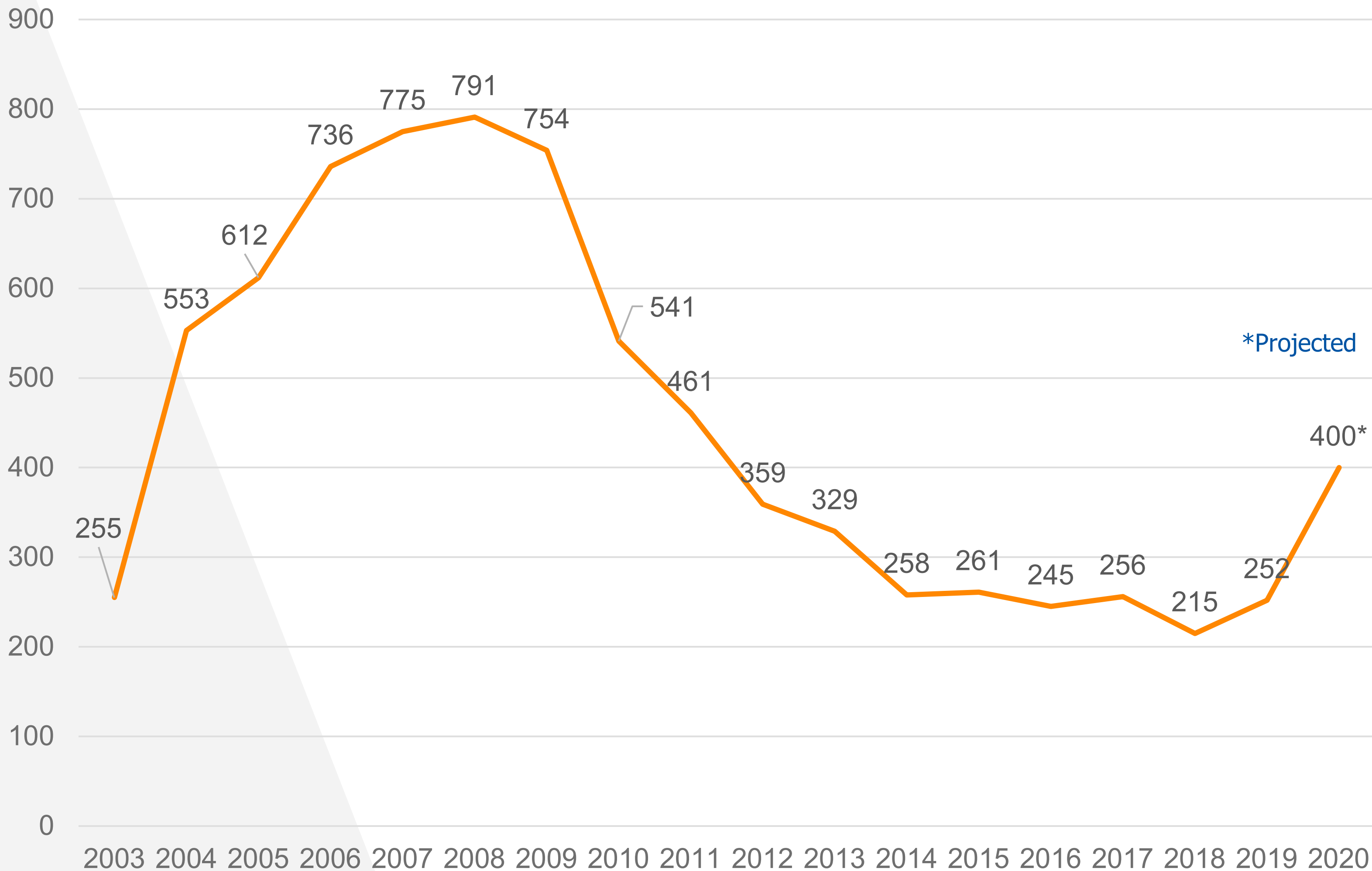
The program objectives are primarily carried out through CAP audits and criminal investigations

Department of Labor (OLMS) – 2021 Budget

Department of Labor/LMRDA

- FY 2021 request provides $50.4 million
- The FY 2020 budget increased $2 million from 2019
- Increase investigative workforce by 45 FTEs
- Priority performance goals:
  - Reducing the number of elapsed days in investigating union election complaints;
  - Increasing the percentage of compliance audits that lead to criminal investigations; and
  - Increasing the percentage of required reports filed electronically.

CAP Audits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255
553
612
736
775
791
754
541
461
359
329
258
261
245
256
215
252
400*
*Projected

DOL Compliance

OLMS Enforcement Statistics – Financial Integrity FY 2020

Criminal Investigations Completed 239

Compliance Audits Conducted 252

DOL Problem Areas and Audit Focus

Three Areas of Focus

Recordkeeping
(Documentation, Loans, Credit Cards)

Reporting
(LM2, Financial Statements)

Internal Controls and Bonding

Recordkeeping - LMRDA 206

- Pursuant to Section 206 of the LMRDA, every person required to file any report under LMRDA Title II shall maintain records on the matters reported that will provide in sufficient detail the necessary information from which the reports filed may be verified, explained, or clarified and checked for accuracy and completeness.
- All required records must be maintained for **at least five years** following the date the report is filed.

Recordkeeping - LMRDA 206

Common Recordkeeping Violations

- Insufficient Documentation for Disbursements:
  (Five "W's" – Who, What, When, Where, Why)
  - **Original receipts/Written description**
  - **Lost receipts should be an uncommon exception (if lost obtain signed statement describing expense)**

Meal expenses

- Food and Beverage Charges
  - **What? Food & Beverage**
  - **Where/when? Restaurant Name/ Date**
  - **Who? Names and Positions**
  - **Why? Business Purpose**

Recordkeeping - LMRDA 206

Credit Cards

- The Union’s or individual’s monthly statement alone is not adequate
- All original, itemized receipts for each credit card charge, including itemized hotel invoices, transportation costs, and **itemized** receipts for meals.
- For group meal expenses, union records must also include: (a) a written explanation of the specific union business conducted (it is insufficient to simply record “union business”—you must be more specific than that); (b) the full names and (c) titles of all persons incurring the food and beverage charges.

DOL Compliance - Loans

Section 503(a) of the LMRDA (29 U.S.C. 503) prohibits labor organizations from making <u>direct or indirect loans to any officer or employee</u> of the labor organization which results in a total indebtedness on the part of such officer or employee to the labor organization in excess of $2,000 at any time.

DOL Compliance -Travel Advances

- Potentially considered <u>loans</u> by DOL unless:
  - The advance is reasonable for the expected travel expenses
  - The advance is fully <u>repaid</u> or accounted for within 30 days of completion of travel.
  - The amount of the standing advance does not exceed the average monthly travel; does not exceed 60 days without traveling.

DOL Compliance - CAP Audit Example

DISPOSTIONS

- Disposition of Property Local XXXX did not maintain an inventory of bibles, shirts, face masks, drink holders, and other property it purchased, sold, or gave away. The union must report the value of any union property on hand at the beginning and end of each year in Item 30 (Other Assets) of the LM-3. <u>The union must retain an inventory or similar record of property on hand to verify, clarify, and explain the information that must be reported in Item 30</u>. The union must record in at least one record the date and amount received from each sale of union shirts. In addition, in the case of items given away to members, the union must retain records that identify the date the items were given away and the recipients of those items.

DOL Compliance

- Other Common Recordkeeping Violations
  - Reimbursements for meals while also receiving per diem
  - Hotel bills – need detailed bill to ensure no personal items
  - Chartered airfare- authorization (LM2 Allocation)
  - Unauthorized and undocumented travel
  - Officer or Employee remote location (Tax issues)
  - Bylaws/Constitution attached to LM2
  - Adequacy of Fidelity bonding
  - Inadequacy of Lost wages documentation
  - Salary and benefits authorization documentation
    - Vacation tracking and payouts
    - Payments to officers properly authorized

Other OLMS Resources

Bookmark These!

OLMS Interpretive Manual

- https://www.dol.gov/olms/regs/compliance/interp_manual/interpretativemanual.htm

OLMS Publications

- https://www.dol.gov/olms/regs/compliance/complpubs.htm
- LMRDA Overview PowerPoint Presentation
- Fact Sheet of the OLMS
- LMRDA Compliance-A Guide for New Union Officers
- LMRDA Recordkeeping Requirements for Unions
- Financial Recordkeeping PowerPoint Presentation
- Compliance Tips-Financial
- Bonding Computation Worksheet

National Labor Union Report - 2020

Glenn Eyrich, CPA
Partner, Calibre CPA Group

James Poulos, CPA
Senior Manager, Calibre CPA Group

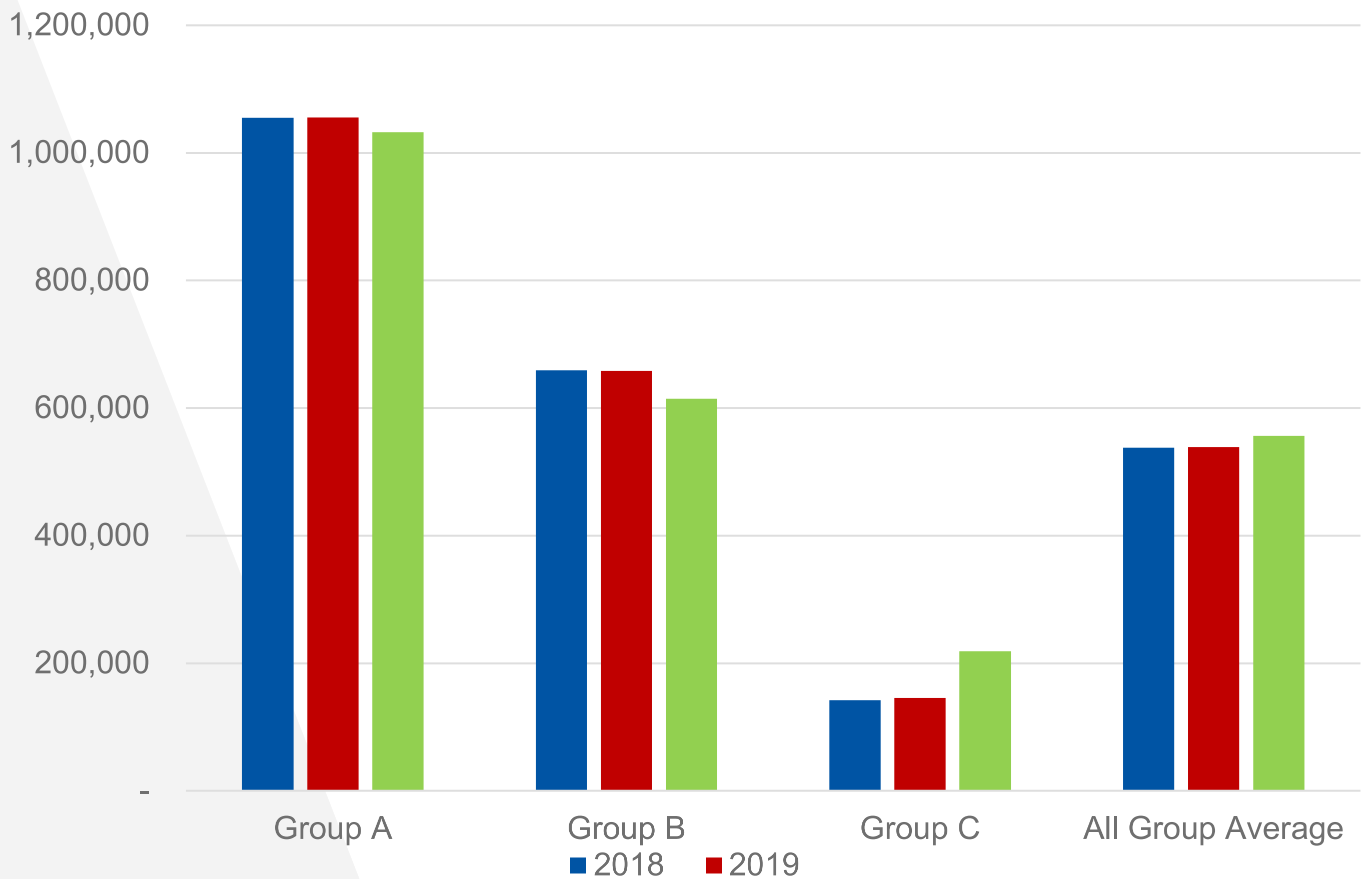
Background & Methodology

- Data compiled from 2020 LM-2s filed on DOL website
- 63 National and International Labor Unions
- Grouped into 3 categories:
  - **Group A: Over $100 million in Dues and Agency Fees/Per Capita Tax (13)**
  - **Group B: Between $20-100 million in Dues and Agency Fees/Per Capita Tax (27)**
  - **Group C: Less than $20 million in Dues and Agency Fees/Per Capita Tax (23)**
- Analyzed and compared data over last three years

Background & Methodology

- **Notes and Comments**
  - Some Unions may be on cash or modified cash basis of accounting so *Statement A – Assets and Liabilities* may not be comparable for all organizations
  - Impact of Multi-employer plans vs. Single Employer Plans
  - Investments reported at lower of cost or market
  - Total Receipts – not Revenue
    - **Includes sales of investments, loans obtained, collections on behalf of affiliates and from members**
  - Total Disbursements – not Expenses
    - **Includes purchases of investments, loan repayments, disbursements to affiliates of funds collected on their behalf, and disbursements to individual members**

Membership


1,200,000
1,000,000
800,000
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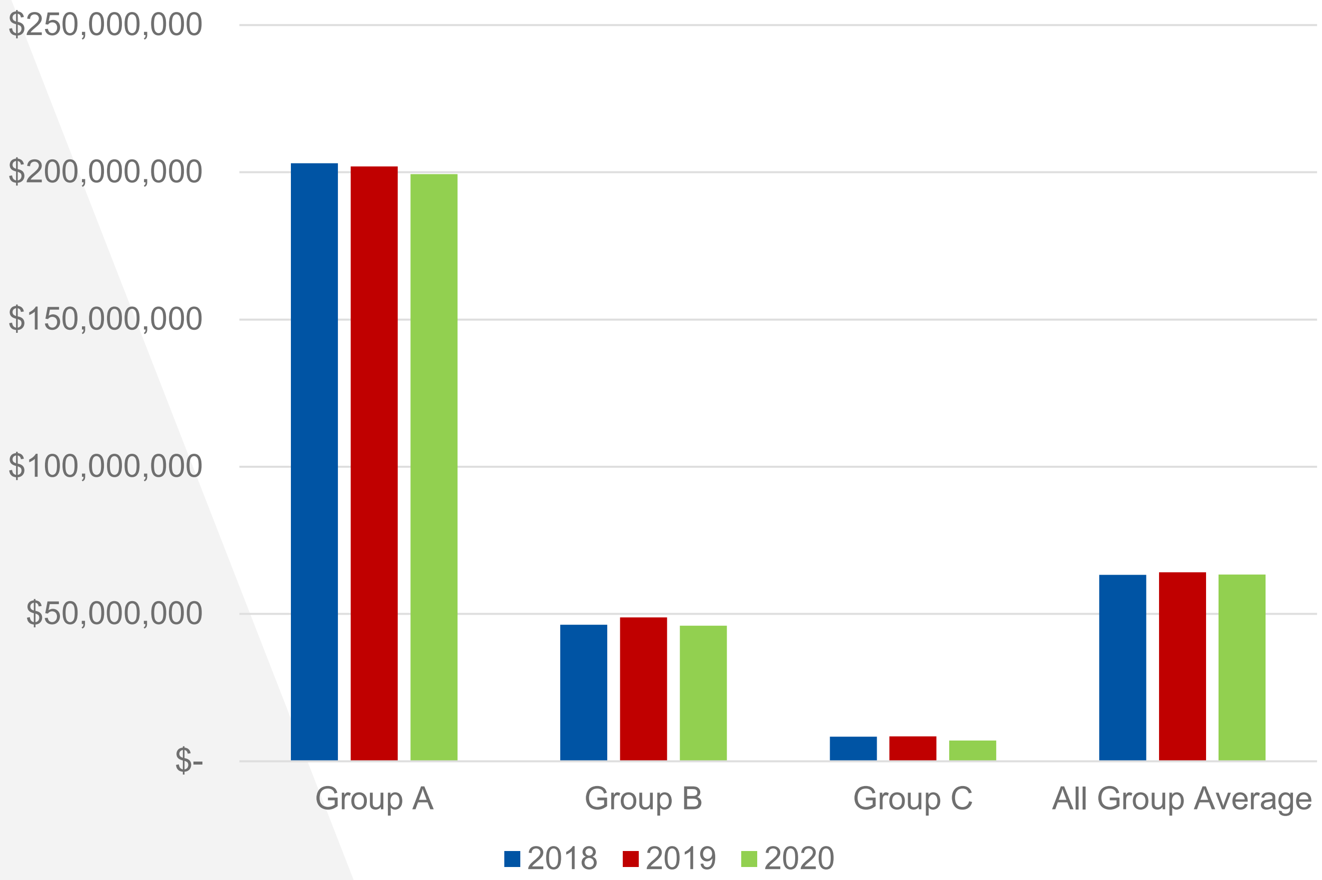
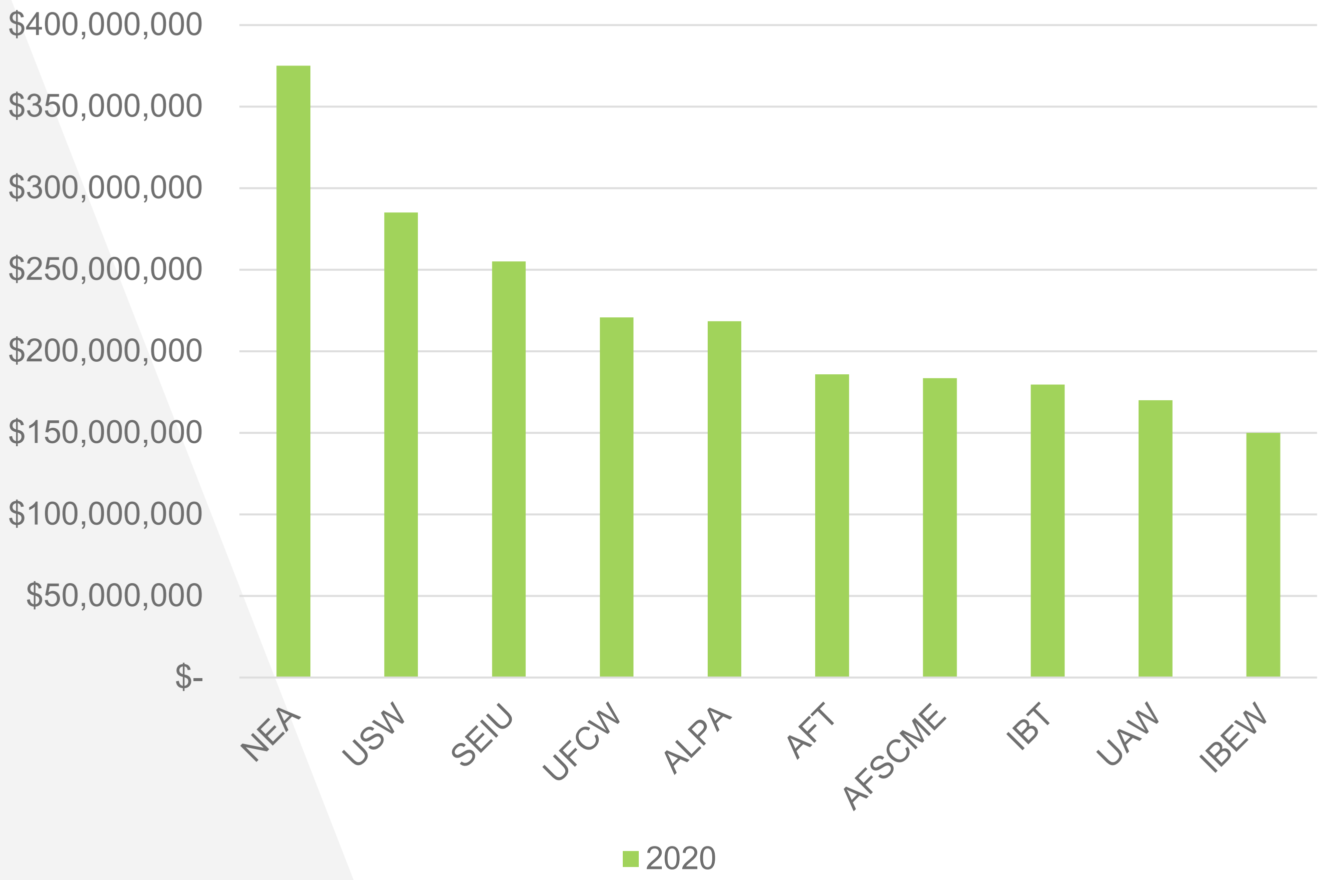
400,000
200,000
-
Group A
Group B
Group C
All Group Average
2018
2019

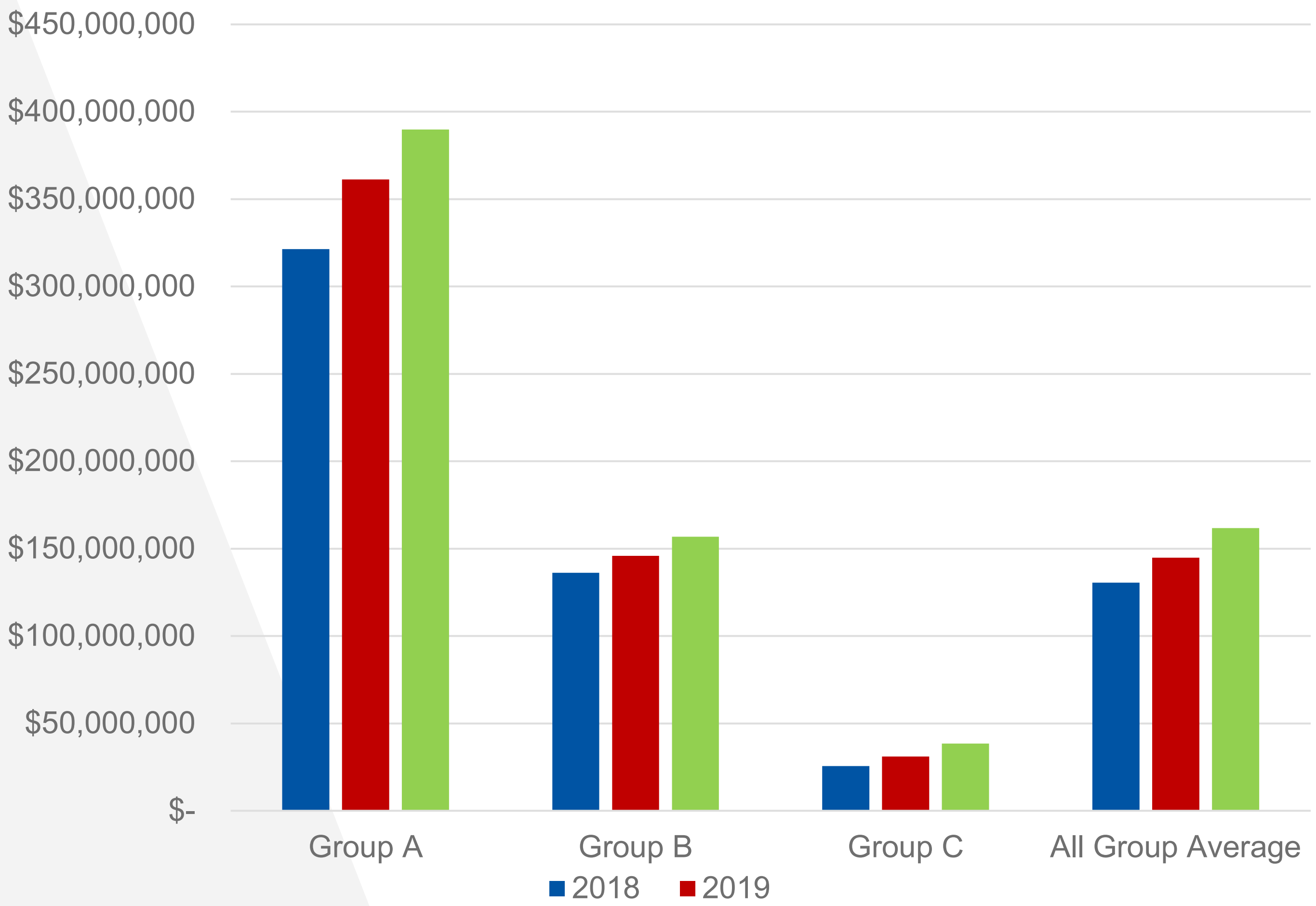
Per Capita Tax/Dues



Per Capita Tax/Dues – Ten Largest



Net Assets


$450,000,000
$400,000,000
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Group A
Group B
Group C
All Group Average
2018
2019

Net Assets – Ten Largest

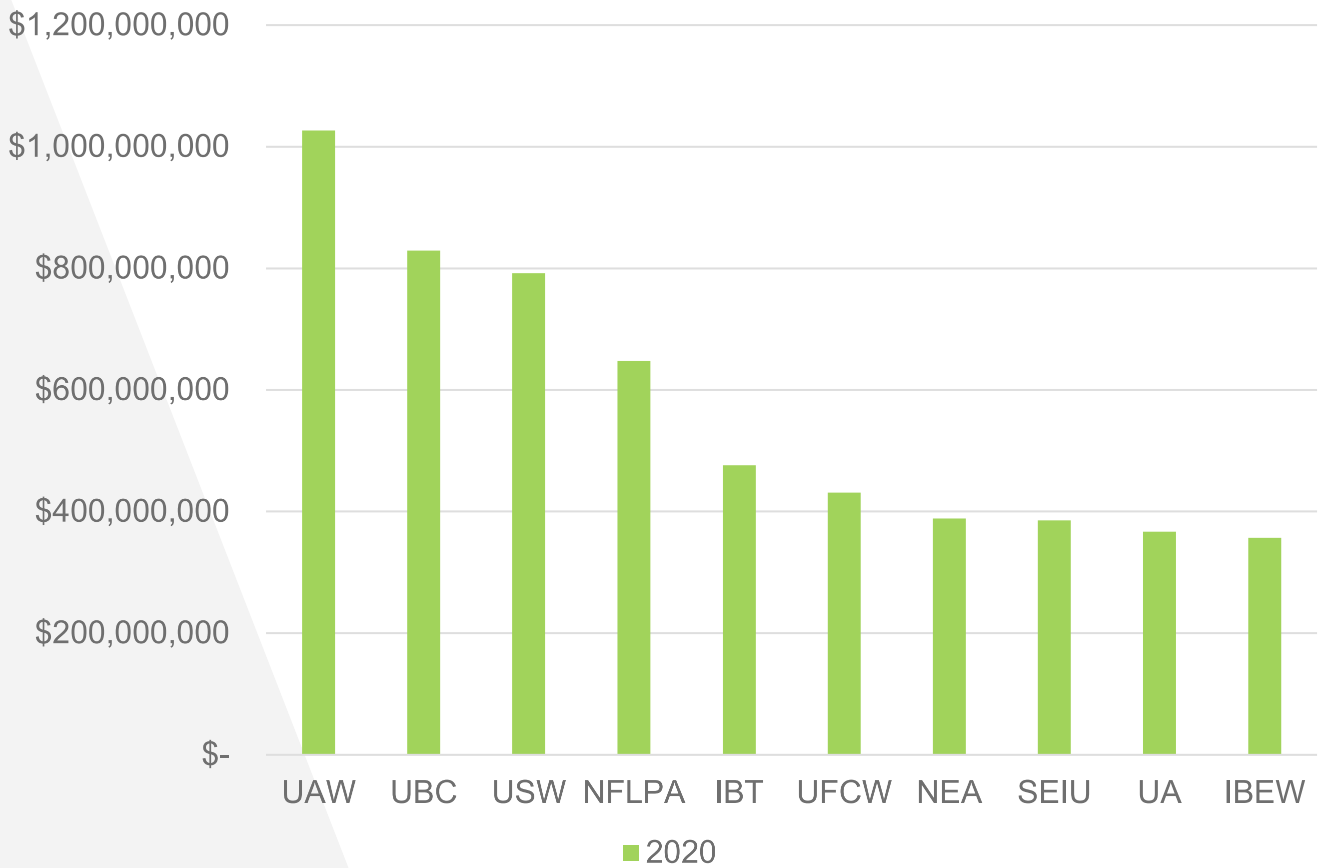


Chart 2 - Responses to Selected Questions 10-17

	Administers a Trust	Has a PAC	Had an Audit	Pledged Assets	Contingent Liabilities
Group A Average	100%	92%	100%	62%	38%
Group B Average	93%	93%	100%	52%	26%
Group C Average	65%	65%	96%	22%	9%

Chart 2 – Bonding Amount

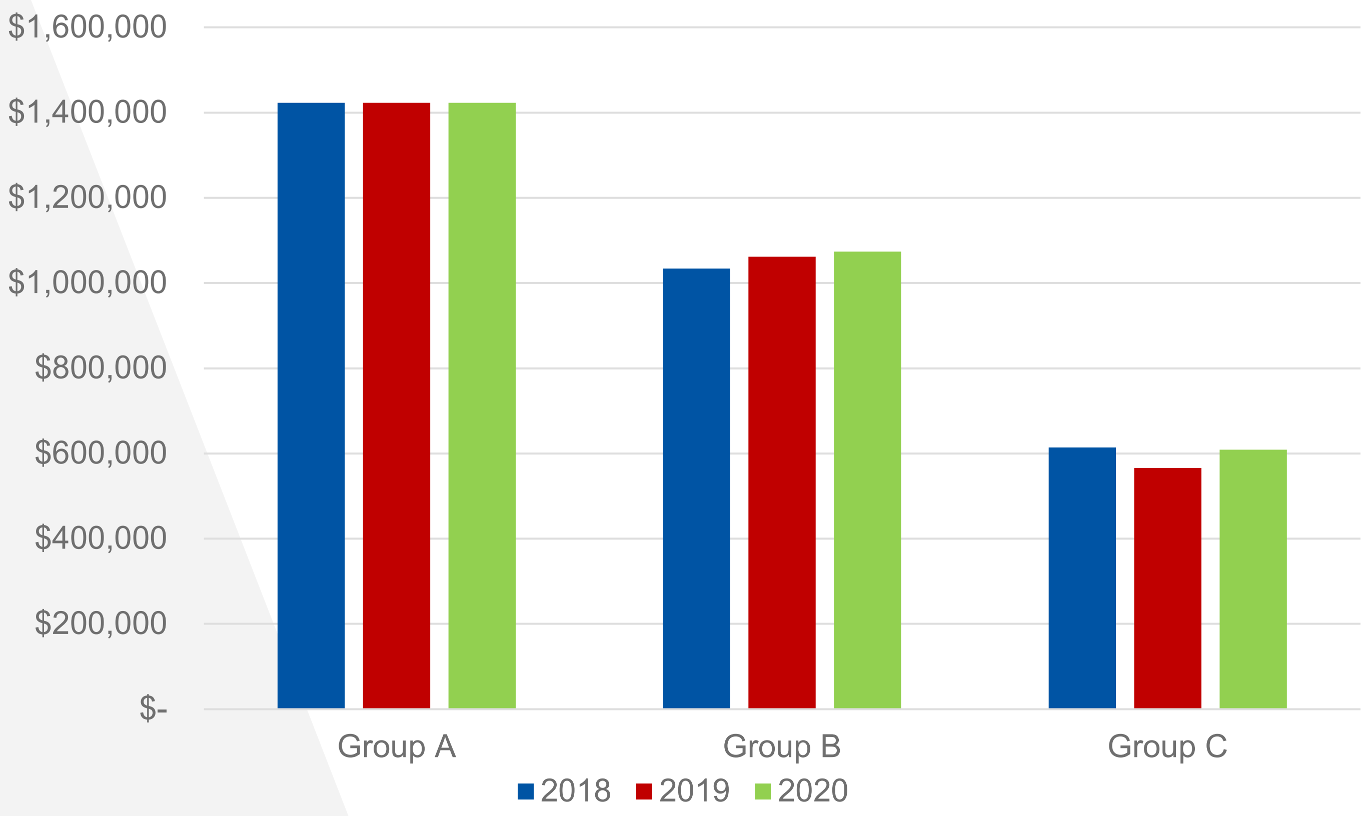


Chart 3-Cash and Investments-Group A

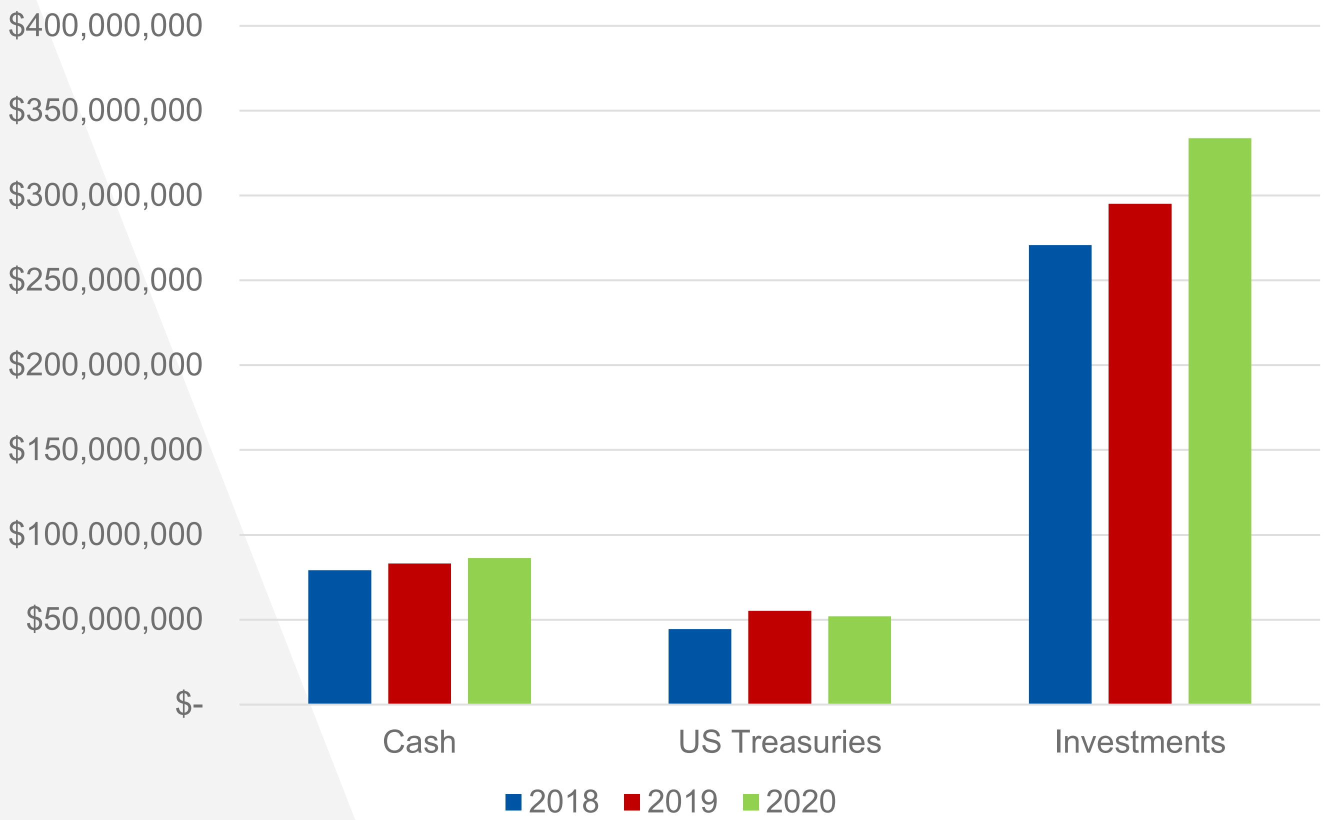


Chart 3-Cash and Investments-Group B

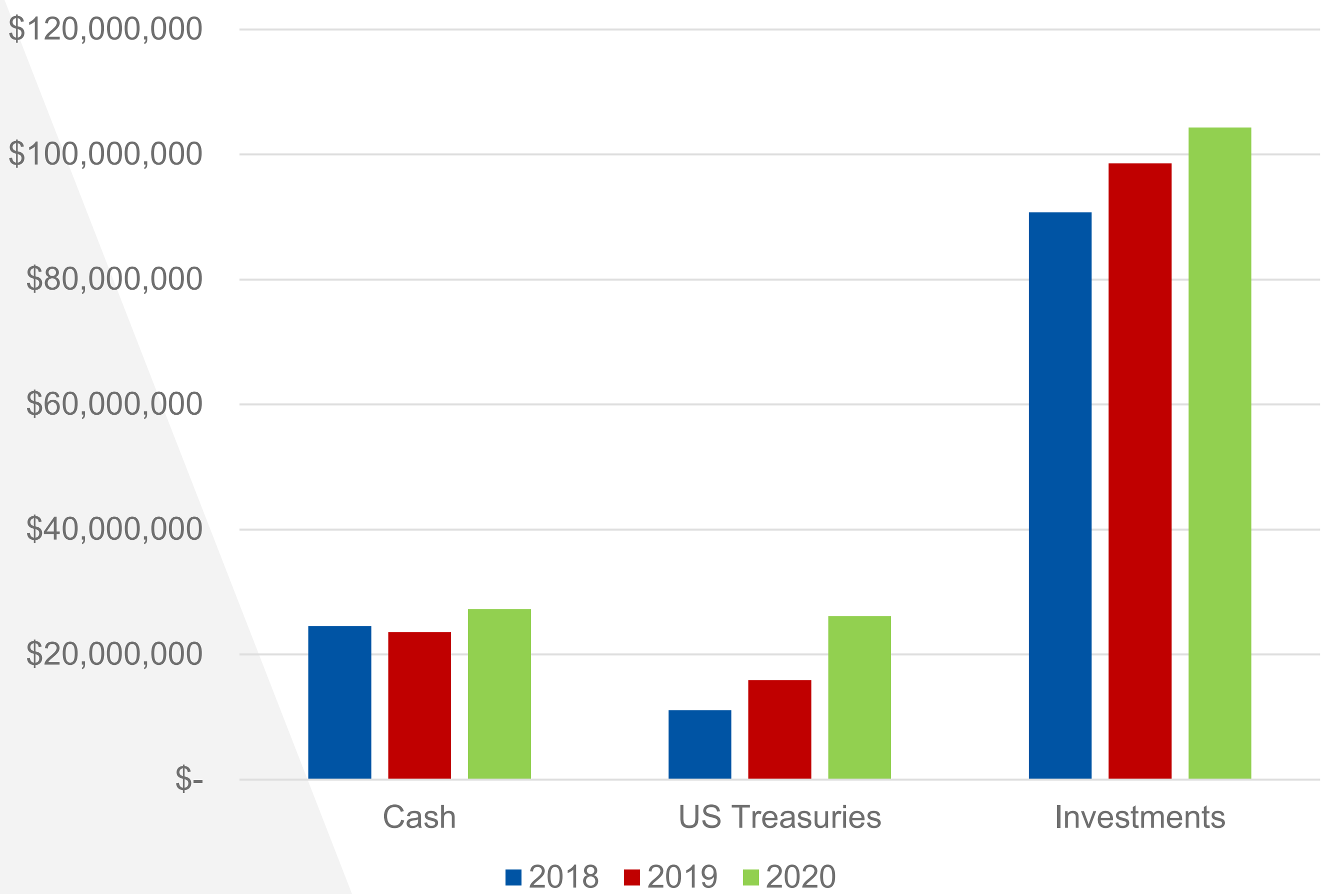


Chart 3-Cash and Investments-Group C

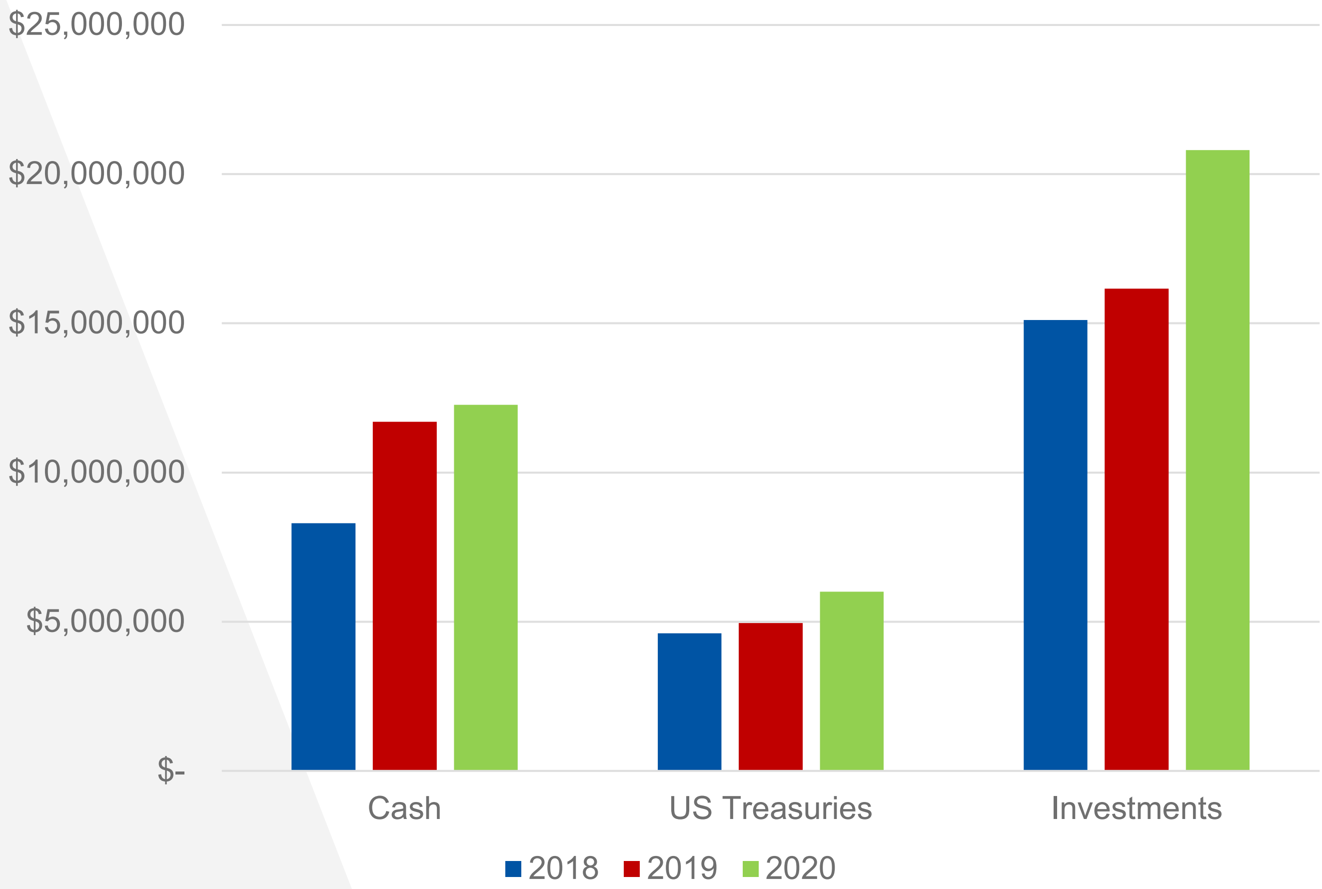


Chart 9- Operating Reserves- Number of Months

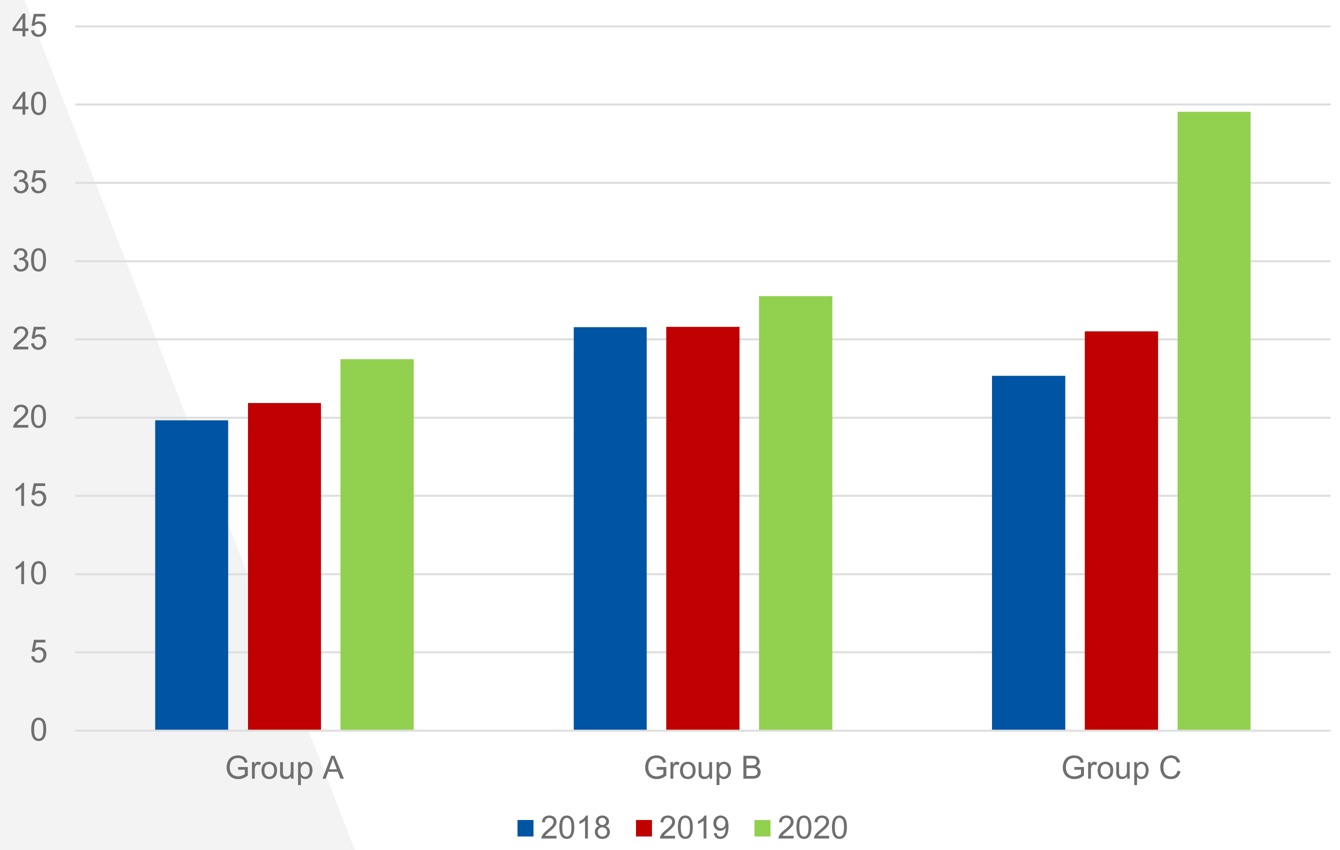


Chart 7 – Functional Expense Breakdown

Group A	2018	2019	2020
Representational (15)	49%	50%	46%
Political (16)	11%	10%	14%
Contributions (17)	6%	5%	5%
Overhead (18)	20%	21%	23%
Union Administration (19)	14%	14%	12%
Total	100%	100%	100%

Chart 7 – Functional Expense Breakdown

Group B	2018	2019	2020
Representational (15)	38%	41%	42%
Political (16)	10%	8%	10%
Contributions (17)	2%	2%	2%
Overhead (18)	28%	27%	24%
Union Administration (19)	22%	22%	22%
Total	100%	100%	100%

Chart 7 – Functional Expense Breakdown

Group C	2018	2019	2020
Representational (15)	40%	38%	40%
Political (16)	3%	4%	4%
Contributions (17)	2%	2%	2%
Overhead (18)	33%	32%	34%
Union Administration (19)	22%	24%	20%
Total	100%	100%	100%

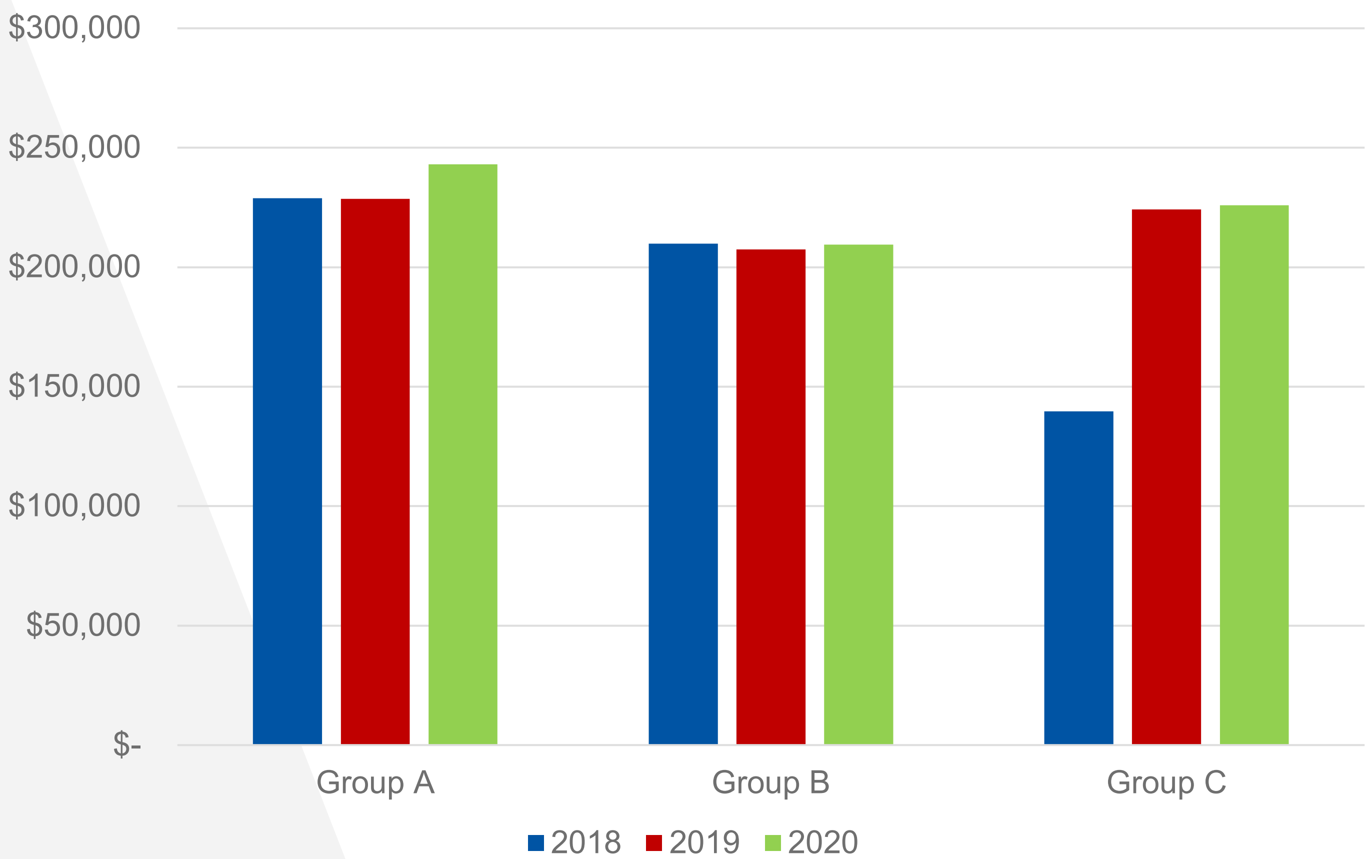
Chart 8 – Payments to Officers, Employees & Benefits as a Percentage of Total Functional Expenses

	Schedules 11, 12 & 20 As a % of Schedules 15-19		
	Low	**High**	**Average**
Group A	29.52%	169.87%	75.91%
Group B	16.13%	138.22%	78.28%
Group C	43.65%	115.85%	78.37%

Chart 8 – Benefits (Schedule 20) as a Percentage of Payments to Officers & Employees

	Benefits as a % of Amounts in Schedules 11 and 12		
	Low	**High**	**Average**
Group A	20.72%	298.50%	75.85%
Group B	21.39%	112.12%	60.60%
Group C	8.23%	95.10%	39.98%

Chart 10-Average Officers Salary > $100,000



NOTE: For those officers with salaries in excess of $100,000

Break

2021 National Labor Union Virtual Conference ~Annual Update~

CALIBRE CPA GROUP
JUNE 17, 2021

2021 National Labor Union Conference

JUNE 17, 2021

Cybersecurity

An Evolving Landscape in a Post Pandemic World

THOMAS DEMAYO, PRINCIPAL
PKF O'CONNOR DAVIES, LLP

Cyber Statistics and Trends

Current Statistics

- **Data Breaches**
  - 7,098 breaches were reported in 2019, exposing over 15.1 billion records.
  - 37 Billion records exposed in 2020 across 3,932 breaches.
    (src: risk based security)
  - Identity Theft
    - Unemployment fraud. In 2019, the FTC received 12,900 claims. In 2020, the FTC received 394,280 claims – a 2956% increase.
    - Government-sponsored small business loans approximately doubled, going from 43,290 in 2019 to 99,650 in 2020 – a 130% increase.
    - Tax identity theft to receive stimulus payments ended with 83,290 in 2020, up from 27,450 in 2019 – a 203% increase.

Current Statistics

- **Business e-mail Compromise**
  - Resulted in $1.8 Billion in losses in 2019 and 2020a 2885% increase from 2014.

Year	Victim Count/Complaints	Losses
2014	1,495	$60,294,162
2015	7,837	$246,226,016
2016	12,005	$360,513,961
2017	15,690	$676,151,185
2018	20,373	$1,297,803,489
2019	23,775	$1,800,000,000

Current Statistics

- **Ransomware 2020**
  - 435% increase compared to 2019 (Source: deepinstinct.com)
  - 676 ransom events resulted in a data breach, up from 337 in 2019 (Source: risk based security)
  - Average ransom demand was $847,344 (Source: Palo Alto Networks)
  - Average payout increased 171% to $312,493 compared to $115,123 in 2019. (Source: Palo Alto Networks)
  - Average downtown increased from 6.2 days in 2018 to 18 days to 2020. (Source: Group IB)

Current Statistics

- **Breach Cost Trends**
  - Average breach cost is $3.92 million.
  - Average cost per personal record $150
  - Average time to identify a breach is 263 days. Source IBM Cost of a Data Breach

Key Risk Trends

People

- Social Engineering – The act of tricking you through social interaction to perform an action or disclose information to a cyber criminal.
  - Actions are such things as:
    - **Clicking on Links**
    - **Downloading and Executing a File**
    - **Opening a Microsoft Office type document or pdf**
    - **Submitting information into a form**
    - **Providing information over the phone**

Ransomware

- Cyber Extortion has become one of the biggest and greatest threats to businesses and individuals.
- Ransomware = Cyber extortion
- Ransomware may be designed to:
  - Encrypt all data or systems on the network it can reach.
  - Take down systems by way of denial of service attacks.
  - Threaten to expose sensitive information – Social Security Numbers, Credit Card Numbers, etc.
- It is evolving to become more targeted

Ransomware

```
686l0tek69-HOW-TO-DECRYPT.txt - Notepad
File Edit Format View Help
--=== Welcome. Again. ===---

[+] Whats Happen? [+]

Your files are encrypted, and currently unavailable. You can check it: all files on you computer has expansion
By the way, everything is possible to recover (restore), but you need to follow our instructions. Otherwise, yo

[+] What guarantees? [+]

Its just a business. We absolutely do not care about you and your deals, except getting benefits. If we do not
To check the ability of returning files, You should go to our website. There you can decrypt one file for free
If you will not cooperate with our service - for us, its does not matter. But you will lose your time and data

[+] How to get access on website? [+]

You have two ways:

1) [Recommended] Using a TOR browser!
  a) Download and install TOR browser from this site: https://torproject.org/
  b) Open our website: http://aplebzu47wgazapdqks6vrcv6zcnjppkbxbr6wketf56nf6aq2nmyoyd.onion/913AED0B5FE1497D

2) If TOR blocked in your country, try to use VPN! But you can use our secondary website. For this:
  a) Open your any browser (Chrome, Firefox, Opera, IE, Edge)
  b) Open our secondary website: http://decryptor.top/913AED0B5FE1497D

Warning: secondary website can be blocked, thats why first variant much better and more available.

When you open our website, put the following data in the input form:
Key:
```

9JpIgHnjU8D2wxKv5VQL7Tzcqz3S7QfHa8MQu08BQEDoV1BAX5JkhuiFAQ+Q072D
yjogTHsvHFTiC8XJoDvmPKkCs+sJoM918+6Z7iFG7aOrV9Nexe3Qux2tfCwS3K9R
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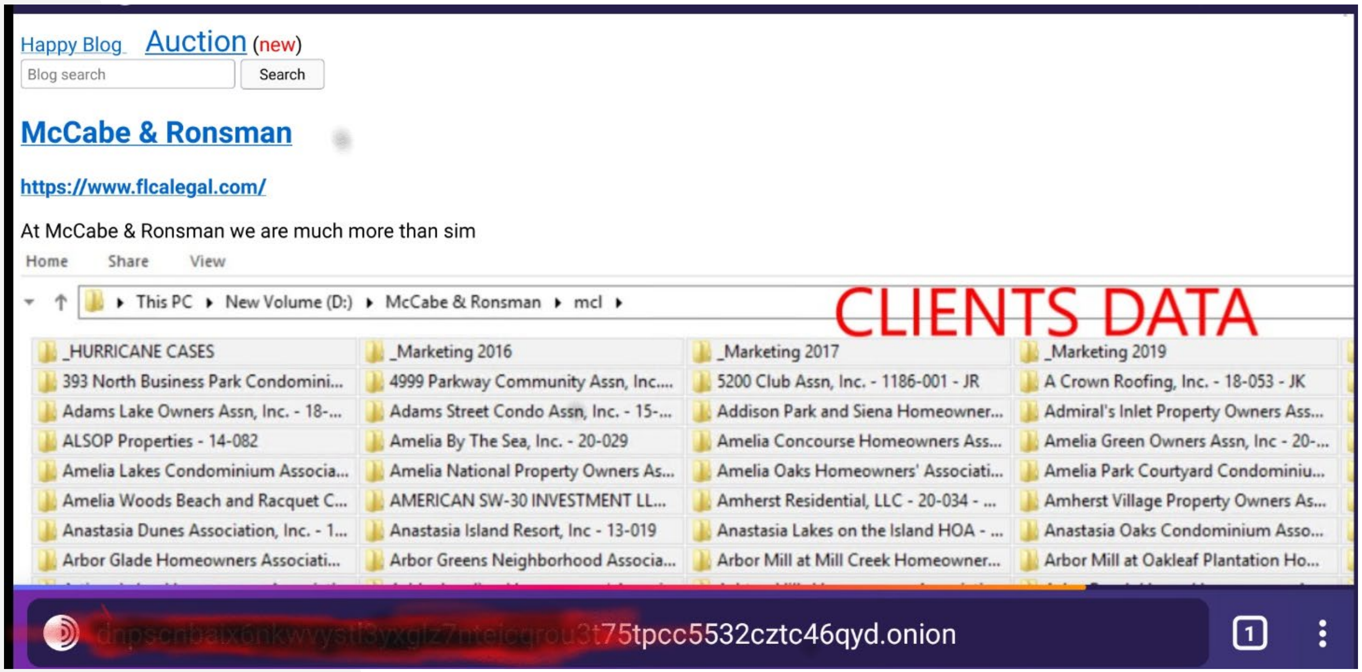
Ransomware


Happy Blog
Auction (new)
Blog search
Search
McCabe & Ronsman
https://www.flcalegal.com/
At McCabe & Ronsman we are much more than sim
Home
Share
View
This PC
New Volume (D:)
McCabe & Ronsman
mcl
CLIENTS DATA
_HURRICANE CASES
_Marketing 2016
_Marketing 2017
_Marketing 2019
393 North Business Park Condomini...
4999 Parkway Community Assn, Inc....
5200 Club Assn, Inc. - 1186-001 - JR
A Crown Roofing, Inc. - 18-053 - JK
Adams Lake Owners Assn, Inc. - 18-...
Adams Street Condo Assn, Inc. - 15-...
Addison Park and Siena Homeowner...
Admiral's Inlet Property Owners Ass...
ALSOP Properties - 14-082
Amelia By The Sea, Inc. - 20-029
Amelia Concourse Homeowners Ass...
Amelia Green Owners Assn, Inc - 20-...
Amelia Lakes Condominium Associa...
Amelia National Property Owners As...
Amelia Oaks Homeowners' Associati...
Amelia Park Courtyard Condominiu...
Amelia Woods Beach and Racquet C...
AMERICAN SW-30 INVESTMENT LL...
Amherst Residential, LLC - 20-034 - ...
Amherst Village Property Owners As...
Anastasia Dunes Association, Inc. - 1...
Anastasia Island Resort, Inc - 13-019
Anastasia Lakes on the Island HOA - ...
Anastasia Oaks Condominium Asso...
Arbor Glade Homeowners Associati...
Arbor Greens Neighborhood Associa...
Arbor Mill at Mill Creek Homeowner...
Arbor Mill at Oakleaf Plantation Ho...
t75tpcc5532cztc46qyd.onion

Ransomware

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS
ESTABLISHED IN 1891

Lessons Learned

- **Business Considerations**
  - New Technologies – Rapid deployment of new technologies may introduce new risks
  - Clear Communication and Awareness Training –What can't be controlled by technical mechanisms, needs to be controlled by clear communication of expectations and awareness
    - Revisit and refine the remote access policy
    - Authorized applications – Prevent Shadow IT
    - Authorized storage locations

Lessons Learned

Business Considerations

- **Multi-Factor Authentication –** If not already implemented, plan to implement.
  - **Move away from supporting SMS (text messaging) and Self Service Password Reset questions.**
- **Endpoint Control and Visibility –** Ensure key employees have Company provided equipment that you control and maintain protection.
- **Be Data Centric:**
  - **Know your Data – Map all data flows and be able to clearly define the data you process, why you process it, how you store it, how you transfer it, and how you will eventually delete it.**
  - **Value your Data – Classify your data. Not all data is created equal and has the same inherent risk.**

Lessons Learned

- **Business Considerations**
  - **Out of Band Verification –**
    - Help Desk Verification of Employees
    - Finance verification of vendors
  - **Improved and updated contingency planning**
    - Establish remote work and learning drills/test days.
    - System recovery testing
    - Incident response

Third Party Due Diligence

Third Party Due Diligence

- Any supplier or connection to your environment is an exposure point.
- Vendor and Supply chain management and monitoring is critical.
- Vendors are a means to delegate a task. Responsibility will always remain with the organization and cannot be delegated.
  - Issue security based questionnaires.
  - Obtain and Review a vendor's Service Organization Control Report (SOC) 1 or 2.
  - **Evaluate the sufficiency of the technical teams doing the due diligence.**

Cybersecurity Playbook

- Senior Management/Board oversight and support is key
  - Make cybersecurity an agenda item.
- Do not underestimate your cyber risk and fraud exposure – SIZE DOES NOT MATTER!
- Do not assume that information security is an IT issue alone.
  - IT Security is a business issue that requires the assistance of a technical solution
- Establish or verify you have a well defined IT security governance and risk assessment/management program.

Cybersecurity Playbook

- Ensure you have a resource that is responsible for the cybersecurity program and can effectively communicate cyber risks in understandable terms.
- Value and classify your data.
- Ensure you have strong procedures around the electronic transfer or movement of money.
- Ensure your e-mail security appliances are effectively configured to detect malicious e-mails.

Cybersecurity Playbook

- Provide routine security awareness training.
- Perform due diligence on all third parties.
- Use two-factor authentication when possible.
- Isolate key assets and data.

Cybersecurity Playbook

- Provide users the minimum privileges necessary
- Separate incompatible roles OR provide independent reviews and reconciliations
- Ensure vendor patches are up-to-date and installed consistently and timely
- Antivirus is installed, active and up-to-date.
- Network devices (firewalls) are configured correctly and securely.

Cybersecurity Playbook

- Develop effective monitoring and sufficient logging (operational and security)
- Publish a backup, disaster recovery and incident response strategy that is aligned to the organization's needs.
- Publish a mobile device strategy.

Cybersecurity Playbook

- Have an independent IT cyber/security assessment.

Contact Information

Contact Info:

Thomas J. DeMayo, CISSP, CISA, CIPP/US, CRISC, CEH, CHFI, CCFE
Principal, Cybersecurity and Privacy Advisory
P: 646.449.6353
E: tdemayo@pkfod.com

2021 National Labor Union Conference

JUNE 17, 2021

2021 Tax Update

JEFFREY W. LEWIS, CPA, CFE | PARTNER
CALIBRE CPA GROUP, PLLC

Agenda for Today

- Taxpayer First Act
- PATH Act – IRS Form 1099-NEC
- Consolidated Appropriations Act
- American Rescue Plan Act
- Section 512(a)(7) Repeal – IRS Form 990-T
- Steps for Executive Review of IRS Form 990
- Unclaimed Property

Taxpayer First Act - Summary

- The Taxpayer First Act, which was enacted July 1, 2019.
- Requires all tax-exempt organizations to electronically file information returns and related forms (Form 990 Series).
- For tax years ending July 31, 2020 (and later), IRS Form 990 must be filed electronically.
- The electronic filing mandate is delayed for small exempt organizations eligible to file IRS Form 990-EZ. For tax years ending July 31, 2021 (and later), IRS Form 990-EZ must be filed electronically. Generally, organizations with annual gross receipts of less than $200,000 and total assets of $500,000 at year end are eligible to file IRS Form 990-EZ.

Taxpayer First Act Summary

- Organizations may request a waiver of the electronic filing requirement due to undue hardship, and the request must be made in writing (IRS Notice 2010-13).
- Organizations that fail to file electronically will be deemed to have failed to file the return, and could be subject to failure to file penalties.

IRS Form 1099-NEC

- The PATH Act accelerated the due date for filing IRS Form 1099 that includes nonemployee compensation (NEC) from February 28 to January 31, and eliminated the automatic 30 day extension for forms that include NEC.
- File IRS Form 1099-NEC, to report non-employee compensation for each person your organization has paid at least $600 for services performed by an individual in the course of business during the calendar year.
- The 1099 reporting exemption for payments made to corporations still exists for 1099-NEC filing requirements.
- Issue with State matching, leading to additional state filing requirements.

Consolidated Appropriations Act of 2021

Extends and expands the eligibility of the refundable employee retention credit ("ERC"), originally included as part of the CARES Act.

Updates from CARES Act provisions:

- Covers qualified wages paid between December 30, 2020 and July 1, 2021.
- Definition of "Eligible Employer" now includes an employer whose operations were fully or partially suspended due to a COVID-19 related shut down order, or an employer whose gross receipts declined by 20% (as compared to 50% under the CARES Act) or more, compared to the same quarter in 2019.
- For tax-exempt organizations, the Consolidated Appropriations Act clarified that "gross receipts" are defined under Section 6033, which includes investment income.

Consolidated Appropriations Act of 2021

- The Internal Revenue Service has clarified that eligibility for the Employee Retention Credit would not be affected by the Payroll Protection Loan Program (“PPP”), however only qualified wages not counted in obtaining PPP loan forgiveness will count towards ERC eligibility.
- Small employers under the ERC are now defined as having 500 or less full-time employees in 2019, as opposed to 100 or fewer full-time employees as defined under the CARES Act.
- For qualifying small employers, the ERC is based on all wages paid to employees during the period of suspended activities or significant decline in gross receipts.
- For qualifying large employers, the ERC is allowed only for wages paid to an employee for time the employee is not providing services.

Consolidated Appropriations Act of 2021

How to Calculate:
The credit equals 70% of up to $10,000 in qualified wages paid, per employee, per quarter, with a maximum allowed credit of $14,000, as compared to $5,000 per employee for all of 2020.

Example: An eligible employer pays Employee $15,000 in qualified wages during Quarter 1 2021 and $5,000 in Quarter 2 2021. The ERC would be $7,000 in Quarter 1 and $3,500 in Quarter 2.

How to Report:

- ERC is still claimed on employer's Quarterly employment tax return (IRS Form 941).

American Rescue Plan Act of 2021

- Signed into law on March 11, 2021.
- Provides tax relief for employers and employees by further extending the expanded provisions originally included in the Families First Coronavirus Relief Act (FFCRA), Coronavirus Aid, Relief and Economic Security Act (CARES), and the Consolidated Appropriations Act.
- Further extends the employee retention credit to cover qualified wages paid July 1, 2021 through December 31, 2021.
- For wages paid after July 1, 2021, the employee retention credit is allowed only against the employer's Medicare tax under Code Section 3111(b). Wages paid between March 12, 2020 and June 30, 2021 qualified for an employee retention credit against OASDI tax.
- Tax credits for paid sick leave or family medical leave provided under FFCRA are extended for paid sick leave and family medical leave wages paid from April 1, 2021 through September 30, 2021.

American Rescue Plan Act of 2021

- Under the ARPA extension, eligible employers can claim a refundable credit against the employer's portion of Medicare tax for required sick leave or family leave paid to an employee who is unable to work due to the Coronavirus.
- In calculating the qualified sick leave credit, the amount of qualified sick leave wages is limited to $511 per day and $5,110 in total per employee, if that employee is unable to work or telework due to:
  - Federal, state or local quarantine or isolation orders related to COVID-19,
  - Has been advised by a health care provider to self-quarantine due to COVID-19 related concerns,
  - Is experiencing symptoms of COVID-19 and seeking a medical diagnosis.
  - Includes paid time off for COVID-19 vaccination and recovery time associated with the vaccination process.

American Rescue Plan Act of 2021

- The amount of qualified sick leave wages is further limited to $200 per day ($2,000 in the aggregate) per employee if the employee cannot work or telework because he or she:
  - is caring for an individual who is subject to a quarantine or isolation order related to COVID-19 or has been advised to self quarantine due to COVID-19-related concerns;
  - is caring for his or her child whose school or place of care has been closed, or whose care provider is unavailable, due to COVID-19 precautions; or
  - is experiencing a substantially similar condition specified by the U.S. Department of Health and Human Services (in consultation with the Treasury Department and Labor Department).

- Immediate Action – Employers should actively monitor and carefully evaluate its eligibility for these credits.

Section 512(a)(7)

Repeal IRS Form 990-T

- The Taxpayer Certainty and Disaster Relief Act of 2019 repealed Section 512(a)(7) of the Tax Cuts and Jobs Act that created UBTI for many exempt organizations for parking benefits.
- Reminder that an amended IRS Form 990-T must be filed in order to claim a refund for any tax paid subsequently repealed.
- Statute of limitations – claim for refund typically must be made within three-year period from original due date or timely filed extended due date.

Steps for Executive Review of Form 990

The Initial Overview:

When first approaching the Form 990, a high-level overview will provide a sense for what the organization is all about and help determine areas of the form that warrant deeper review. As a best practice, when you review, ask yourself:

- Are all the parts fully completed?
- Are all the questions in Parts IV, V, and VI answered?
- If any part of the return or attached schedules is left blank, do you know why?
- Is the return neat? A sloppy return with misspellings and typographical errors may create the impression that it was ill-prepared and that the data is suspect.
- For many organizations, the Form 990 and LM are the only documents available for members, so extremely important that all information accurately reflects the organization and its operations.

Unclaimed Property

- States have expanded their efforts to broaden and enforce unclaimed property laws to ensure that abandoned assets or unclaimed funds are returned to their rightful owner(s).
- These efforts by the states also aim to relieve organizations of the burden and liability of carrying or maintaining the asset or property, but can also subject those organizations to penalty if they fail to regularly review its records to identify and report whether it holds any applicable property.
- Some states have "negative" reporting requirements (DC), which maintains that the organization must disclose to the state that it has reviewed its records, and no reportable assets exist.
- Typical unclaimed assets would consist of uncashed checks, security deposits, inactive accounts, refunds. Rules of what constitute an unclaimed asset vary between states and how long the asset has been unclaimed or inactive.

Questions & Answers

2021 National Labor Union Virtual Conference ~Annual Update~

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JUNE 17, 2021

CALIBRE
CPA GROUP

Washington, DC	(202) 331-9880
Chicago, IL	(312) 655-0037
New York, NY	(212) 695-1300
Los Angeles, CA	(213) 341-4684