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Audit and Tax Update for Nonprofits

February 3, 2026



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Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- There will be 4 polling questions throughout the presentation. You must respond to a minimum of 3 to receive the full 1 CPE credit.
- ****Both requirements must be met to receive CPE credit.****



2026 Themes



Increased efficiency – minimizing inputs to enhance impact



Compliance that adds value – not just checks a box



Help safeguarding their greatest assets



Guidance navigating change with foresight

Learning Objectives

- Recall key changes in the single audit
- Recognize shifting trends in grant and donor funding
- Identify core cash reserve strategies for financial stability
- Identify how stakeholders interpret and use Form 990
- Recognize OBBBA impacts on donor deductions, employee and contractor payments, contribution and giving strategies



Today's Presenters



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Polling Question

How favorable are current U.S. economic conditions for your organization?

- 5 = Very favorable
- 4 = Favorable
- 3 = Neutral
- 2 = Unfavorable
- 1 = Very unfavorable

CREATING
OPPORTUNITIES
FOR OUR
CLIENTS



3,600+
MEMBERSHIPS AND
ASSOCIATIONS

3,800+
SOCIAL SERVICE
AGENCIES

2,300+
FOUNDATIONS

750+
PRIVATE AND
INDEPENDENT SCHOOLS

12,400+
NONPROFITS

1,600+
RELIGIOUS
ORGANIZATIONS

350+
ARTS AND CULTURAL
ORGANIZATIONS

70+

YEARS OF EXPERIENCE

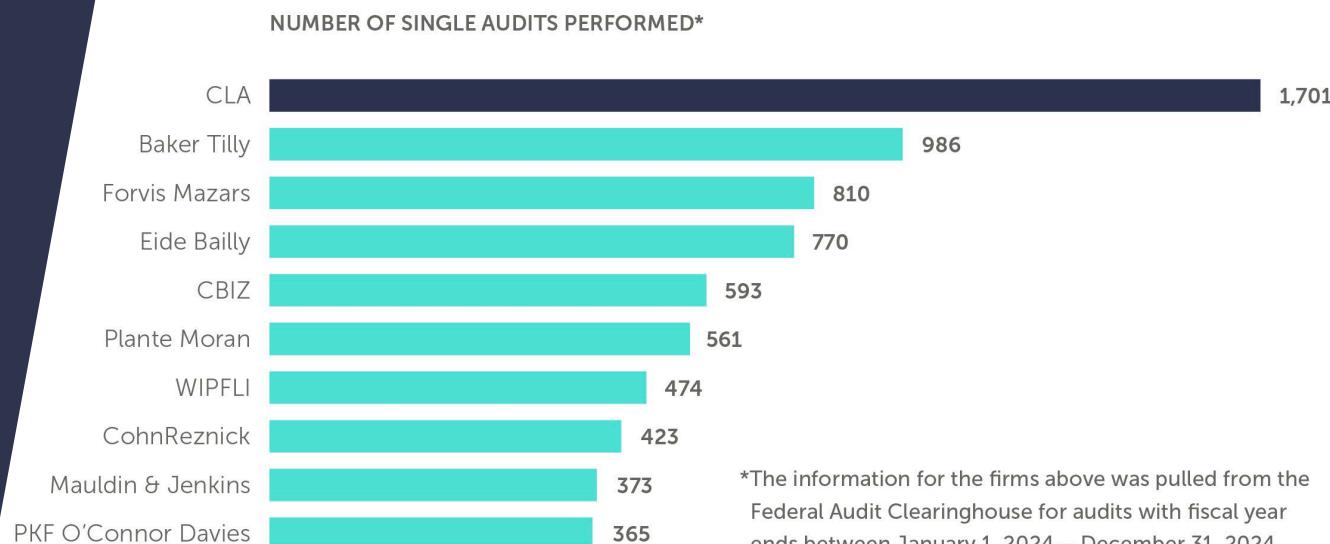
900+
PROFESSIONALS

PROVIDING WEALTH
ADVISORY, DIGITAL, AUDIT,
TAX, CONSULTING, AND
OUTSOURCING SERVICES



CLA Performs the Largest Number of Single Audits in the United States

We audited \$249 billion dollars in federal funds expended in 2024. The chart below illustrates CLA's experience in serving organizations that receive federal funds and demonstrates our firm's dedication to serving the government and nonprofit industry.



Single Audit Updates



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Key Revisions From the 2024 OMB Uniform Guidance

Single audit threshold increased from \$750,000 to \$1,000,000 in annual federal expenditures for fiscal years ending September 30, 2025

The de minimis indirect cost rate increased from 10% to 15% of Modified Total Direct Costs (MTDC)

Subaward exclusion threshold increased from \$25,000 to \$50,000 MTDC

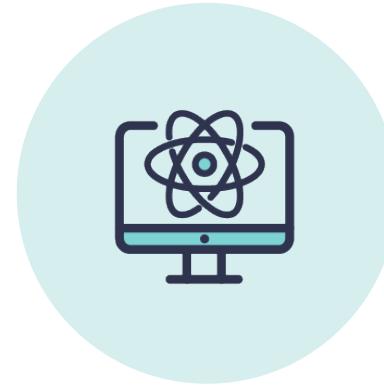
Equipment capitalization threshold increased from \$5,000 to \$10,000



Key Revisions From the 2024 OMB Uniform Guidance



Terminology updates: replaced “non-federal entity” with “recipient” and “subrecipient” throughout guidance



Recipients and subrecipients must now include measures like data encryption and multi-factor authentication in their internal controls

2025 OMB Compliance Supplement Highlights



Part 3 has been split into 3.1 (pre-October 1, 2024 UG) and 3.2 (post-October 1, 2024 UG) to address awards under different rules



All COVID-19 programs have been removed from “higher risk” designation; only two programs remain on list



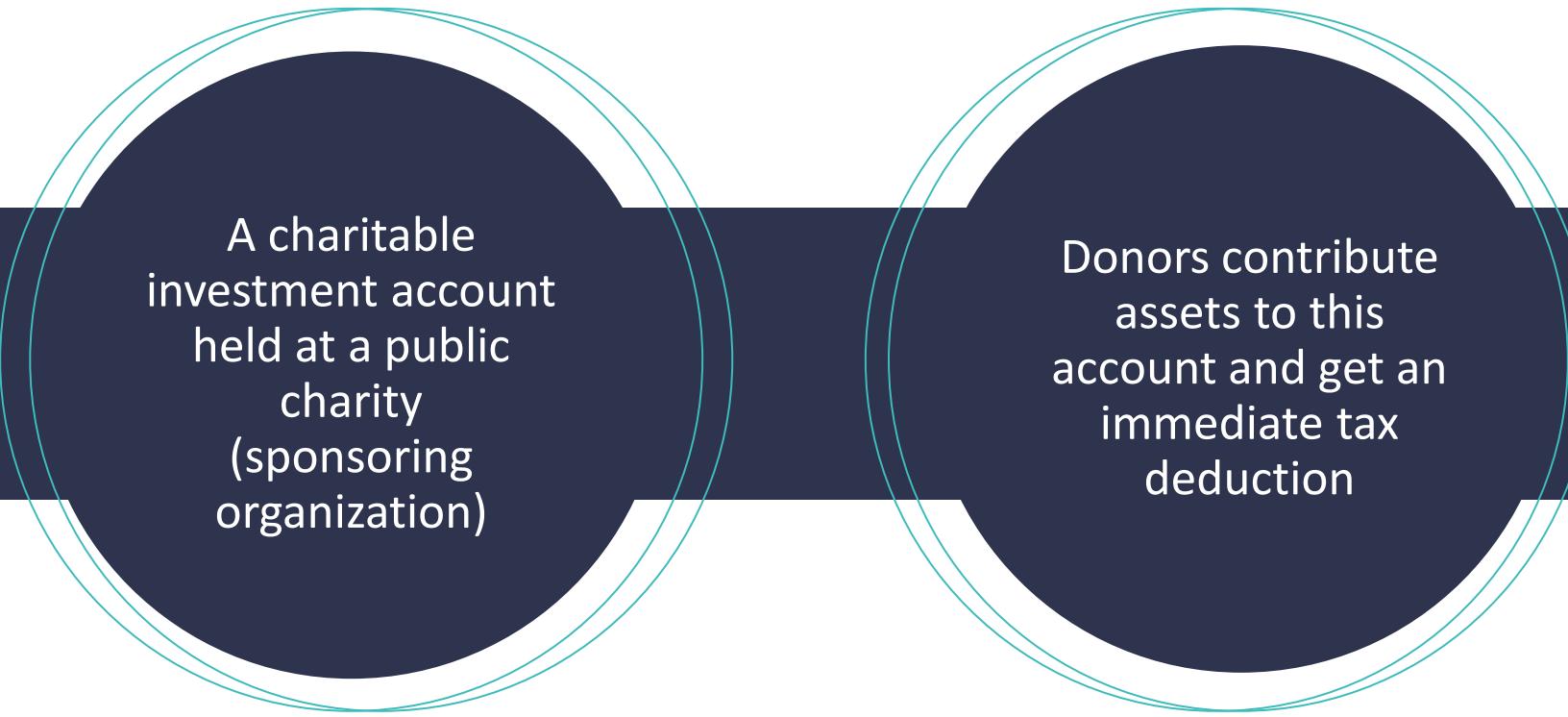
Revised compliance requirements for certain programs; HUD-funded programs and clusters like Student Financial Assistance

Donor Advised Funds



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Donor Advised Funds (DAF)



A charitable investment account held at a public charity (sponsoring organization)

Donors contribute assets to this account and get an immediate tax deduction



DAF Statistics (*\$ in billions except where noted*)

<i>*Amount as shown</i>	2023	2024	% Change
# of DAF accounts	3,009,918	3,562,623	18.4%
DAF sponsors in US	1,293	1,485	14.85%
Total contributions	\$65.29	\$89.64	37.3%
Total grants	\$54.54	\$64.89	19.0%
Total assets	\$255.99	\$326.45	27.5%
Payout rate	24.1%	25.3%	1.3% points
Average DAF account size	\$85,009*	\$91,611*	7.8%

Source: Heist, H. D., Vance-McMullen, D., Williams, J., Shaker, G. G., & Sumsion, R. M. (2025). The annual DAF report 2025. Donor Advised Fund Research Collaborative.

<https://doi.org/10.4087/XUGU3656>



DAF - Traditional Versus Designed for Impact

Traditional approach:

Donors open a DAF at a community foundation or national sponsoring organization and invest their DAF account in traditional publicly traded markets (generally ETFs and Mutual Funds) and make the occasional grant of varying dollar amounts to a handful of charities

Designed for impact:

Utilizing DAF assets to invest outside of traditional public markets using creative grant and capital allocations:

- Program related investments (mission not return focused)
- Mission related investments (return focused, impact driven)
- Loan guarantees
- Micro-loans
- Recoverable grants



DAF – The Opportunity

Allows donors to continue making traditional grants and potentially growing their philanthropic funds while unlocking underutilized DAF capital to enhance the social value that DAFs can generate in addition to traditional returns.



Cash Reserves



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How Much Cash Reserves is Enough?

MONTHS OF CASH ON HAND DATA OVER TIME (FY 2014 - FY 2024)



Source: NFF Nonprofit Finance Fund, 2025, www.nff.org/survey

Polling Question

My organization's cash reserves are:

- 3 months or less
- 4 – 6 months
- Over 6 months
- What's a reserve again?

Types of Cash Reserves



Board designated



Undesignated



Available

Developing a Written Operating Reserve Policy

Review current reserve policy and practices

What to include?

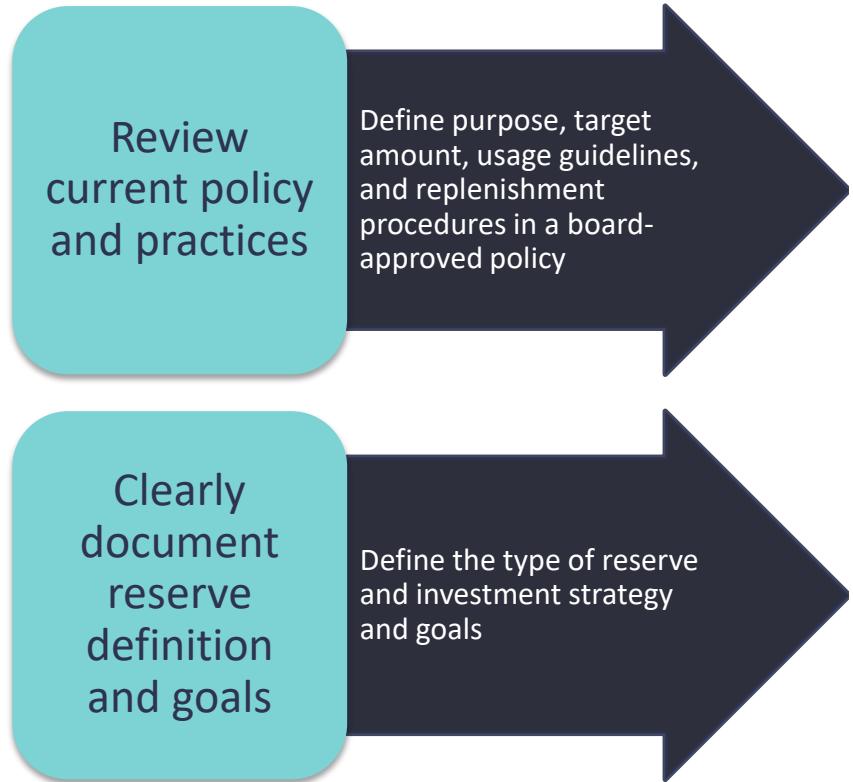
Funding the reserve

Usage and replenishment

Cash flow forecasting and monitoring



Designing an Effective Operating Reserve Policy



Board Designated Operating Reserve Policy Template

I. Statement of Purpose

- Define the operating reserve's purpose and objectives:

[EXAMPLE]

The purpose of the Operating Reserve Policy is to ensure the stability of the organization's mission, programs, and operations by establishing a dedicated reserve fund. This fund provides a cushion against unexpected expenses, revenue shortfalls, or one-time opportunities for the Organization to continuously carry out its mission.

II. Reserve Objectives and Goals

The Board-Designated Operating Reserve Fund is intended to achieve the following objectives:

- To provide internal financial stability during unexpected events, such as sudden loss of funding, uninsured losses, or one-time unbudgeted expenses especially when a previously reliable funding source is reduced or withdrawn.
- For support for one-time, unbudgeted or emergency expenditures. To allow the organization to respond to unanticipated expenses such as sudden increases in operating costs, uninsured losses, or urgent program needs. These funds are intended to address *temporary problems, not structural deficits*.
- To provide assistance in maintaining mission-critical services and employment during financial disruptions.

The target minimum reserve balance should be equal to and include 6 months of average operating costs. Average monthly operating costs include recurring expenses such as salaries, benefits, occupancy, office costs, travel, program expenses, and professional services. Non-cash expenses (e.g., depreciation) and unusual one-time expenses are excluded.



What to Include?



Authorization
policies



Accounting for
the fund



Reporting and
monitoring



Review of
policy

Funding the Reserve



Funding policies

Provides clarity for contributing and building reserve funds



Funding the reserve

Allocate a % of annual surplus (e.g., 10-15%); designated campaign; grants; low-interest loans for initial funding

Usage and Replenishment



Usage

Emergencies (e.g., sudden shortfalls, unexpected major expenses)

Timing issues in receivables

One-time strategic investments (technology, staffing upgrades)

Capacity-building or mission-critical opportunities

Replenishment

Annual budget surplus allocations

Unrestricted bequests or unexpected unrestricted gifts

Board-designated transfers from year-end positive results

Small percentage (e.g., 1 – 5%) of on-going unrestricted revenue

Cash Flow Forecasting and Monitoring

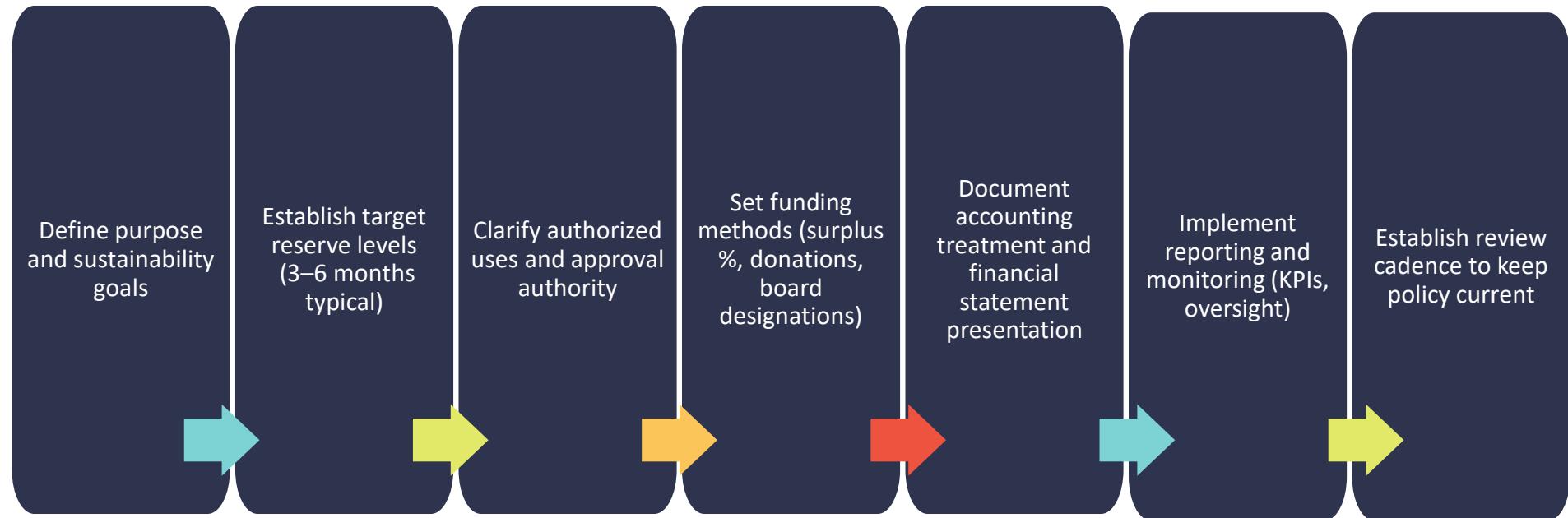


Cash flow
forecasting



Cash flow
monitoring

Cash Reserve Policy – Key Development Steps





Aligning Financial Statement and Form 990 Disclosures



Aligning Financial Statements with Form 990

Financial statement disclosure (GAAP)

The Organization's mission is to partner with communities to catalyze inclusive entrepreneurial ecosystems and support the creation of prosperous economies.

Major activities during the year included training programs, community outreach, and support services for entrepreneurs.

Form 990 disclosure (part I, line 1 or schedule O)

Mission: To partner with communities to catalyze inclusive entrepreneurial ecosystems and support the creation of prosperous economies. The Organization provides training programs, outreach activities, and entrepreneur support services.



Aligning Financial Statements with Form 990

Financial statement disclosure (GAAP)

The Organization recognizes contribution revenue when an unconditional promise to give is received. Conditional grants are recorded as revenue when barriers to entitlement are overcome. Exchange transaction revenue is recognized when performance obligations are satisfied.

Form 990 disclosure (part I, line 1 or schedule O)

The Organization reports contribution revenue when received as unrestricted, temporarily restricted, or restricted based on donor intent. Revenue from exchange transactions is reported in Part VIII and reflects amounts earned when services are provided.





Why Are My 990 and Financial Statements *Different?*



Reconciling the 990 and Financial Statements

Net income + beginning NA = ending NA (page 12 of 990)

Reconciliation of AFS with 990 revenue and expenses (sch D)

Talk to your tax advisor



Reconciling the 990 and Financial Statements

Form 990 (2025)

Page 12

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1
2	Total expenses (must equal Part IX, column (A), line 25)	2
3	Revenue less expenses. Subtract line 2 from line 1	3
4	Net assets or fund balances at beginning of year (must equal Part X, line 32, column (A))	4
5	Net unrealized gains (losses) on investments	5
6	Donated services and use of facilities	6
7	Investment expenses	7
8	Prior period adjustments	8
9	Other changes in net assets or fund balances (explain on Schedule O)	9
10	Net assets or fund balances at end of year. Combine lines 3 through 9 (must equal Part X, line 32, column (B))	10



Reconciling With Audited Financial Statements

Schedule D (Form 990) (Rev. 12-2024)

Page 4

Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.

1	Total revenue, gains, and other support per audited financial statements	1
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12:	
a	Net unrealized gains (losses) on investments	2a
b	Donated services and use of facilities	2b
c	Recoveries of prior year grants	2c
d	Other (Describe in Part XIII.)	2d
e	Add lines 2a through 2d	2e
3	Subtract line 2e from line 1	3
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1:	
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a
b	Other (Describe in Part XIII.)	4b
c	Add lines 4a and 4b	4c
5	Total revenue. Add lines 3 and 4c. (This must equal Form 990, Part I, line 12.)	5



2026 Tax Changes for Nonprofits



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Charitable Deduction Changes



Individual charitable contribution deduction for non-itemizers



Individual charitable contribution **0.5%** of AGI floor



Corporate charitable contribution **1%** of taxable income floor

Donors Who Take the Standard Deduction

90% of US households fall into this category

New \$1,000 “above the line” charitable deduction (2026)

- \$2,000 for married filing joint (MFJ) tax returns
- Must be cash contributions to qualified charities (not DAFs)
- No phase outs

Potential tax savings example:

- MFJ couple with \$150,000 household income - \$440 tax savings
- 22% of gift funded with tax dollars

No changes to qualified charitable distributions



Donors Who Itemize

Overall changes to itemized deductions

- Increase to State and Local Tax (SALT) deduction (2025 – 2028)
- Charitable deduction changes
 - Introduction of 0.5% AGI “floor” for charitable deductions (2026)
 - Effective rate cap: 37% bracket taxpayers limited to 35% charitable deduction

Donor tax impact scenarios

- Bunching – via multi-year gift or via a DAF



Corporate Contribution – Deduction Changes

- New 1% floor on charitable contribution deductions
- Example:
 - A corporation with a taxable income of \$1 million.
 - The 1% floor would be \$10,000, meaning the corporation can only deduct charitable contributions that exceed \$10,000.
 - The total deductible amount remains capped at 10% of taxable income, which would be \$100,000.
 - Any contributions below the threshold are not deductible and can be carried forward for up to 5 years.

There is a risk that some companies (motivated by tax benefits) may scale back routine donations. In outreach to corporate team with, acknowledge the new limit and propose larger, planned gifts (or multi-year pledges) that meet the 1% threshold for deductibility.





Employee and Contractor Payments



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New Overtime Tax Deduction

Beginning with the 2025 tax year and continuing through 2028, the *One Big Beautiful Bill Act (OBBA)* introduces a new federal income tax deduction specifically for qualifying overtime pay. This provision allows eligible employees to deduct up to **\$12,500** from their federal taxable income, or **\$25,000** for those filing jointly, based on the *premium portion* of their overtime earnings.



What counts as “premium” overtime pay?

Under the Fair Labor Standards Act (FLSA), overtime pay is typically calculated as “time-and-a-half.” The *premium portion* refers to the extra “half” paid above the employee’s regular hourly rate. Only overtime mandated by the FLSA qualifies for this deduction and overtime earned under state specific laws does **not**.

For example, if an employee’s regular rate is \$15 per hour, the employee’s overtime rate (time and one-half) is \$22.50 per hour.

Only the \$7.50 overtime premium for that hour may be deducted.



New Tips Tax Deduction

Beginning with the 2025 tax year and continuing through 2028, the *One Big Beautiful Bill Act (OBBA)* introduces a new federal income tax deduction specifically for qualifying tips. This provision allows eligible employees to deduct up to **\$12,500** from their federal taxable income, or **\$25,000** for those filing jointly, based on their qualified tips.



What counts as “qualified tips”?

Qualified tips are those that are reported to employers and meet the requirements under the Fair Labor Standards Act (FLSA). The deduction applies only to tips that are properly documented and included in payroll reporting, not to unreported or cash tips.

Eligibility: Only tips that are subject to FLSA rules qualify. Tips earned under state-specific laws or outside the scope of FLSA do **not** qualify for the federal deduction.



Overtime and Tips Tax Deduction Reporting



Employer's payroll processing doesn't change, reporting process does



Notice 2025-62
2025 Forms W-2 and 1099's will **not** be updated to reflect changes
Employers will not be penalized for not reporting this information
Employees can claim the deduction



The deduction is applied when employees file their **Form 1040**, potentially lowering their overall federal tax liability or increasing their refund

Form 1099 MISC and NEC



- Payments for goods and services increased from \$600 to \$2,000.
- Effective for payments made after 1/1/26.

Polling Question

What payroll changes will have the biggest impact on your organization?

- No tax on overtime
- No tax on tips
- Higher 1099 threshold
- None of these

Medicaid and SNAP Changes



OBBBA included significant Medicaid changes



Supplemental Nutrition Assistance Program (SNAP)



Impact to your employees and your organization



Changing Landscape for Nonprofits

A man and a woman are standing in a classroom, looking towards the right. The man is on the left, wearing a brown button-down shirt over a white t-shirt, with a blue lanyard around his neck. The woman is on the right, wearing a dark blue zip-up jacket. The background is blurred, showing other people and classroom furniture.

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Nonprofit Impacts from Policies



Changing domestic and foreign policies



Shifting funding priorities



Overall reductions in federal funding



Tax deductions – Federal and State

Program Accomplishments – What *NOT* To Do

The organization provides programs that support the community

We carry out activities that further our mission throughout the year

We are organized and operated exclusively for exempt purposes



Food Bank Example

General food distribution: collection, warehousing, and distribution of product from local and national food industry donors, community food drives, and purchases to nonprofit agencies with feeding and/or food distribution programs. The food is provided to partner agencies at a greatly reduced cost. The partner agencies provide the food to people in need at no cost. ***64,407,076 pounds of food*** were distributed which provided approximately ***53,672,563 meals.***



Arts Organization Example

- During the tax year, the organization provided accessible arts education programs to youth and adults throughout the county. The program delivered ***412 instructor-led classes*** in visual arts, music, digital media, and theater, serving a total of ***2,835 unduplicated participants***, including ***1,120 students from low-income households*** who received full or partial scholarship support.
- The organization also operated a year-round schedule of community workshops, hosting ***56 free public workshops*** and ***18 family art events***, which collectively drew more than ***9,400 attendees***. To expand arts access for underserved populations, the program partnered with ***12 local schools*** to provide on-site arts enrichment, reaching an additional ***1,760 K-8 students*** with weekly instruction.



Upcoming Accounting Changes



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2025-05 Measurement of Credit Losses for Accounts Receivable and Contract Assets



Effective date

Annual reporting periods
beginning after December 15, 2025

Early adoption is permitted



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Credit Losses for Accounts Receivable and Contract Assets

- Provides a practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets; available to all entities
- Provides an accounting policy election for private entities to consider collection activity after the balance sheet date when estimating expected credit losses for current accounts receivable and current contract assets accounted for under ASC 606



2025-06 Targeted Improvements to the Accounting for Internal-Use Software



Effective date

**Annual reporting periods
beginning after December 15, 2027**

Early adoption is permitted



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- Removes the “project stage” model from ASC 350-40, simplifying the capitalization criteria for internal-use software costs.
- Capitalization of software costs begins only after management has authorized and committed funding, and it is probable that the project will be completed, and the software will be used as intended – “probable-to-complete” threshold
- Significant development uncertainty must be resolved before capitalization
- Website development costs guidance is superseded and incorporated here, streamlining guidance for internal-use software
- Disclosure requirements have been clarified



Polling Question

Would you like a professional at CLA to contact you to discuss how we can help?

- My reserves need help!
- My 990 needs help!
- Yes, I'd like to discuss additional services
- No, I don't need your help at this time

A classroom scene with students raising their hands and a teacher in the background.

Questions?



Thank you!

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