



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

2025 Audit and Tax Updates for Nonprofits

January 30, 2025



The information herein has been provided by CliftonLarsonAllen LLP for general information purposes only. The presentation and related materials, if any, do not implicate any client, advisory, fiduciary, or professional relationship between you and CliftonLarsonAllen LLP and neither CliftonLarsonAllen LLP nor any other person or entity is, in connection with the presentation and/or materials, engaged in rendering auditing, accounting, tax, legal, medical, investment, advisory, consulting, or any other professional service or advice. Neither the presentation nor the materials, if any, should be considered a substitute for your independent investigation and your sound technical business judgment. You or your entity, if applicable, should consult with a professional advisor familiar with your particular factual situation for advice or service concerning any specific matters.

CliftonLarsonAllen LLP is not licensed to practice law, nor does it practice law. The presentation and materials, if any, are for general guidance purposes and not a substitute for compliance obligations. The presentation and/or materials may not be applicable to, or suitable for, your specific circumstances or needs, and may require consultation with counsel, consultants, or advisors if any action is to be contemplated. You should contact your CliftonLarsonAllen LLP or other professional prior to taking any action based upon the information in the presentation or materials provided. CliftonLarsonAllen LLP assumes no obligation to inform you of any changes in laws or other factors that could affect the information contained herein.

Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- There will be 4 knowledge check 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****



Learning Objectives



Describe the importance of operating reserves and how to manage them effectively



Identify recommended practices for functional cost allocations and how it can impact your organization



Recognize concept of going concern and identify signs that may indicate a going concern issue



Identify the rules and requirements surrounding the “public support test” and steps needed to retain public charity status



Discuss donor advised funds and various ways they are impacting the tax-exempt community



Knowledge *Check*

How familiar are you with the topics we are discussing today?

- Very familiar
- Somewhat familiar
- Not familiar at all





Audit Update: Operating Reserves





Purpose

As nonprofit leaders, there is likely a heavy focus on living out your nonprofit's **MISSION**



Sustainability

Ability to carry out activities that will achieve your mission while also developing and maintaining **RESERVES** for mission relevance in future.





Operating Reserves

Reserves are not:

- Excess cash
- Restricted cash
- Endowment fund
- Unrestricted net assets

Reserves are:

- Liquid and available
- Without donor restriction

Why Does Your Organization Need Reserves?

Bridge cash flows

Maintain financial solvency

Weather economic cycles

Fund unexpected opportunities

Protect against unpredictable political behavior

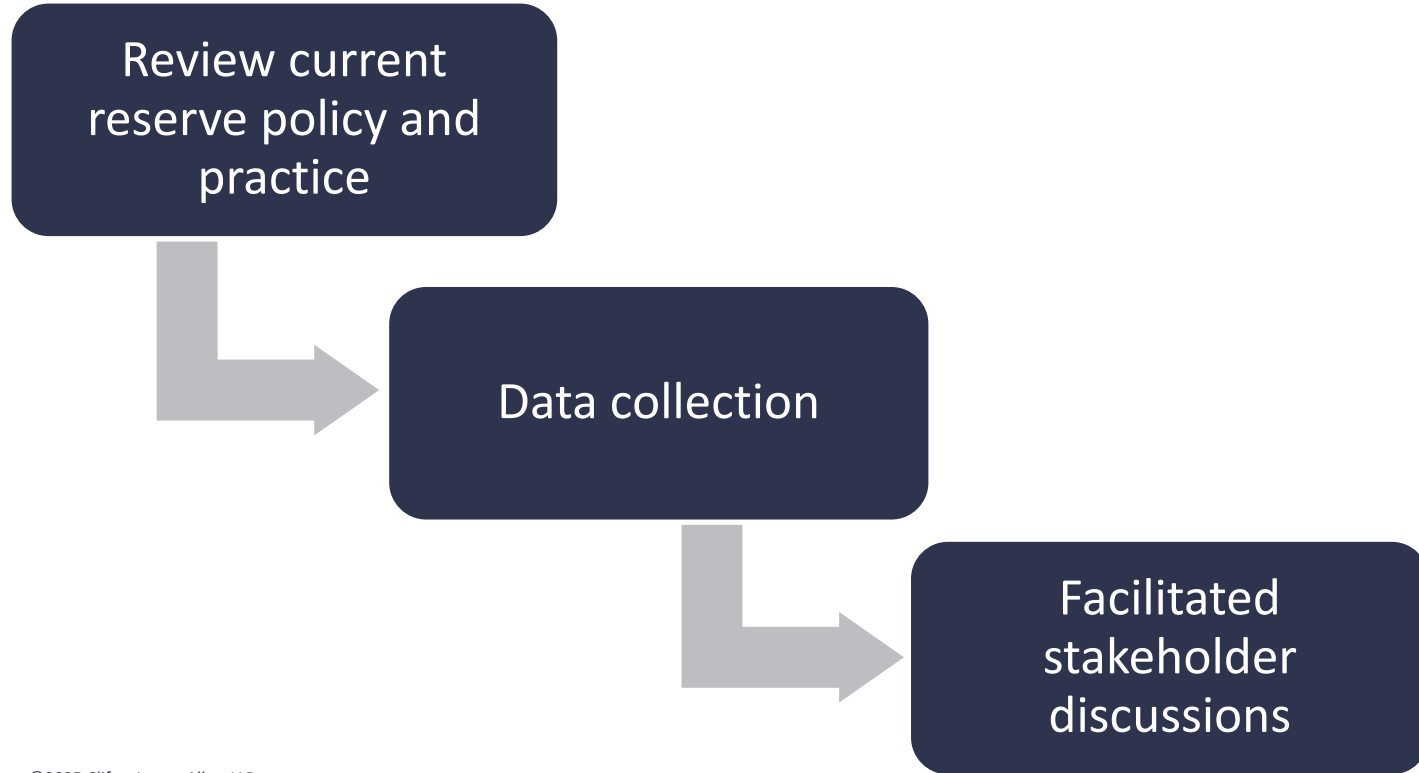
Maintain and purchase productive assets

Drive capacity for new debt to fund major capital needs

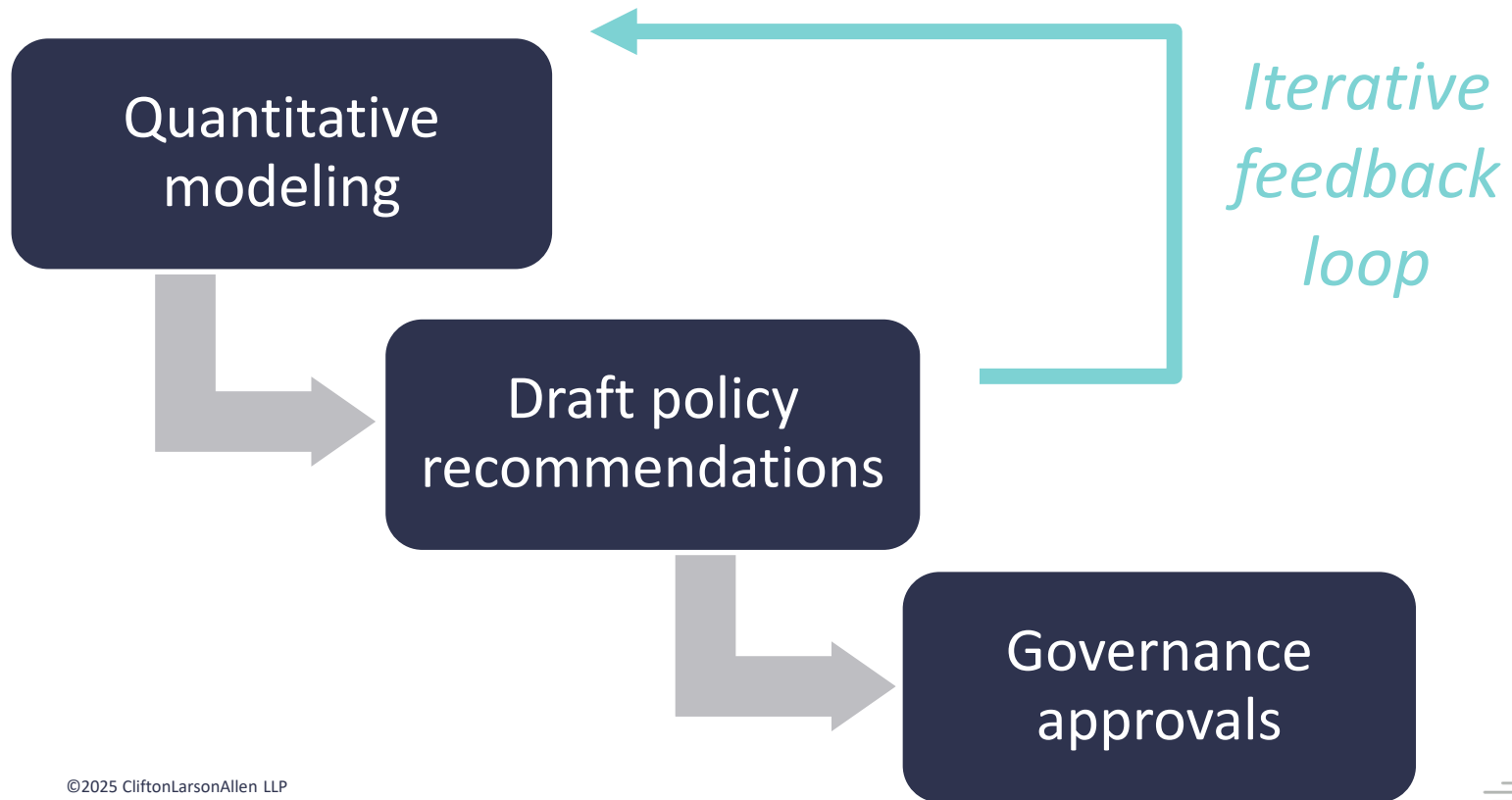
Increasing your capacity through investing in people



Reserve Development Process – Phase 1



Reserve Development Process – Phase 2



Critical Roles and Responsibilities



Management

Executive, Finance, Development

- Develop policies for board approval that clearly outline the nature, use, restrictions, goals and accountabilities associated with operating reserves.

Board, Officers, & Committees

Executive, Finance, Investment Committees

- Review, understand and drive consensus around, reserve policies consistent with their fiduciary role strategic priorities and regulatory compliance. Monitor and update on a periodic basis.

Investment Managers/Advisors

- Responsible for consulting with management and the board/committees to ensure adoption of sound investment policies, strategies and accountable reporting consistent with the intended use and restrictions associated with the underlying funds.

Reserve Policies – What to Include?

Purpose

- Clearly state the reason for building and maintaining the reserves

Definition and Goals:

- Provides clarity around the reserve policy
- Defines the types of reserves, the intended use of the reserves, the calculation and timeline of target amounts
- *May also include an investment strategy for each reserve*

Funding Policies

- Provides clarity for contributing to and building reserve funds



Reserve Policies – What to Include?

Authorization Policies:

- Provides procedures for using funds from each type of reserve fund

Accounting for the Fund

- Describes how reserve funds will be maintained in the accounting system and how the reserve funds will be presented on the financial statements

Reporting and Monitoring

- Describes who is responsible for ensuring that the reserve fund is maintained and used as described in the policy

Review of Policy

- Describes how often will the policy be reviewed by the organization



Audit Update: Functional Cost Allocations



Expense Allocation Methods



Functional

- Required by accounting standards
- Included in audit and 990 and specifically identified on Guidestar
- Used by donors, charity watchdogs, etc.



Indirect Cost Rate

- Required for those with federal contracts
- Specific direction given in Uniform Guidance
- Used by the federal government and tested in single audits



Fully-Loaded

- Optional
- Allocates all expenses to programs to identify true resource requirements
- Used for management and board decision-making

Expense Allocations – Functional Basis



Functional

- Required by accounting standards
- Included in audit and 990 and specifically identified on Guidestar
- Used by donors, charity watchdogs, etc.

- All expenses are identified within three functional categories
 - Program
 - Management and general
 - Fundraising
- IRS requires only that a nonprofit use a reasonable basis for allocating expenses into these 3 categories
- Many organizations use employee time as a key driver of overhead cost allocation

Functional Expense Allocations

Steps to allocate expenses on a functional basis

- 1 Identify your functional categories
- 2 Separate direct and indirect costs
- 3 Assign allocation methods for indirect costs
- 4 Apply allocations of indirect costs to each functional category
- 5 Analyze, report, and defend



Functional Expense Allocations – Indirect Costs

Staff Time



- Salaries and wages
- Employee benefits
- Payroll taxes

Square Footage



- Depreciation
- Interest
- Property insurance
- Utilities

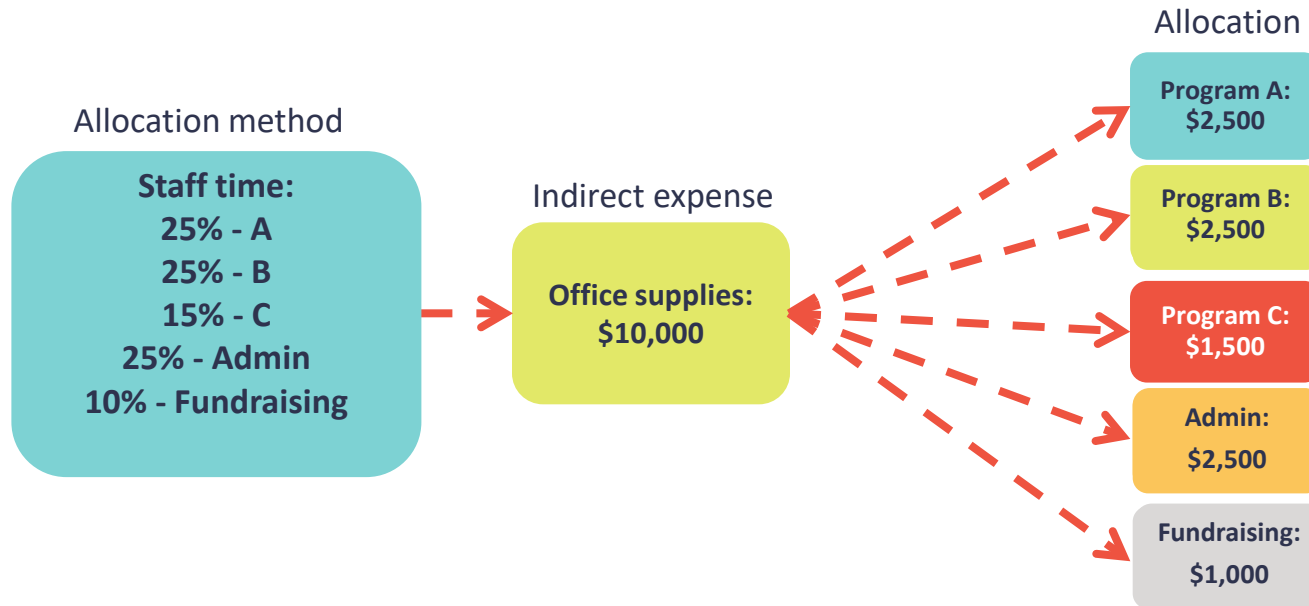
Other



- Advertising
- IT costs
- Meetings and conferences

Functional Expense Allocations – Indirect Costs

Apply allocations to indirect expenses



Expense Allocations – Indirect Cost Rate



Indirect Cost Rate

- Required for those with federal contracts
- Specific direction given through Uniform Guidance
- Used by the Federal Government and tested in Single Audits

- Used for cost reimbursement grants, contracts, and other agreements awarded by the Federal government
- The purpose is to identify what proportion of indirect cost each program should bear
- The rate is a ratio between total indirect expenses and some direct cost base

Indirect Cost Rate Allocations

← Three Basic Methods for Nonprofits →

Simplified

Multiple
rate

Direct
allocation



See 2 CFR Part 200, Subpart E for further information on allocation methodologies



Expense Allocations – Fully-Loaded



Fully-Loaded

- Optional
- Allocates all expenses to programs to identify true resource requirements
- Used for management and board decision-making

- Theoretically assumes that a program cannot run without administrative and fundraising support
- Likewise, it assumes that the administration and fundraising components would not exist other than for the support of programs
- Allows management and boards to identify the “true” cost of each program to make well-informed decisions about:
 - Program expansion
 - Contraction
 - Elimination
 - Subsidies

Fully-Loaded Expense Allocations

Steps to allocate expenses on a fully-loaded basis

1

Identify your program categories
(no G&A or fundraising)

2

Separate out M&G, fundraising
and indirect costs

3

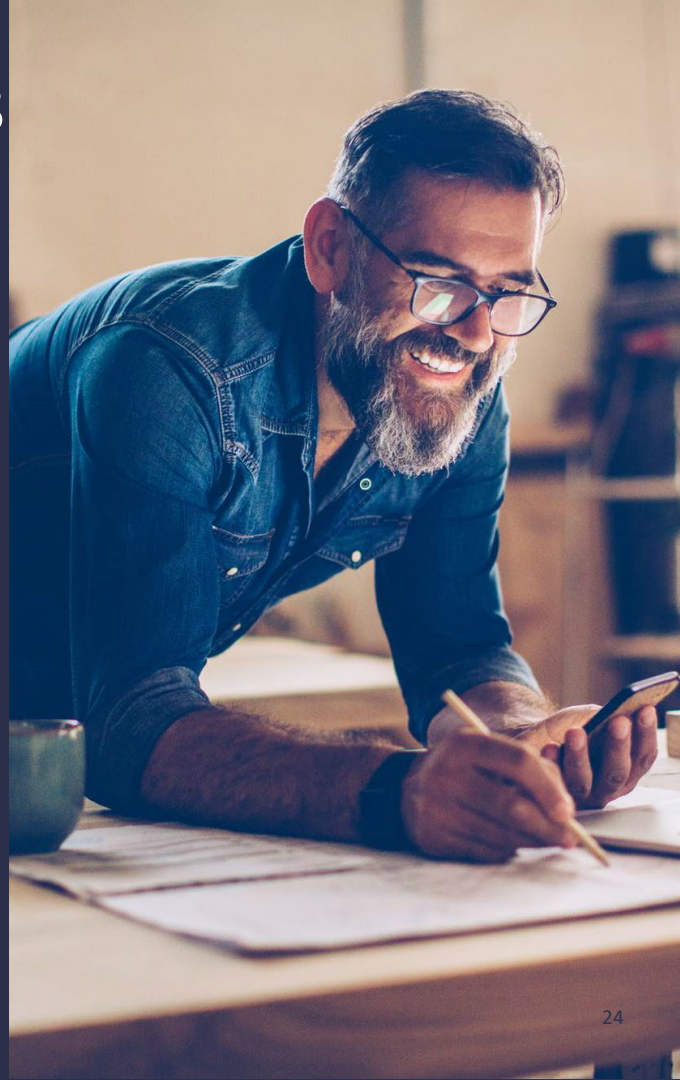
Assign allocation methods for
allocable costs

4

Apply allocations of allocable
costs to each program

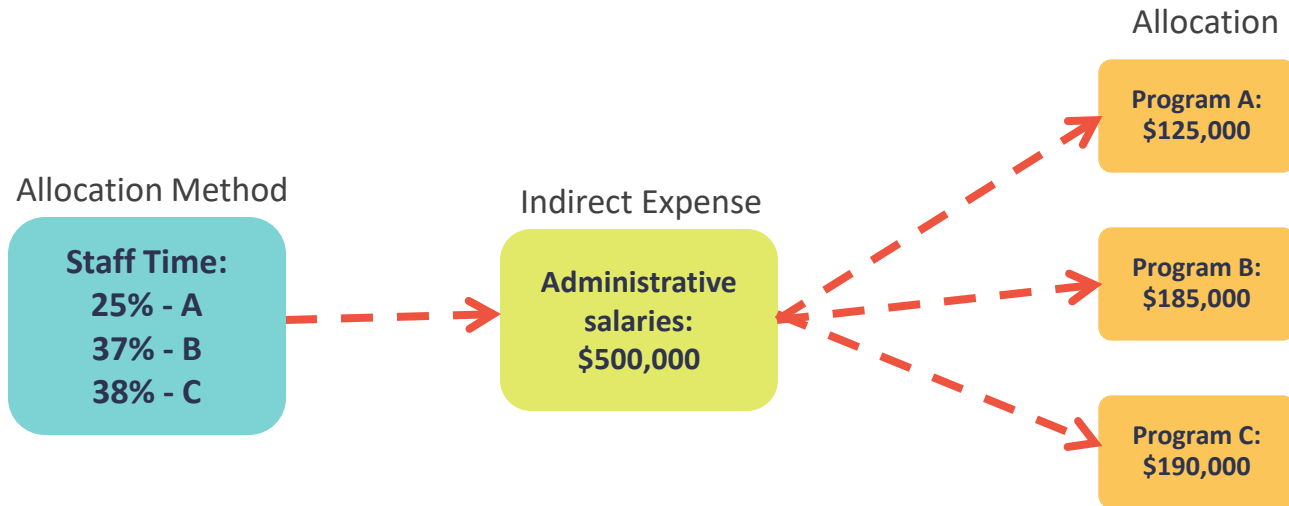
5

Analyze, report, and defend



Fully-Loaded Allocations – Indirect Costs

Apply Allocations to Indirect Expenses



Management and General and Fundraising are no longer functional categories where costs are being allocated to



Program Analysis

Do all programs have to be profitable?

How and how often are programs analyzed for strategic importance?

How does your organization determine if a program should continue?

How does your organization determine / introduce new programs?



Knowledge *Check*

Does your organization utilize fully-loaded expense allocations to analyze programs?

- Yes
- No – but we are interested in doing so
- No – this wouldn't be applicable to us





Audit Update: Going Concern



Going Concern



Substantial doubt



Management's evaluation



Auditor's conclusions

Warning Signs for Nonprofits

Significant debt coming due and/or failing debt covenants

Significant operating losses

Negative cash flows from operations

Loss of significant grant funding

Negative giving trends

Borrowing against endowments

Long-term negative program revenue trends

Negative current ratio



Next Steps

Management Must Explain the Plan

- Plans to address going concern for one year from the audit report date
- Supporting documentation must be provided – cash flow projections, agreements, etc.

Audit Evidence is Required

- Evaluate the reasonableness of audit evidence obtained, including subsequent events
- Conclude whether management's plan will be effectively implemented and on probability plans will mitigate going concerns



Management's Plan

Dispose of assets

Borrow money or
restructure debt

Reduce or delay
expenditures

Obtain new or
additional
funding

Plans to liquidate
shall NOT be
considered

Consider probability of
implementation of these
plans and whether, if
implemented, it will mitigate
the conditions or events



Auditor's Conclusion

Evaluate management's plan

- Analyze cash flow information and forecasts
- Obtain audit support for cash flow forecasts and current financial information
- Evaluate subsequent events, including support for disposal of assets, debt issuance/renewals, etc.
- Request financial support from third-parties



Disclosures and Audit Reporting

Disclose information to help users understand when substantial doubt is alleviated or not

Principal conditions or events that raise substantial doubt
Management's evaluation of the significance of those conditions or events
Management's plans that are intended to mitigate the conditions or events

Audit reporting requirements

If substantial doubt is alleviated, report may include an emphasis of matter paragraph
If substantial doubt is not alleviated, report must include a section with the heading "Substantial Doubt About the Entity's Ability to Continue as a Going Concern"
Also included in governance communication and management representations





Tax Update: Public Support Test



Public Support Test and Public Charity Status



What is a public support test?



What organizations must complete a public support test?



What is the minimum percentage required for an organization to qualify as a publicly supported organization?



What happens if an organization does not pass the public support test?



Schedule A – Public Charity Status and Public Support

SCHEDULE A (Form 990)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

Attach to Form 990 or Form 990-EZ.

Go to www.irs.gov/Form990 for instructions and the latest information.

OMB No. 1545-0047

2023

Open to Public
Inspection

Name of the organization

Employer identification number

Part I Reason for Public Charity Status. (All organizations must complete this part.) See instructions.

The organization is not a private foundation because it is: (For lines 1 through 12, check only one box.)

- 1 A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i)**.
- 2 A school described in **section 170(b)(1)(A)(ii)**. (Attach Schedule E (Form 990).)
- 3 A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii)**.
- 4 A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii)**. Enter the hospital's name, city, and state: _____
- 5 An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv)**. (Complete Part II.)
- 6 A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v)**.
- 7 An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)**. (Complete Part II.)
- 8 A community trust described in **section 170(b)(1)(A)(vi)**. (Complete Part II.)
- 9 An agricultural research organization described in **section 170(b)(1)(A)(ix)** operated in conjunction with a land-grant college or university or a non-land-grant college of agriculture (see instructions). Enter the name, city, and state of the college or university: _____
- 10 An organization that normally receives (1) more than 33¹/₃% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions, subject to certain exceptions; and (2) no more than 33¹/₃% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See **section 509(a)(2)**. (Complete Part III.)



Schedule A, Part II

organization, check this box and stop here

Section C. Computation of Public Support Percentage

14	Public support percentage for 2023 (line 6, column (f), divided by line 11, column (f))	14		%
15	Public support percentage from 2022 Schedule A, Part II, line 14	15		%
16a	33¹/₃% support test—2023. If the organization did not check the box on line 13, and line 14 is 33 ¹ / ₃ % or more, check this box and stop here . The organization qualifies as a publicly supported organization			<input type="checkbox"/>
b	33¹/₃% support test—2022. If the organization did not check a box on line 13 or 16a, and line 15 is 33 ¹ / ₃ % or more, check this box and stop here . The organization qualifies as a publicly supported organization			<input type="checkbox"/>
17a	10%-facts-and-circumstances test—2023. If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the facts-and-circumstances test, check this box and stop here . Explain in Part VI how the organization meets the facts-and-circumstances test. The organization qualifies as a publicly supported organization			<input type="checkbox"/>
b	10%-facts-and-circumstances test—2022. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the facts-and-circumstances test, check this box and stop here . Explain in Part VI how the organization meets the facts-and-circumstances test. The organization qualifies as a publicly supported organization			<input type="checkbox"/>
18	Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions			<input type="checkbox"/>

Schedule A (Form 990) 2023



Schedule A, Part III

organization, check the box and stop here

Section C. Computation of Public Support Percentage

15	Public support percentage for 2023 (line 8, column (f), divided by line 13, column (f))	15		%
16	Public support percentage from 2022 Schedule A, Part III, line 15	16		%

Section D. Computation of Investment Income Percentage

17	Investment income percentage for 2023 (line 10c, column (f), divided by line 13, column (f))	17		%
18	Investment income percentage from 2022 Schedule A, Part III, line 17	18		%
19a	33¹/₃% support tests—2023. If the organization did not check the box on line 14, and line 15 is more than 33 ¹ / ₃ %, and line 17 is not more than 33 ¹ / ₃ %, check this box and stop here . The organization qualifies as a publicly supported organization			<input type="checkbox"/>
b	33¹/₃% support tests—2022. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 ¹ / ₃ %, and line 18 is not more than 33 ¹ / ₃ %, check this box and stop here . The organization qualifies as a publicly supported organization			<input type="checkbox"/>
20	Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions			<input type="checkbox"/>

Schedule A (Form 990) 2023



Areas of Focus and Common Errors

Obtaining support from a broad variety of donors

Obtaining support from government agencies or other public charities

Unusual grants – check out a blog on this topic! [Unusual Grants and Public Charity Status: CLA \(CliftonLarsonAllen\)](#)

Tracking the source of funds

Contributions or program fees from board members or other disqualified persons



Knowledge *Check*

I would like someone from CLA to contact me about:

- Operating reserves
- Functional cost allocations
- Going concern
- Public support
- Donor advised funds





Tax Update: Donor Advised Funds



Donor Advised Fund (DAF)



- A donor advised fund is a philanthropic giving vehicle
- It allows donors to make a charitable contribution and receive an immediate tax deduction
- Donors can then recommend grants from the fund to qualified charities over time

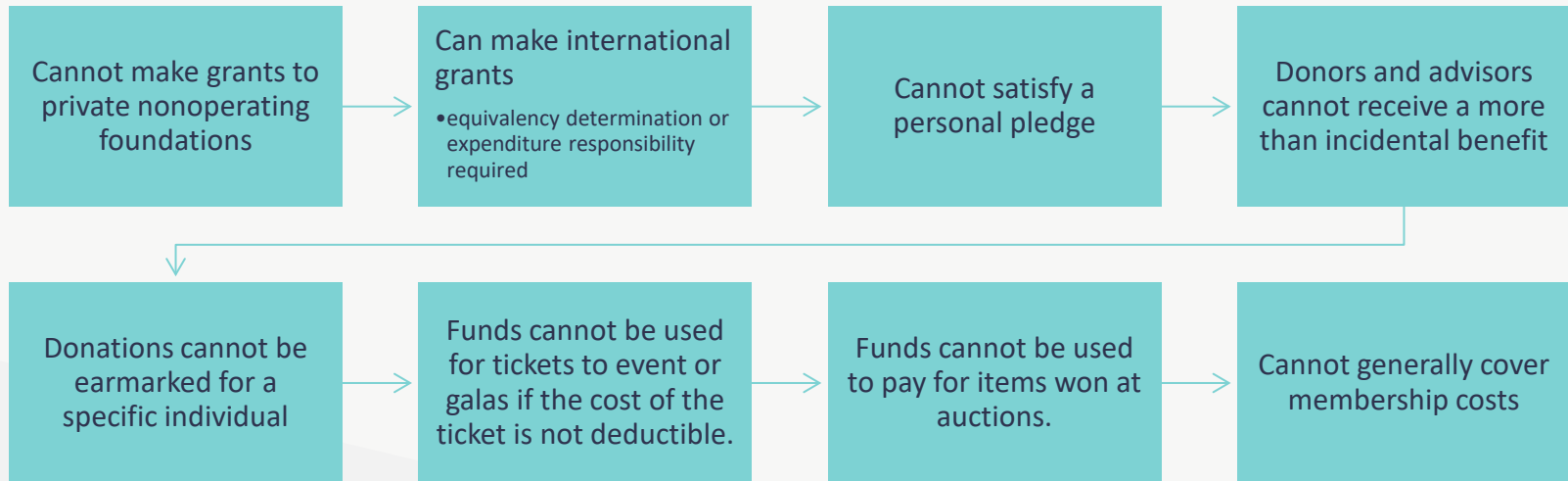


What Can Be Donated into a DAF?

- Cash or cash equivalents
- Cryptocurrency
- Publicly traded securities
- Mutual funds
- Real estate
- Private equity interests
- Hedge fund interests



Limitations on use of DAF's



The following actions cannot be taken by DAFs:



Proposed DAF Regulations

November 14, 2023, the IRS/Treasury Department released proposed regulations:

Regulations sought to limit avoidance of 5% payout requirement

Effective date is year in which regulations go final, which means retroactivity

Broadens definition of relationships that may be considered DAFs and when distributions may occur



2025 IRS Priority Guidance Plan Item #6

Final regulations under §4966 regarding DAF's, including excise taxes on sponsoring organizations and fund management



IRS Priority Guidance Plan 2025



Regulations under §4967 regarding prohibited benefits, including excise taxes on donors, donor advisors, related persons, and fund management



Regulations under §4958 regarding donor advised funds and supporting organizations



Guidance regarding the public-support computation with respect to distributions from donor advised funds

Knowledge *Check*

Did you find the information in this CLA webinar helpful to you and your organization or business?

- Yes
- No



Thank you!

Mallory Good, Principal
mallory.good@CLAconnect.com

Kevin Constantine, Manager
kevin.constantine@CLAconnect.com

Mike Hinsch, Principal
mike.hinsch@CLAconnect.com

Ally Spielvogel
ally.spielvogel@CLAconnect.com

Ann Neil, Director
ann.neil@CLAconnect.com



CLAconnect.com



CPAs | CONSULTANTS | WEALTH ADVISORS

© 2025 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer).
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.