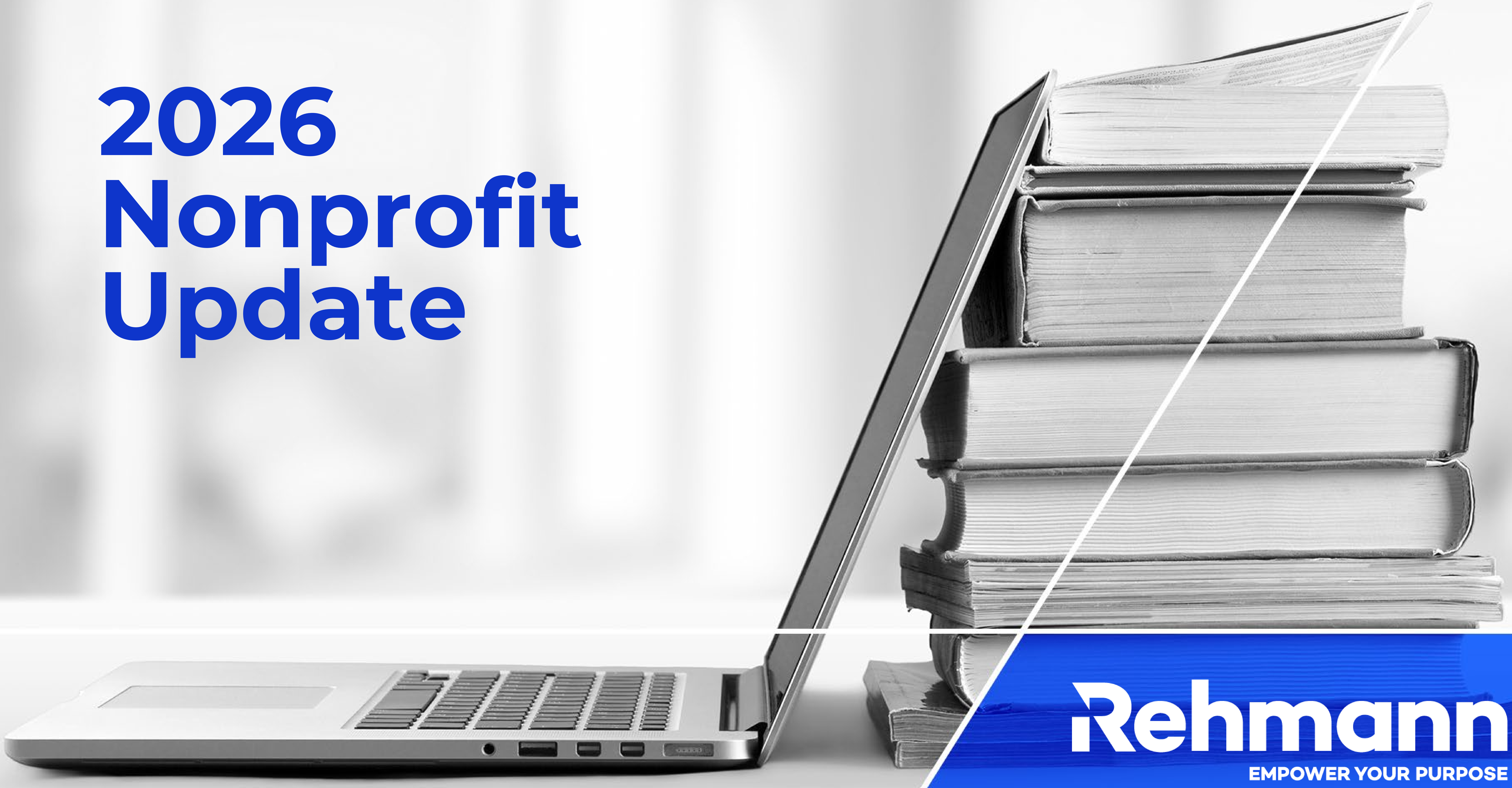
2026 Nonprofit Update



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EMPOWER YOUR PURPOSE

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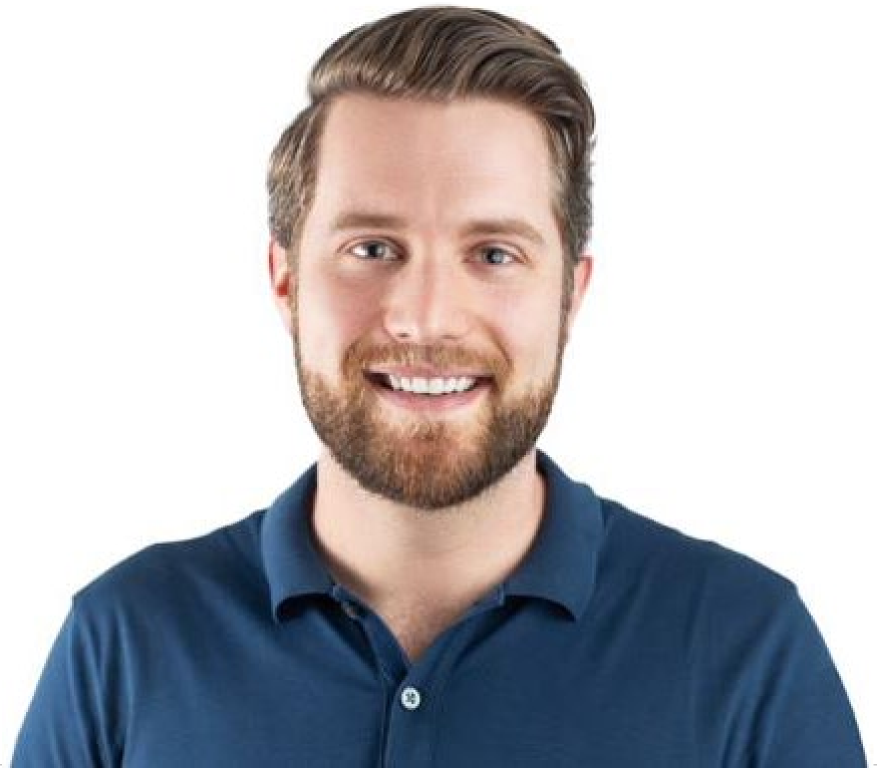

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Our Agenda for Today

- ASU 2025-05 – an update to CECL
- State of the Not-for-Profit Industry
- Tax Update – Exempt Organizations
- HR Legislation on the Horizon

ASU 2025-05

Measurement of Credit Losses for Accounts Receivable and Contract Assets

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Accounting Standards Update

- Key updates to ***Topic 326 – Financial Instruments- Credit Losses*** for Current Expected Credit Losses (CECL)

- Why were changes needed?
  - ❑ Burdensome process for analyzing and documenting macroeconomic data
  - ❑ Costly and complex
  - ❑ Limited perceived benefit
  - ❑ Subsequent collections not a factor

- Effective for annual reporting periods beginning after December 15, 2025. Early adoption permitted.

CECL Refresher

CECL requires the immediate recognition of estimated expected credit losses over the life of a financial instrument, including loans, trade receivables, net investments in leases and certain off-balance sheet credit exposures

Objective

- Reduce complexity in US GAAP by reducing the number of credit impairment models entities use to account for financial instruments
- Provide more timely recognition of losses from impairment of financial instruments
- Disclosures will provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses

In Scope vs. Out of Scope

In Scope

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

Out of Scope

- **Contributions receivable**
- **Investments at fair value**
- Available-for-sale debt securities
- Loans receivables that are held for sale
- Loans and receivables between entities of common control
- Operating lease receivables
- Equity method investments
- Derivatives

Incurred Loss Model vs. Expected Loss Model

Previous Incurred Loss Model

- Losses recorded when probable of being incurred
- No indications of loss = no reserve required
- Historical experience
- Typically applied to past-due amounts (trade receivables)

Expected Loss Model

- No threshold for recognition - all expected credit losses over the life of the instrument recorded on day 1
- Allowance for credit losses is required, even if the risk is remote
- Estimate based on reasonable and supportable forecasts, factoring in historical and current data, as well as forecasts of the future
- Applied to all balances, including current

CECL Steps

Identify assets subject to CECL

Group components with similar risk characteristics into pools

Determine method for measuring losses

Evaluate historical information, current conditions, and reasonable & supportable forecast

Changes from ASU 2025-05

For current accounts receivables and contract assets:

Practical expedient

In developing reasonable and supportable forecasts as part of estimating expected credit losses, **all entities** may elect a practical expedient that assumes that *current conditions as of the balance sheet date do not change for the remaining life of the asset.*

Result: ~~Forecasting future macroeconomic conditions~~

Accounting policy election

An entity **other than a public business entity** that elects the practical expedient is permitted to make an *accounting policy election to consider collection activity after the balance sheet date* when estimating expected credit losses.

Result: Exclude items paid prior to financial statement issuance ☑

If Practical Expedient and Accounting Policy are Elected

Determine subsequent collections through the date the financial statements are available to be issued, or another selected date.

No credit loss allowance on collected items

Determine method for measuring losses, and evaluate historical and current conditions on uncollected items.

Evaluation performed based on the delinquency status as of the date through which collections are assessed

Selected date through which collections are assessed is disclosed in the financial statements.

Example – ASC 326-20-55

- **326-20-55-40 Example 5A:** Practical Expedient and Accounting Policy Election for Estimating Expected Credit Losses on Current Accounts Receivable and Current Contract Assets
- **Case 1:** Election of Practical Expedient

Past-Due Status	Outstanding Receivables Balance	Credit Loss Rate	Expected Credit Loss Estimate
Current	$ 5,984,698	0.3%	$ 17,954
1–30 days past due	8,272	8%	662
31–60 days past due	2,882	26%	749
61–90 days past due	841	58%	488
91–120 days past due	554	82%	454
More than 120 days past due	342	99%	339
Total	$ 5,997,589		$ 20,646

Impact of Collection Date

326-20-55-40L – selected date of **March 1**

Balance Sheet Date 12/31/20X0			Date The Entity Has Selected To Consider Subsequent Collection Activity 3/1/20X1			
Past-Due Status	Outstanding Receivables Balance	Collections between Balance Sheet Date and 3/1/20X1	Remaining Balance Uncollected	Past-Due Status	Credit Loss Rate[a]	Expected Credit Loss Estimate
Current	$ 5,984,698	$ (5,925,118)	$ 59,580	31–60 days past due	26%	$ 15,491
1–30 days past due	8,272	(3,676)	4,596	61–90 days past due	58%	2,666
31–60 days past due	2,882	(441)	2,441	91–120 days past due	82%	2,002
61–90 days past due	841	(300)	541	More than 120 days past due	99%	536
91–120 days past due	554	(149)	405	More than 120 days past due	99%	401
More than 120 days past due	342	(43)	299	More than 120 days past due	99%	296
Total	$ 5,997,589	$ (5,929,727)	$ 67,862			$ 21,392

(a) Credit loss rate based on the collection status as of the date the entity has selected to consider subsequent collection activity.

Impact of Collection Date

326-20-55-40P – selected date of **May 31**

	Balance Sheet Date 12/31/20X0			Date The Entity Has Selected To Consider Subsequent Collection Activity 5/31/20X1		
Past-Due Status	Outstanding Receivables Balance	Collections between Balance Sheet Date and 5/31/20X1	Remaining Balance Uncollected	Past-Due Status	Credit Loss Rate[a]	Expected Credit Loss Estimate
Current	$ 5,984,698	$ (5,968,449)	$ 16,249	More than 120 days past due	99%	$ 16,087
1–30 days past due	8,272	(8,272)	-	More than 120 days past due	99%	-
31–60 days past due	2,882	(2,279)	603	More than 120 days past due	99%	597
61–90 days past due	841	(623)	218	More than 120 days past due	99%	216
91–120 days past due	554	(289)	265	More than 120 days past due	99%	262
More than 120 days past due	342	(145)	197	More than 120 days past due	99%	195
Total	$ 5,997,589	$ (5,980,057)	$ 17,532			$ 17,357

(a) Credit loss rate based on the collection status as of the date the entity has selected to consider subsequent collection activity.

Polling Question #1

After ASU 2025-05 becomes effective, do you anticipate adopting the new optional elections?

- Yes, both!
- Maybe just the practical expedient
- Likely neither
- Not sure yet

STATE OF THE INDUSTRY

TRENDS AND CHALLENGES

1. **Increased Demand and Financial Pressures**
   Nonprofits face growing demand for services amid rising costs and decreased individual donations, creating funding gaps.

2. **Economic and Employment Impact**
   The sector generates over $1.4 trillion and employs nearly 10% of the U.S. private workforce, highlighting its economic importance.

3. **Operational and Workforce Strains**
   Nonprofits experience workforce shortages, staff burnout, and volunteer decline, limiting innovation and growth.

4. **Need for Strategic Adaptation**
   Growing needs and limited resources demand sustainable funding models and proactive strategic planning in nonprofits.

Funding Volatility

- **Decline in Individual Giving**
  - Economic uncertainty and expired tax incentives have led to reduced small donor contributions.
- **Dependence on Government Funding**
  - Heavy reliance on government contracts creates funding risks due to delays and restrictive conditions.
- **Alternative Revenue Strategies**
  - Nonprofits seek corporate sponsorships, grants, and digital campaigns to diversify income streams.
- **Need for Policy Reform and Resilience**
  - Policy changes and diversified funding help nonprofits build resilience against financial volatility.

NAVIGATION THROUGH UNCERTAINTY

Planning ahead is the best path forward in uncertain times. Below are some examples for nonprofits to consider as we head into a new year:

Various Scenarios
Plan for multiple staffing and service-level scenarios so you understand how long funding can sustain operations and can respond quickly to changes

Internal Processes
Identify and streamline internal decision-making processes so you can act quickly in emergencies,

Employee Trust
Share what you know and be upfront with employees

Partnerships
Innovative volunteer engagement and partnerships help offset resource constraints and strengthen service delivery

Effective Technology
Ensure your data systems are clean, fast, and efficiency-focused so you can quickly demonstrate outcomes and support programs under increased scrutiny

Trust and Participation
Transparency, accountability, and clear outcomes help nonprofits maintain trust and inspire involvement.

KEY CHANGES IN UNIFORM GUIDANCE

Beginning October 1, 2024, the Office of Management and Budget (OMB) implemented the most significant overhaul of the Uniform Guidance since 2013, aimed at reducing administrative burden and improving clarity for recipients of federal financial assistance.

INCREASED SINGLE AUDIT THRESHOLD

Entities are now required to undergo a single audit only if they expend **$1 million or more** in federal funds annually.

INCREASED INDIRECT COST RATE

Organizations without a negotiated indirect cost rate can now use a **15% de minimis rate**, and agencies **cannot pressure recipients** to accept a lower rate.

EQUIPMENT THRESHOLD

Equipment threshold increased from **$5,000 to $10,000**.

Polling Question #2

What is the biggest challenge your nonprofit is currently facing?

- Decline in individual giving
- Workforce shortages and burnout
- Dependence on government funding
- Diversifying revenue streams

Tax Update - Exempt Organizations

Section Outline

- Priority Guidance Plan
- One Big Beautiful Bill Act (OB3) Updates
- Form 990 Highlights

2025-2026 Priority Guidance Plan

Current Projects

Section 501(c)(3) Issues:

- Guidance on the application of the fundamental public policy against racial discrimination, including consideration of recent caselaw, in determining the eligibility of private schools for recognition of tax-exempt status under §501(c)(3).
- Guidance on the statutory prohibition in §501(c)(3) against participation or intervention in political campaigns (the “Johnson Amendment”).

OB3 Implementation:

- Regulations under §4968 regarding excise tax based on investment income of certain private colleges and universities.
- Guidance under §4960 regarding excess compensation paid by applicable tax-exempt organizations, including the expanded definition of “covered employee.”
- Guidance under §25F on the income tax credit for contributions of individuals to scholarship granting organizations.

2025-2026 Priority Guidance Plan

Current Projects Continued

Deregulation and Burden Reduction:

- Regulations under §4945 regarding expenditure responsibility requirements.
- Final regulations under §4966 regarding donor advised funds, including excise taxes on sponsoring organizations and fund management. Proposed regulations were published on November 14, 2023.
- Regulations under §6104 regarding the place for public inspection of materials relating to tax-exempt organizations, pensions, and other plans.

Noteworthy Omissions

- Guidance regarding the public-support computation with respect to distributions from donor advised funds.
- Guidance revising Rev. Proc. 80-27 regarding group exemption letters. ***Rev Proc 2026-8 released***
- Regulations under §512 regarding the allocation of expenses in computing unrelated business taxable income and addressing how changes made to §172 net operating losses by section 2303(b) of the CARES Act apply for purposes of §512(a)(6).

OB3 Not-for-Profit Provisions

Executive Compensation

Excise Tax:

- 21% tax on the amount of an employee's compensation exceeding $1 million.
    - Applies to any employee (not just top 5) starting in 2026.
- Tax is paid by the organization, not the individual.
- Larger institutions are the most impacted.
    - Universities, hospitals, foundations, other large NFPs.
- Reported on Form 4720, Schedule N.

OB3 Not-for-Profit Provisions

University Endowment Excise Tax

Introduction of a new, tiered excise tax on net investment income for certain private colleges and universities. The tax rate is determined by the value of an institution's endowment per full-time student.

- Applies if the institution:
  - Is a private, tax-exempt college or university
  - Has at least **3,000 tuition-paying students** during the preceding year (up from 500 student in the past).
  - At least 50% of students must be located in the United States.
  - Endowment assets exceed $500,000 per student.
- Expanded Definition of investment income:
  - Interest, dividends, rents, royalties, net capital gains, income from security lending, federally subsidized royalty income, student loan interest.

Student Adj. Endowment	Excise Tax Rate
$500,000 to $750,000	1.40%
Over $750,000 to $2,000,000	4.00%
Over $2,000,000	8.00%

OB3 Not-for-Profit Provisions

Corporate Donors

Donor Considerations

- 1% of taxable income charitable contribution floor.
    - Donors may consider “bunching” donations into fewer year starting in 2026.
- Deduction still limited to 10% of taxable income.

NFP Considerations

- Starting in 2026, educate corporate donors about the new 1% floor and promote bunching strategies.
- Update corporate giving materials to reflect new deduction rules and planning opportunities.

OB3 Not-for-Profit Provisions

Individual Donors

Donor Considerations	NFP Considerations

• 0.5% of adjusted gross income charitable contribution floor.
  • Donors may consider "bunching" donations into fewer years starting in 2026.
  • Review giving strategies annually to determine whether to itemize or take the standard deduction.
• Above-the-line deduction (cash only) – non-itemizing taxpayers ($1,000 single, $2,000 joint)
• Itemized deductions (including charitable gifts) reduced by 2/37 for income above the 37% bracket (limits benefit to 35%).
	• Starting in 2026, educate donors about the new floor and above-the line deduction, and promote bunching strategies.
	• Update solicitation materials to reflect new thresholds and strategies.

OB3 Other Provisions

Indirect Provisions

Overtime Compensation:

- Available from 2025-2028
- Up to $12,500 for single filers and $25,000 for joint filers annually
- Fair Labor Standards Act (FLSA) Overtime
- Updates to 2025 and 2026 Form W-2

Energy Incentives:

- Shortened window
- Foreign Entity of Concern rules

Administrative Relief

Parking Tax:

- **NOT** reinstated

Simplified 1099 Reporting

- Threshold increased from $600 to $2,000
- Applicable for payments in 2026

Strengthening Compliance: Key Form 990 Areas

Part III Program Service Accomplishments:

- The importance of a solid narrative

Part V IRS Filings and Tax Compliance:

- 1099s, W-2s, and Form 990-T
- Fundraising events (donor notification of FMV)

Part VI Governance, Management, and Disclosure:

- Board makeup and independence
- Documentation
- Policies (review of 990)
- Disclosures

Part VII Compensation:

- Who needs listed
- Compensation defined

Schedule A Public Support Test

- Calculation
- Common mistakes

Unrelated Business Income (Form 990-T)

- Definition
- Common Types

Michigan Earned Sick Time Act (ESTA) – paid sick leave compliance

Law: *Michigan Paid Medical Leave Act (ESTA)* (enacted via 2024–2025 legislative session)

Large Employers (2/21/25)

Greater than 10 employees

1 hour for 30 hours worked

72 hours

Accrual or Front Load

Max carryover 72 hours

Small Employers (10/1/25)

10 or less employees

1 hour for 30 hours worked

40 hours

Accrual or Front Load

Max carryover 40 hours

Nonprofit HR Actions/Considerations

- Update handbook ,policy + onboarding notices (and make sure supervisors follow documentation limits)
- Ensure timekeeping captures accrual/use for part-time and variable schedules. Accrual Reporting
- Train Supervisors

Minimum wage increase (effective Jan 1, 2026)

Category	2026 Rate	2027 Impact
Standard Minimum Wage	$13.73 / hour	$15.00 / hour
Youth Wage (Ages 16–17)	85% of minimum($11.67/hr)	85% of $15.00($12.75/hr)
Tipped Employees (Base Wage)	$5.49 / hour (40%)	Continued phase-out toward full minimum wage
Training Wage (Under 20)	$4.25 / hour(first 90 days only)	No scheduled change
Exempt Employees	Not applicable	Must meet salary & duties tests

Nonprofit HR Actions/Considerations

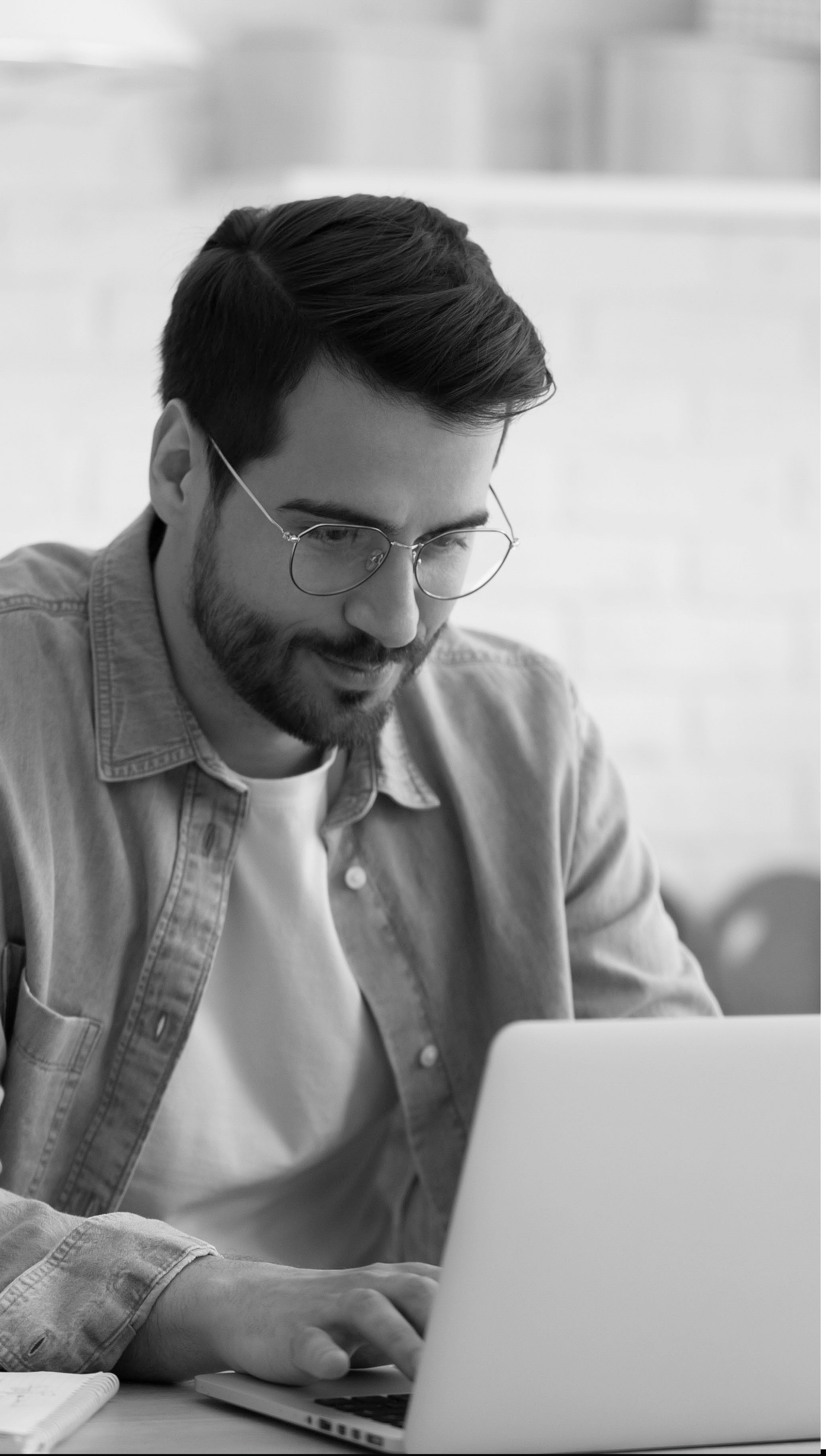
Update payroll rates and wage ranges immediately.

Run a compression check: roles within ~$1–$2 of the new minimum often need adjustment to avoid turnover.

Reissue offers / update job postings for current hiring efforts

Prepare messaging for supervisors: “why we adjusted some roles but not others” (equity + retention).

If you operate in MI + OH, avoid “one policy fits all” pay language—maintain state-specific wage floors.



Michigan Unemployment benefit increase → 1/2026

Summary:

Michigan increased the maximum weekly unemployment benefit from **$446 to $530.**

Michigan UAI closer scrutiny:

- “Voluntary Quit” determinations
- Medical-related resignations
- No-call/no show separations

Nonprofit HR Actions/Considerations

Strengthen separation documentation (especially “voluntary quit” vs “discharge” facts).

Standardize resignation acceptance letters and no-call/no-show documentation.

Train Supervisors on what creates a discharge vs. a quit

OBBBA – Federal (One Big Beautiful Bill Act, 2025)
Bill/Law: *One Big Beautiful Bill Act* (2025 federal appropriations / tax & budget law)

Summary:
From an HR perspective it requires **increased transparency requirements for compensation** reporting.

Nonprofit HR Actions/Considerations

Significantly affects compensation reporting, documentation standards, and governance around pay decisions — requiring tighter alignment between **HR, Finance, and the Board** to justify pay practices.

Executive Actions & Regulatory Shifts

DEI Initiative Terminations

Following the January 2025 inauguration, executive orders declared Diversity, Equity, and Inclusion (DEI) programs prohibiting them in federal agencies and extended these efforts to **federal grant and contract recipients**.

Public Service Loan Forgiveness (PSLF)

A final rule issued on October 31, 2025, updated eligibility criteria for charitable nonprofits under the PSLF program.

Polling Question #3

Is your organization ready to comply with the Michigan Earned Sick Time Act (ESTA) and minimum wage increases in 2026?

- Yes, we are fully prepared
- We are somewhat prepared but need more adjustments
- No, we are not prepared
- This does not apply to us


HR Legislation on the Horizon - Trends
Nonprofits Should Watch
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Tightening of independent contractor standards (Pending - Michigan) Bills: *Michigan Senate Bills 6 and 7* (2025–2026 legislative session)

Proposed legislation that would:	Nonprofit HR Actions/Considerations
Tighten the definition of "independent contractor" (similar to an "ABC test") Impose new wage transparency requirements (e.g., sharing three years of pay info upon request) Increase penalties (admin fines up to $10,000; presumptions of misclassification)	Perform a contractor inventory: who, what services, where/how scheduled, who controls work. Identify "high-risk" contractors (ongoing schedule + supervision + core services). Prepare a conversion plan (job description, pay band , onboarding , funding impact).

Independent Contractor & Worker Classification Tightening

What's happening

- States are adopting stricter tests (ABC / economic realities)
- Penalties for misclassification are increasing
- More coordination between wage, tax, and unemployment agencies.

If Michigan tightens tests and increases penalties, nonprofits may need to convert contractors to employees, affecting payroll taxes, benefits eligibility, and grant budgets.

Pay Transparency State Trends
Pay transparency bills and ordinances expanding nationwide

What's Happening

Pay transparency is not yet in MI/OH/FL statewide, but there are some local ordinances and other states (Delaware, MA,) are headed it that direction; nonprofits with remote workers must prepare.

HR Actions/Considerations for the future

- Job postings and internal pay communication must include ranges
- HR must standardize pay bands and ensure consistency.
- Prepare pay range structures
- Documented job descriptions
- Defined benefit disclosures

AI & Technology Regulation in HR Decisions

What’s happening

States are regulating the use of AI in:

- Hiring
- Screening
- Promotions
- Discipline and termination decisions

Focus is on preventing **algorithmic bias**

HR Actions/Considerations for the future

HR must understand what tools are being used and how

Documentation of decision-making becomes critical

Vendor due diligence becomes an HR responsibility

What Nonprofit HR Teams Can Do to Prepare

Build **clear pay ranges** for all roles (even if not required yet)

Audit contractor and consultant relationships

Review leave policies with an eye toward expansion

Understand HR technology tools and vendor practices

Strengthen separation documentation and manager training

Polling Question #4

What area of strategic planning is your nonprofit focusing on the most for 2026?

- Sustainable funding models
- Workforce and volunteer engagement
- Technology and data systems
- Internal decision-making processes

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