



KPMG's Not-for-Profit Webinar

April 6, 2020





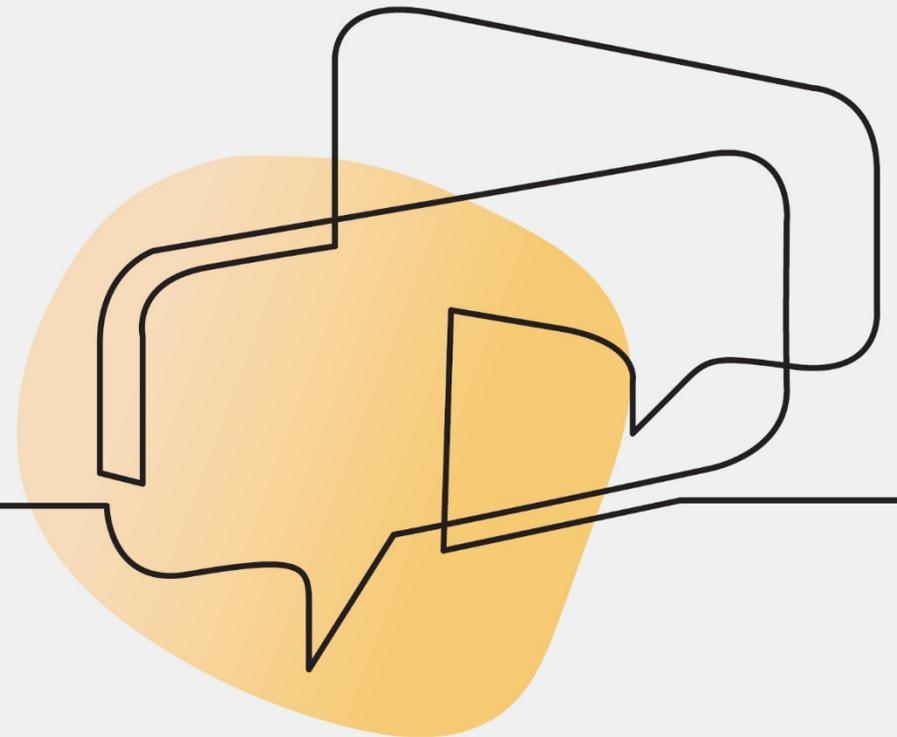
Welcome!



Mary Jo Fedy

National Enterprise Leader

KPMG Canada



Our speakers



Bobbi-Jean White
Partner, Enterprise
National Leader, NPO
& Charities Sector
KPMG Canada

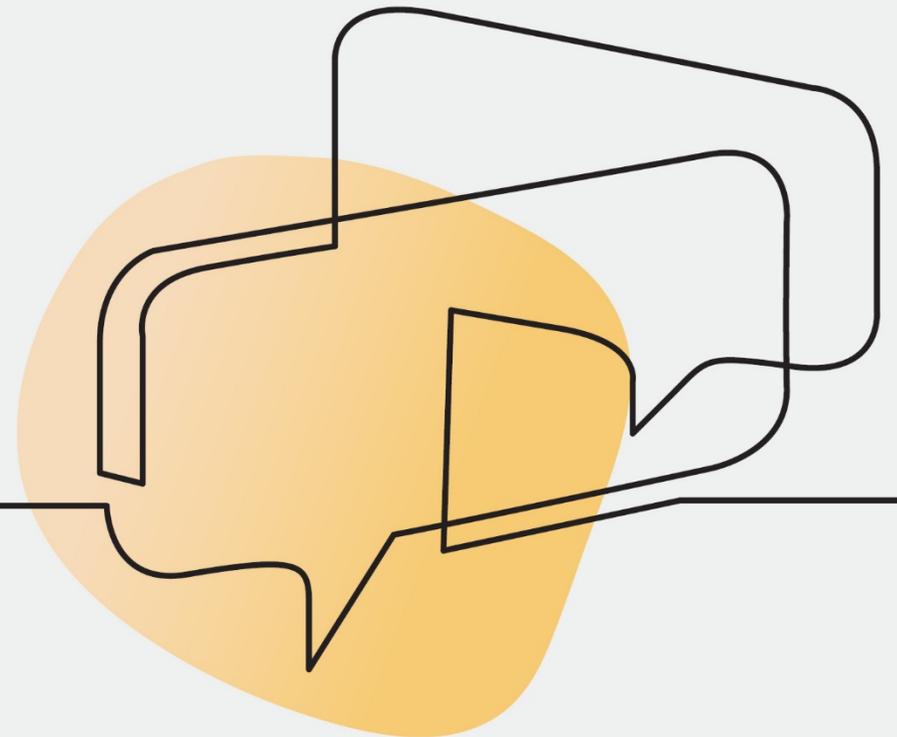


Barry Travers
Partner, Global and
Canadian Tax Leader,
Public Sector
KPMG Canada



Tax

Barry Travers



Tax Related Issues to Assist Organizations



—
**Payroll
Related
Measures**



—
**Tax
Remittances**



—
**Other Tax
Issues**

Payroll Tax Measures



Canada Emergency Wage Subsidy

- Wage subsidy for businesses whose gross revenues have decreased by at least 30% year over year (March, April or May).
- “Revenues” for Charity/NPO to be clarified (i.e. grants, donations and non-operating revenues).
- Size of organization does not matter, includes NPO and Charities.
- Does not include Public sector bodies (public university/college, hospital, municipality, schools, Crown corp).
- Government will cover up to 75% of wages (Limit: \$58,700 annual or \$847/week).

CEWS

Canada Emergency Wage Subsidy

- Eligible for wages from March 15, 2020 to June 6, 2020.
- Encourage companies to pay remaining 25% of wages if they can afford to do so.
- Subsidy can effectively provide support for 100% of first 75% of wages paid.
- Test includes test support 75% of “pre-crisis” wages and actual wages paid.
- Cannot be used in conjunction with CERB/EI
- Warning issued on gaming system or taking advantage program (serious penalties to apply if caught).

Canada Emergency Wage Subsidy

Benefit Calculation

Subsidy is the greater of:

A) 75% of remuneration paid, up to a maximum of \$847 per week

OR

B) The lesser of either:

i. The remuneration paid, up to a maximum of \$847 per week

OR

ii. 75% of the employee's "pre-crisis" weekly remuneration

Canada Emergency Wage Subsidy

Examples

| | Pre-crisis weekly earnings | Actual wages paid |
|--------------|----------------------------|-------------------|
| Scenario I | \$800 | \$800 |
| Scenario II | \$800 | \$600 |
| Scenario III | \$1,300 | \$800 |

Canada Emergency Wage Subsidy

Examples

| Criteria | | Scenario I | Scenario II | Scenario III |
|--|---|-------------------|-------------------|-------------------|
| The greater of: | | | | |
| (A) 75% of remuneration paid, up to a maximum of \$847 per week, <u>or</u> | | \$600 | \$450 | \$600 |
| (B) The lesser of: | The remuneration paid, up to a maximum of \$847 per week, <u>or</u> | 800 | 600 | <u>800</u> |
| | 75% of the employee's "pre-crisis" weekly remuneration | <u>600</u> | <u>600</u> | 975 |
| Amount of Subsidy | | \$600 | \$600 | \$800 |

Temporary Wage Subsidy Program

Temporary wage subsidy for a period of three months as follows:

- Subsidy is 10% of remuneration paid during that period, up to a maximum subsidy of \$1,375 per employee and \$25,000 per employer.
- Organizations benefit immediately from this support by reducing their remittances of income tax withheld on their employees' remuneration.
- No need to reduce the tax remittance credited to the employee as source w/h.
- Employers benefiting from this measure will include non-profit organizations, charities and small business.
- Available March 18 – June 20, 2020.

Payroll
Related
Measures

Supplementary Unemployment Benefit Plan

- SUB can be established by an employer to top up employees' EI/CERB benefits during a period of unemployment due to a temporary layoff.
- SUB should be registered with Service Canada and must meet the requirements otherwise it will be treated as income and any EI/CERB benefits received may be reduced.
- SUB will allow top up payment up to 95% of normal employee earnings.
- SUB must conform to any Collective Agreements in place for employment groups.
- Submit application via email:
SUB-PSC@servicecanada.gc.ca

Payroll Related Measures



Workshare Program

Eligibility Criteria:

- Have been in business in Canada year-round for at least 1 years
- Be a private business, publicly-held company, Charity or NPO
- Demonstrate that the shortage of work is temporary and beyond their control
- Demonstrate a recent decrease in business activity of approximately 10% for a minimum 6 week period
- Submit and implement a streamlined application for a return to normal working hours by the end of the program

Payroll
Related
Measures

Workshare Program (continued)

An employee's work schedule can be reduced as follows:

- The program must have a minimum duration of six (6) weeks and due to COVID-19, may last up to 76 weeks (normally the maximum was 38 weeks).
- A reduction between a minimum of 10% (one half day) and a maximum of 60% (three days).
- In any given week, the work reduction can vary depending on available work, as long as the work reduction on average is between 10%-60% for the duration of the program.
- Available in conjunction with EI (not CERB)

Payroll
Related
Measures

Canada Emergency Response Benefit

- \$2,000/month benefit for up to 4 months who ceased work for at least 14 days due to COVID-19.
- Effectively supports EI program for anyone not in receipt of EI and laid off; in effect for 16 weeks.
- CERB was not designed to be issued with WS or SUB.
- Available to employees, self-employed or sickness who are out of work and had income of at least \$5,000 last year.
- Available to staff or contractors who were in receipt of a T4 or T4A who are not working.

CERB

CERB (continued)

- Applications for EI in process on or after March 24 will be switched to CERB for ease of processing.
- Workers receiving EI benefits will continue to do so.
- Application portal is open today (April 6) with staged application over the next 4 days:

| Birth Month | Application Day | Apply |
|-------------|-----------------|---------|
| Jan – March | Mondays | April 6 |
| Apr – June | Tuesdays | April 7 |
| July – Sept | Wednesdays | April 8 |
| Oct – Dec | Thursdays | April 9 |

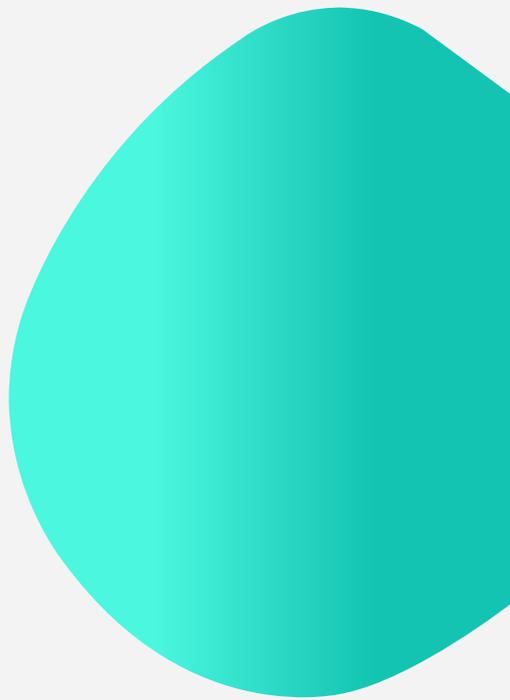


Canada
Emergency
Response
Benefit

Employment Insurance

Employment Insurance (EI) regular benefits available:

- Were employed in insurable employment;
- Lost your job through no fault of your own;
- Have been without work and without pay for at least seven consecutive days in the last 52 weeks;
- Have worked for the required number of insurable employment hours in the last 52 weeks or since the start of your last EI claim, whichever is shorter;
- EI program continues to operate in conjunction with CERB – person receives one or the other – not both
- EI eligibility maintained while applicants on CERB



Payroll
Related
Measures

Employment Law Considerations



Remote work arrangements



Workplace Safety



Unpaid or part paid leave



Overtime



Current assignees



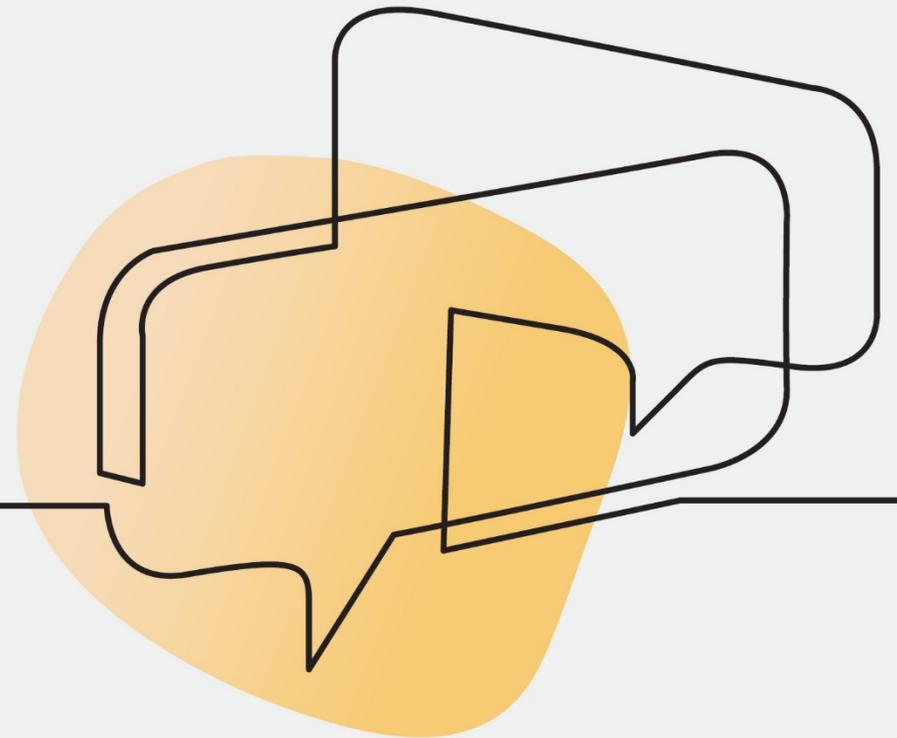
Equality

Employee Experience

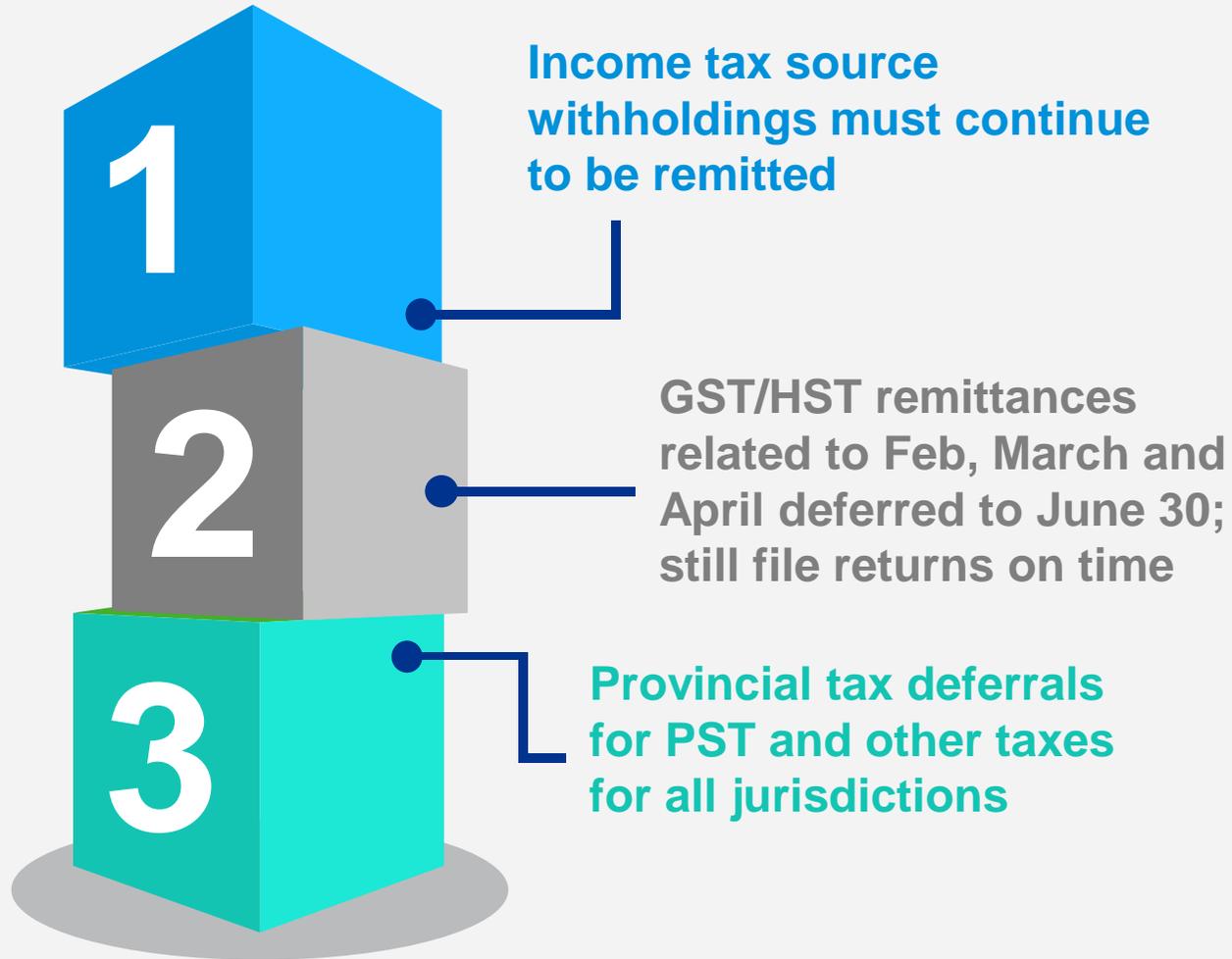




Tax Remittances

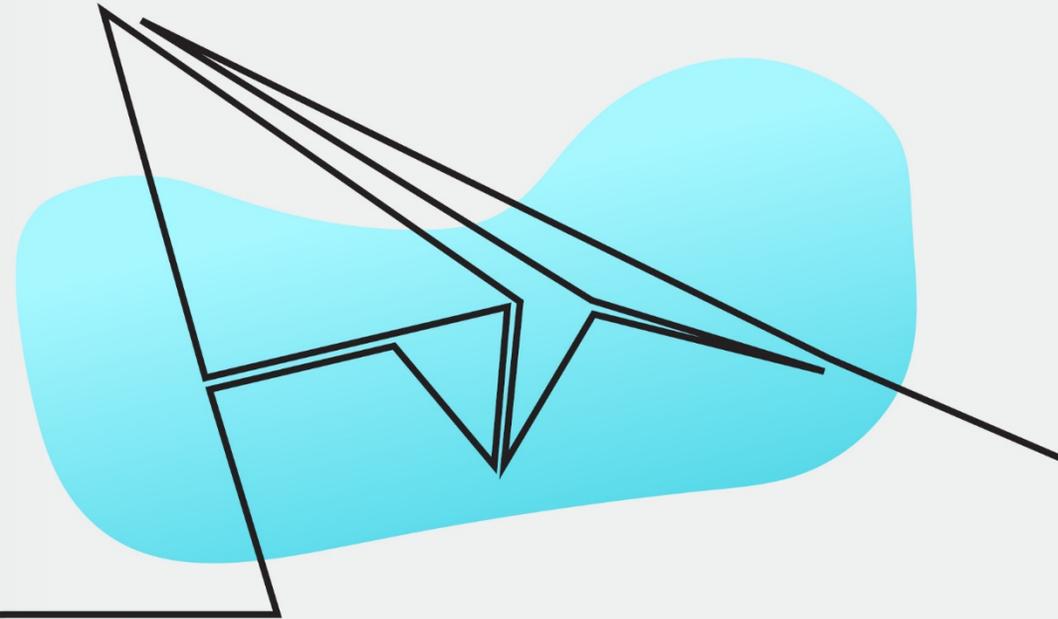


Tax Remittance Obligations



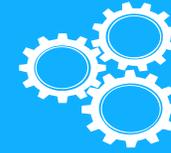


Other Income Tax Issues



Other Income Tax Issues

T3010 Charity return due date now deferred to December 31, 2020



Honorariums – not employment income to non-employees



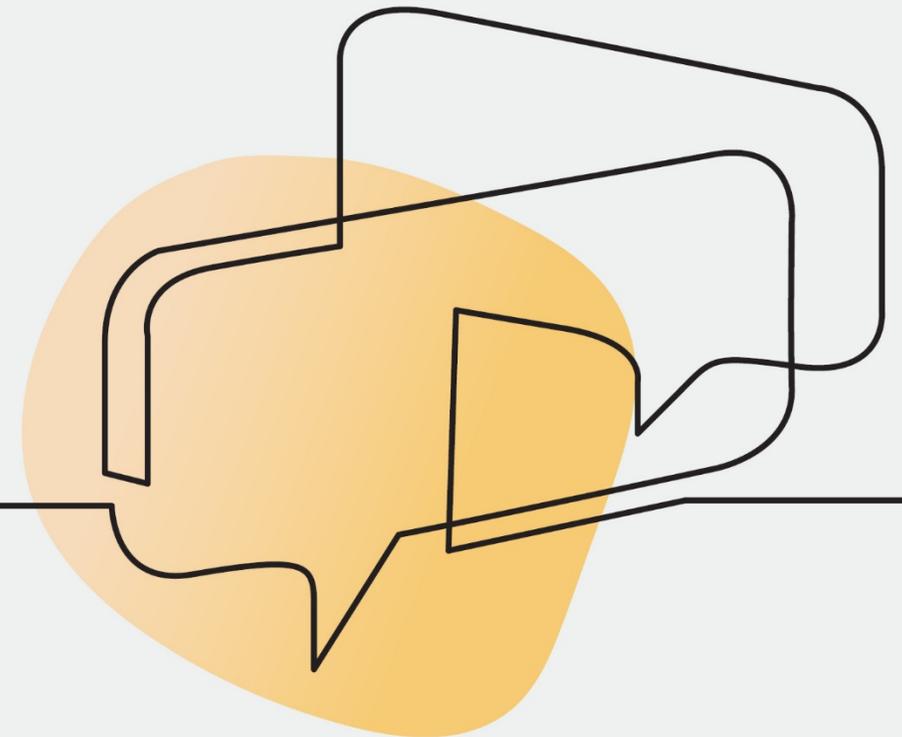
T2200 for employees working from home





Accounting and auditing considerations

Bobbi-Jean White



Investments, Endowments

- Management to work with their investment advisors to evaluate for any permanent impairment in investment values observed subsequent to year end. Permanent impairments may meet the criteria for an adjustable item in the financial statements (e.g. investments carried at amortized cost) – Subsequent events to be covered later in the presentation.
- Management to work with their investment advisors to evaluate for any temporary impairment in investment values. Consideration to be given to adjustments and/or disclosures in the financial statements.
- Evaluation of unrealized losses on endowed funds which may place obligations on operating funds. (e.g. preservation of capital).
- Disclosure of information in a subsequent event note to the financial statements will require audit procedures to be undertaken to validate any quantifications.

Accounts/Notes Receivable

- Management to perform a detailed analysis of uncollectable receivable balances due from other parties. Results may look quite different in the current economic circumstances.
- For those organizations who have recognized pledges, more detailed assessment required over collectability.
- Provisions are significant estimates, as such, understanding management's methodology and assumptions is critical. These assumptions are required to be audited. The baseline factors may have changed from the prior year.
- This assessment would include amounts due from related parties, if not consolidated. Management to evaluate change in financial indicators to support collectability.

Inventory

- In situations where inventory is material to the financial statements, auditing standards require physical attendance during the count.
- Given work from home arrangements and site closures, determine if it is feasible to perform an inventory count (following social distancing protocol issued by the Public Health Department).
- Evaluate if an audit team member can be present to verify existence and accuracy of the inventory values (following social distancing protocol issued by the Public Health Department).
- Management should undertake a detailed obsolescence review for any perishables or unusable inventory.
- In absence of an inventory count consider the following:
 - Roll back procedures utilizing shipping/receiving/sales documents based on when a count can be appropriately undertaken.
 - If a scope limitation is warranted should all other options be exhausted.

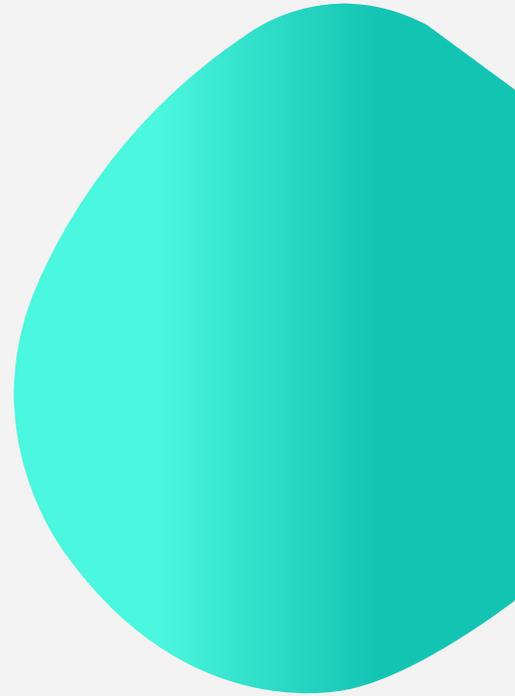


Long term Debt & Swap Arrangements

- Early and detailed assessment of covenants associated with debt agreements to allow for discussions with debtors should a waiver be required.
- Careful consideration of whether covenants are required be met based on annual figures or monthly. May impact ability to meet.
- Consideration if covenants can be met for the year ahead.
- Incremental risk considerations if covenants are not met, to be assessed by both management and the audit team.
- Consideration of the impact of fair values of swap arrangements and material changes in fair value subsequent to year end.

Accrued Liabilities

- Detailed calculation of severance accruals, wage subsidy top ups, restructuring plans.
- Accruals for any leased sites permanently impacted as communication to vacate has occurred.
- Enhanced audit risk surrounding cut-off due to matters such as potential inability to receive goods, or the associated paperwork for processing is not available from internal and/or external sources.



Revenue and Deferred Revenue

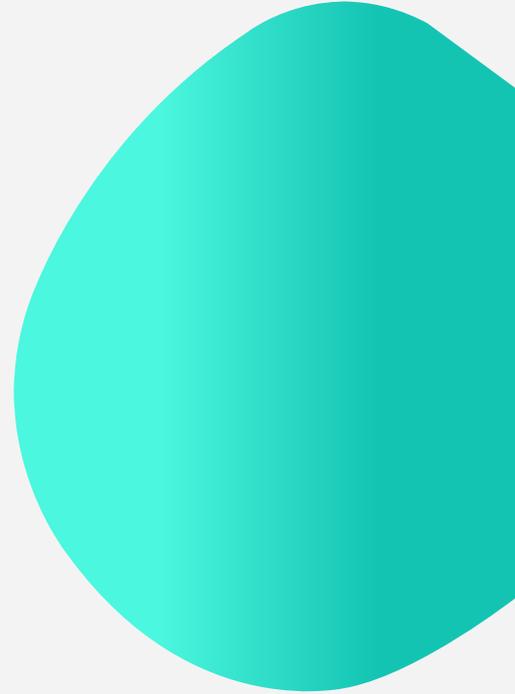
- We are aware of discussions related to the potential relaxing of restrictions on restricted contributions by some funding sources/donors.
- Recognition of revenue that would otherwise not meet the test of being earned, will require appropriate audit evidence.
- Assessment of appropriateness of revenue that has been recognized to ensure the funds have been earned will be critical.

Contingent Gains/Losses and Commitments

- Consideration if the organization can access various government programs to offset unusual/incremental costs incurred.
- Details pending for programs – need to determine if funding may be available retroactively to a specific date or assessed at a future date.
- Consideration to be given to reporting as a potential adjustment in the financial statements as a subsequent event OR as a contingent gain (rare and a high bar to be met). Insufficient information available at this stage.

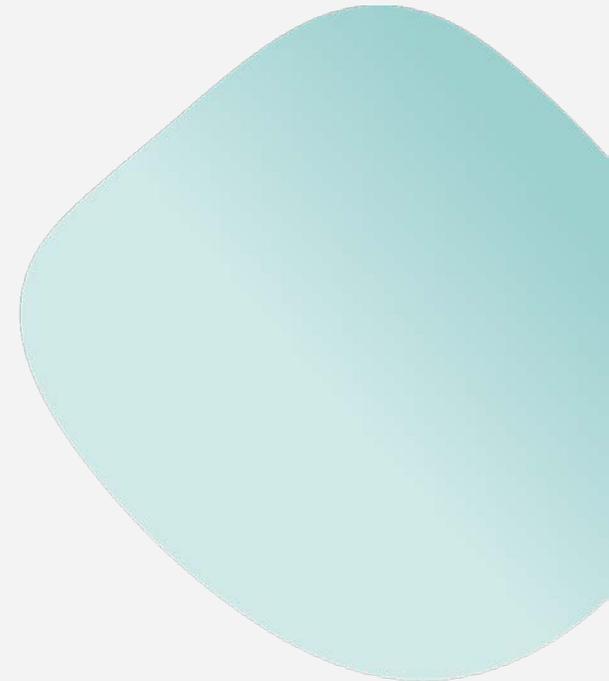
Expenditures and Prepaid Expenses

- Assessment and tracking of incremental/one time extraordinary expenditures.
- Consideration of allowable presentation in the financial statements depending on the accounting framework.
- Expense of prepaid assets which were non-refundable. (i.e. lost deposits for events).



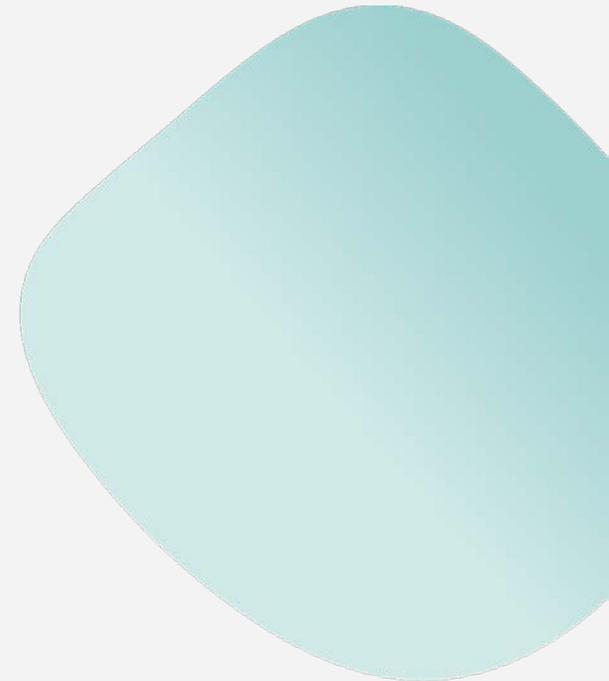
Pension Plans and Employee Future Benefits

- Early communication with actuaries regarding accrued benefit obligations in light of declining asset values within the plan.
- Management assessment of the assumptions used by the actuaries to calculate the defined benefit obligations. (i.e. discount rate, salary escalation etc.)
- Enhanced note disclosure for significant changes in the accrued benefit obligation/asset.



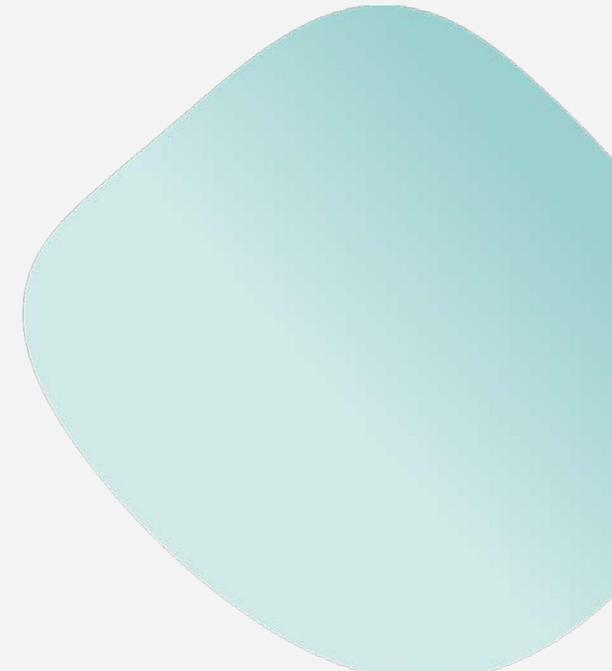
Subsequent Events, Contingencies

- The COVID-19 outbreak response has had a significant financial market and social dislocating impact. Continued impact may be felt subsequent to the fiscal year end of the entities. As such enhanced subsequent events procedures are warranted.
- There are two types of subsequent events, with the accounting treatment dependent on the categorization as follows:
 - **Type 1** - Events that provide future evidence of conditions that existed at the financial statement date. For these conditions, the financial statements should be adjusted for measurable impact to the assets, liabilities, revenues and expenditures.
 - **Type 2** - Events that are indicative of conditions that arose subsequent to the financial statement date. For these conditions, disclosures, at a minimum, should include a description of the event and an estimate of the financial impact, when practicable or a statement that an estimate cannot be made.



Subsequent Events and Contingencies (continued)

- An assessment for any permanent impairment such as investment values, unrealized losses, government programs/announcements subsequent to year end, change in currency exchange rates, revenue impact etc., should be undertaken and documented by management.
- A list of any financial implications and actions undertaken by the entity should be disclosed in the notes, examples may include:
 - Experienced temporary declines in the fair value of investments and investment income
 - Closure of facilities from _____ (date) to the date of the auditors' report based on public health recommendations to slow the transmission
 - Temporary and or permanent termination of employees
 - Mandatory working from home requirements for those able to do so
 - Others as appropriate



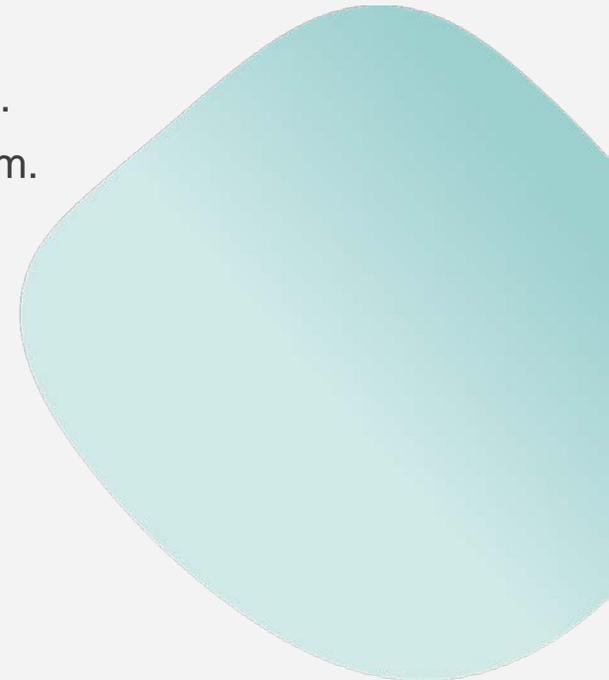
Subsequent Events and Contingencies (continued)

- A note disclosure as to whether or not these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. Along with measurement of an estimated impact on the financial effect or indication if one is not practicable at this time.
- It is anticipated, that for any entities with a March 31st year end, incremental work will be required by management to calculate adjustments required to financial estimates as a Type 1 subsequent event has occurred. These estimates will need to be audited by the engagement team.
- A subsequent event note may also necessitate an Emphasis of Matters paragraph in the auditors' report. To be assessed on a case by case basis.



Going Concern

- Annually a going concern assessment needs to be completed by management as part of any audit.
- Considerations should be given to the following factors:
 - Key financial indicators based on the annual financial statements – being the level of unrestricted reserves, working capital available, current asset ratio, in year surplus or deficit position.
 - Potential breach of covenants and what remedies are available to the organization.
 - Stimulus programs available to assist the organization in limping through the interim.
 - Impact of COVID-19 on the ability to undertake essential programs and services.
 - Impact of the current economy on fundraising in the charitable environment.
 - Other potential mitigation strategies that the management team is aware of.
- Recommended this analysis begin early and management document prior to audit fieldwork.
- In order to audit management's assessment, they will also require access to the 2020 re-forecast (December year ends) and the 2021 forecast (for March year ends) along with management's assumptions, evidence of new funding agreements, evaluation of recovery/restructuring plans if applicable.



General Considerations

- Many organizations have been required, out of necessity, to amend the controls surrounding approval of transactions and as such segregation of duties may also have been impacted.
- Audit teams will need to understand what temporary measures impact financial reporting processes in order to determine if a substantive versus controls approach can be undertaken in the current year.
- As your organization has been impacted by the COVID-19 protocols, so have many of your partners, vendors, investment advisors and banking institutions. As such responses to third party confirmations may be significantly delayed.
- Give ample notification to Committee members and consider available platforms for digital communications (e.g. Go To Meeting, Zoom, Global meet, Skype) if there is not yet a defined end-date for social distancing and you are unable to meet in person.
- Consideration of AGM dates and if the meeting can be held virtually based on by-laws.

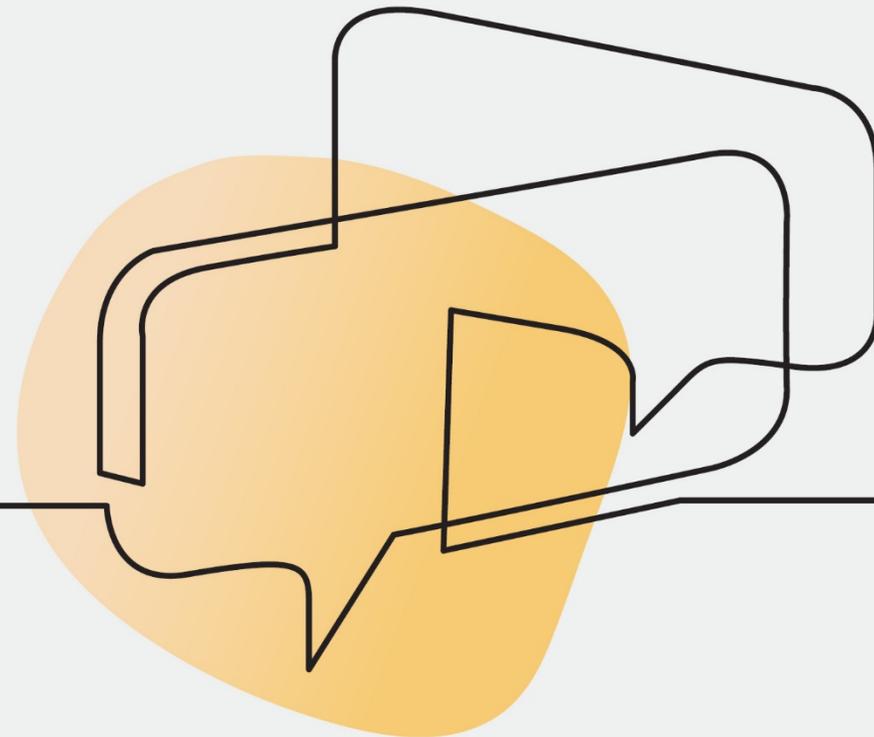
Year-end Audit Timing

- Our Firm is fully paperless and poised to undertake a remote audit. Our platform, CLARA, provides management and the audit team with a digital collaboration site. As such, we are ready to undertake the audit when you are.
- The ability for the audit to commence is highly fluid and dependent on management's ability to physically or digitally access underlying documents in a safe and healthy manner, including access to IT systems.
- Consideration of tax filing delays, or other delays in regulatory filing requirements (e.g. CRA, government reporting requirements for annual financial statements and/or special purpose reports).
- Early communication once there is more certainty will be important.



Q&A

Mary Jo Fedy



Thank you



COVID-19 Resources

Please visit the below websites for further information regarding COVID-19:

- Business Implications of COVID-19: <https://home.kpmg/ca/en/home/insights/2020/03/the-business-implications-of-coronavirus.html>
- Message from our CEO: <https://home.kpmg/ca/en/home/insights/2020/03/message-from-our-ceo.html>
- Financial reporting and audit considerations: <https://home.kpmg/ca/en/home/insights/2020/03/financial-reporting-and-audit-considerations.html>
- Tax considerations: <https://home.kpmg/ca/en/home/insights/2020/03/tax-considerations.html>
- Legal considerations: <https://home.kpmg/ca/en/home/insights/2020/03/legal-considerations.html>
- Immediate actions: <https://home.kpmg/ca/en/home/insights/2020/03/immediate-actions.html>
- Medium-to-long term actions: <https://home.kpmg/ca/en/home/insights/2020/03/medium-to-long-term-actions.html>



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