

CURRENT RISKS AND TRENDS: A NOT-FOR-PROFIT ROUNDTABLE

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AGENDA

- Introductions
- Not-for-Profit Accounting Standards Implementation
- What not-for-profits need to know about the Wayfair Decision and Tax Cuts & Jobs Act
- Latest yellow book and single audit requirements
- Operational efficiencies, financial management and more



STATE OF NFP&E SECTOR

- Charitable giving increased 5.2% from 2016 to 2017
- Availability and stability of staffing for the finance functions



NFP ACCOUNTING STANDARDS IMPLEMENTATION



ASU 2016-14

Presentation of Financial Statements of Not-for-Profit Entities

- Key Changes
 - Net assets
 - Liquidity footnote
 - Statement of functional expenses
 - Investment return and related expenses
 - Statement of cash flow
- Pledge vs promises to give
- Responsibilities
- Impacts on debt holders, donors, accreditors
- What to do now??



ASU 2016-14

Presentation of Financial Statements of Not-for-Profit Entities

- What to do now??
 - Draft liquidity footnote and get approval by AC/FC
 - Review cost allocation methodology of appropriateness and adjust account groupings as necessary. Prepare report based on interim numbers and review
 - Adjust f/s grouping report to net investment expenses with investment return
 - Update f/s proforma for new terminology
 - Update your endowment footnote for new terminology and underwater funds
 - Consider board resolutions





ASU 2014-09

Revenue from Contracts with Customers

- Implementation date
- A single, global, principles-based revenue recognition model
 - Step 1 - Identify the contract with a customer
 - Step 2 - Identify the performance obligations in the contract
 - Step 3 - Determine the transaction price
 - Step 4 - Allocate the transaction price to the performance obligations
 - Step 5 - Recognize revenue when the performance obligation is satisfied



ASU 2014-09

Revenue from Contracts with Customers

- NFP Entities Revenue Recognition Task Force
 - Contributions and grants (excluded - see ASU 2018-08)
 - Bifurcation of transactions
 - Tuition and housing
 - Membership dues and subscriptions
- Disclosures
- Transition
- What to do now??



ASU 2014-09

Revenue from Contracts with Customers

- What to do now??
 - Read the standard
 - Compile a list of all revenue streams
 - Document your position for each revenue stream
 - If change is required, is it material?
 - Communication to senior staff, management and board as well as auditors, contract signers, banks, bond holders, etc.
 - Determine requirements to retrospectively adopt
 - Develop a plan for staff training
 - If changes are required...





ASU 2014-09

Revenue from Contracts with Customers

- What to do now??
 - If required consider:
 - Consider updated wording for future contracts
 - Processes and procedures within the accounting systems
 - Monthly and annual financial close process
 - Internal financial reporting
 - Audited financial statements
 - Forecasts and budget processes
 - Dashboard goals





ASU 2018-08

Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

- Implementation date
- Reciprocal (exchange) transactions vs nonreciprocal (contribution) transaction
 - Commensurate value
- Conditional contribution vs unconditional contribution
- Disclosure for conditional contributions
- Transition and disclosure
- What to do now??



ASU 2018-08

Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

- What to do now??
 - Read the standard
 - Compile a list of similar grants
 - Document your position for each like-kind grant
 - If change is required, is it material?
 - Communication to senior staff, management and board as well as auditors, contract signers, banks, bond holders, etc.
 - Determine requirements to retrospectively adopt
 - Develop a plan for staff training



ACTION



ASU 2018-08

Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

- What to do now??
 - If required consider:
 - Consider updated wording for future grants, contributions, and endowment agreements
 - Processes and procedures within the accounting systems
 - Develop a method to document conclusion on each contribution received
 - Monthly and annual financial close process
 - Internal financial reporting
 - Audited financial statements
 - Forecasts and budget processes
 - Dashboard goals





ASU 2016-02

Leases

- Implementation date
- Definitions
- Short term leases
- Disclosures
- Impact on debt covenants, compensation agreements and other financial metrics
- What to do now??



ASU 2016-02

Leases



- What to do now??
 - Perform an impact assessment
 - Read the standard
 - Gain an understanding of all leases on hand
 - Understand your current financial reporting process for leases
 - Determine the extent of financial and operational impacts
 - Develop an implementation plan
 - Establish a project timetable and determine key steps
 - Identify milestones,
 - Estimate required resources and costs (personnel and software)
 - Develop a training plan for staff



ADDITIONAL ACCOUNTING STANDARDS

Statement of Cash flows

- Statement of Cash Flows (ASU 2016-18)
 - The ASU requires that a statement of cash flows is required to disclose the change in cash, cash equivalents AND restricted cash and cash equivalents -
 - Effective for calendar 2019 and fiscal 2020 (early implementation is permitted)
- Not-for-Profit Entities: Updating the Definition of Collections (ASU 2019-03)
 - Updated to align with the definition used in the American Alliance of Museums' *Code of Ethics for Museums*
 - Requires new disclosures related to the use of proceeds from sales of collection items (allows for the acquisition of other collection items and to support the direct care of existing collections)
 - Effective for calendar 2020 and fiscal 2021 (early implementation is permitted)



GOVERNMENT ACCOUNTING

- Updated Yellow Book
- Procurement standard



ON THE HORIZON

On-going Research Projects

- The Auditor's Responsibilities Regarding Other Information Included in Organization's Annual Reports
 - Consider whether there is a material inconsistency between the other information and the financial statements and the auditor's knowledge obtained in the audit
- Revisions to SSAE 18
 - Revise sections related to agreed-upon procedures
- Staff augmentation
 - May allow audit firms to lend staff to the client to perform certain activities
- Goodwill
 - A proposed ASU you would reduce the cost and complexity of accounting for goodwill



NFP TAX TOPICS



TAXES

- Jobs Cut and Tax Act
 - UBTI Siloing
 - Parking Tax
 - Excise tax on excess compensation
- Wayfair Decision
- Political campaign activities vs lobbying
- State and local taxes
- Bonds disguised as loans
- 990 changes





TAXES

- Does the organization own or lease parking facilities where its employees park?
 - Take an inventory of the parking spots available:
 - With the total number of spots - the purpose is to get a percentage of the spots that are employee restricted and therefore resulting is UBIT vs what portion of the lots are for general public use
 - If the portion of general public use is greater than 50%, there is no UBIT
- What are the allocable expenses related to the maintenance of the parking lots (snow removal, landscaping, security, do not include depreciation)
- If the organization pays for spots for employees to a 3rd party, how much does the organization pay per month for that employee's spot?
 - If the amount is more than 260 per month, then the first 260 is UBIT and the remainder is taxable compensation to the employee.



NFP TRENDS AND CHALLENGES



PERSONNEL

Availability and stability of staffing for the finance functions

- Lack of capacity to maintain basic financial systems
- Inadequate staff competency for the complexity of the organization
- Frequent turnover affecting finance department and organization-wide morale
- Understaffed finance departments vulnerable to inadequate segregation of duties and other internal control concerns
- Increase investment in personnel costs

AICPA Not-for-Profit Entities Industry Developments - 2019



INFORMATION TECHNOLOGY

How to keep up with digital technology

- Software as a service
- Outsourcing IT services
- Compliance with protection of PII
 - Gramm-Leach-Bliley Act (GLBA)
 - General Data Protection Regulation (GDPR)
- Use of ACH payments
- Back up systems



RISK MANAGEMENT

What can you do?

- Annual Risk assessment
- Fraud
- IT crisis management
- Cyber risks
 - User awareness
 - Authentication controls
 - Insurance
- Conflict of interest



MISCELLAENOUS

- Gift acceptance policy - cryptocurrency donations
- Mergers, acquisitions, shared services
- Changes in fundraising methods and donor perspectives
- Audit of the future