UHY LLP
Certified Public Accountants

NOT-FOR-PROFIT INSIDER

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LIQUIDITY REPORTING UNDER FASB ASU 2016-14 – A DEEPER DIVE

As part of the sweeping changes facing nonprofit organizations implemented by FASB ASU 2016-14, the new accounting standards will also include requirements for additional disclosures of information to help users of nonprofit financial statements in assessing the liquidity of a nonprofit organization. Liquidity is a measure of an organization's ability to meet its obligations when they become due. The new disclosures are intended to improve the transparency and usefulness of nonprofit financial statements to the users of those financial statements. Under the prior accounting standards, a nonprofit's assets may have appeared to be liquid by their classification on the statement of financial position, but restrictions from donors, contracts and other circumstances causing the assets to be unavailable to meet near-term cash demands was not required to be disclosed.

The new disclosures will be effective for organizations with a 2018 calendar year-end. Organizations on a fiscal year-end have until their fiscal year ends in 2019. It is important to make sure you are ready, so let's take a closer look at this new requirement and what to do now.

AVAILABILITY OF RESOURCES

The objective of ASU 2016-14 is to emphasize the availability of resources. Net assets are now simply defined as "with and without" donor restrictions. Adding financial statement disclosures that identify which assets and resources are available for operations further enhances transparency. Prior to the implementation of ASU 2016-14, there was no requirement to disclose amounts that are not available for operational use because of grantor, contractual or legal restrictions. Identifying the resources that are available for near term operational use goes hand in hand with the other changes in ASU 2016-14.

QUALITATIVE AND QUANTITATIVE INFORMATION

Under the new ASU there are qualitative and quantitative types of information relating to the liquidity of assets that are required to be disclosed.

Qualitative information disclosures will be required in the financial statement footnotes and contain information that is useful in assessing an entity's liquidity, and how the entity plans to manage its liquid resources to meet its operating expenditures within one year.

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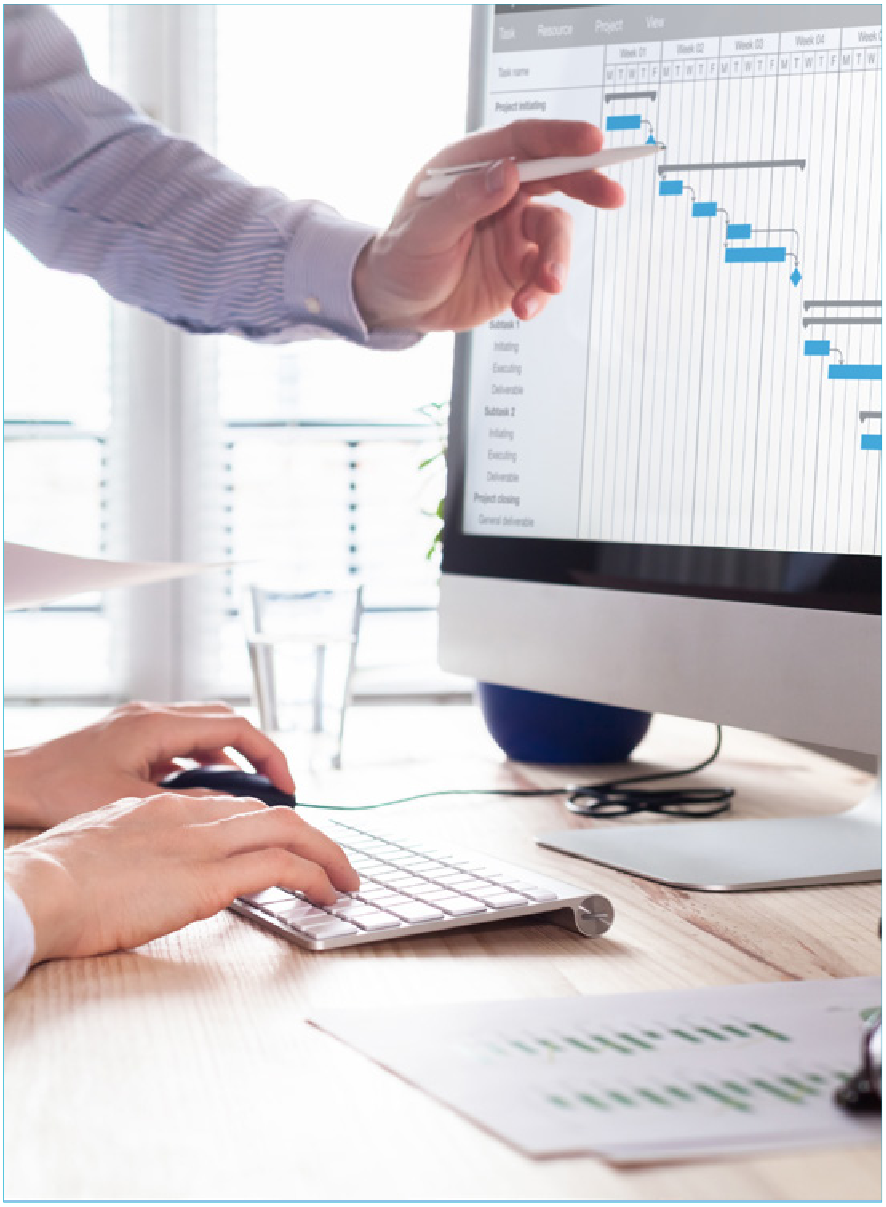


Disclosures of qualitative aspects of liquidity might include the following items:

- Requirements to restrict cash under borrowing arrangements.
- Limitations under loan covenants.

Quantitative information could be on the face of the financial statements or in the financial statement footnotes. Nonprofits might assess the quantitative aspects of liquidity by considering the external and internal limits imposed on the asset, any unusual circumstances such as special borrowing arrangements, any known significant liquidity problems, and whether the nonprofit has maintained appropriate amounts of assets to comply with donor imposed restrictions.

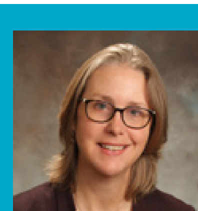
Disclosures of qualitative aspects of liquidity might include the following items:

- Description of the type of asset whose use is limited.
- Information about the nature and amount of any limitation on the use of cash.
- Contractual limitations.
- Information about additional limitations placed on net assets such as board restrictions.

What to do now:

- Consider implementing a policy on liquidity, if you have not already done so.
- Consider how your organization manages its liquid resources to meet its operating needs.
- Identify all financial assets and any limitations on availability in the next 12 months.
- Consider presenting the statement of financial position on a classified basis to enhance the quantitative disclosure requirements.
- Determine format of the financial statement footnote quantitative numbers:
    - o Gross amounts of financial assets less any adjustments to arrive at the assets available for expenditure, or
    - o disclose only the net amounts available for expenditure.
- Draft financial statement footnotes to include a description of the management of liquid assets and liquidity needs, the conditions under which board designated net assets could be undesignated, access to lines of credit or other financing and other relevant information useful in understanding the entity's liquidity.

Prepare now for the upcoming changes, so you are ready when your year-end comes around. Of course, we are always here to help!



Carol Shepherd,
Senior Manager
(Columbia, MD)

BEWARE OF EASY MONEY

Every organization is in search of new revenues to support its mission. It might be tempting to see federal and state grants as a cost-free source of those revenues. Before you go chasing those new grants, you should be aware that they can come with a heavy administrative burden. Here are a few of those burdens to keep in mind:

- **Written policies and procedures.** I know what you are thinking, "I already have those so it's not a big deal". But realistically, how long has it been since you've updated them? The expectation is that those are updated each year and affirmed by your board.

- **Payroll record keeping.** Documentation must be maintained for each employee whose salary is funded by a grant. This can be especially cumbersome if that employee is working on multiple programs, some of which are grant funded and others of which are not. If you have an automated payroll system and allocate that employee's payroll costs based on an estimate of the time incurred, that is sufficient provided you update the estimate at least quarterly. If you don't have such a payroll system, you will need to maintain manual records evidencing the level of effort expended by the employee on the grant program.

- **Procurement record keeping.** If you want to pay for allowable goods or services using grant funds, you must ensure that you are getting the best rate for those goods or services. You have to maintain a written procurement policy to which you adhere. This can mean getting a few verbal quotes for smaller purchases (say less than $25,000), or it can mean doing a full blown competitive solicitation for proposals for larger purchases and adhere to them for both federally funded and non-federally funded purchases. You must establish those purchase thresholds as part of your procurement procedures. Micro-purchases, defined as those below $3,000, are exempt from this requirement.

- **Grantor oversight.** You may have to provide a significant amount of detail to the grantor, both financial and non-financial, just to begin drawing down the grant funds as you incur allowable costs. Then, you have to report periodically to the grantor on the status of the grants. Most grants require some form of quarterly reporting; some may require it monthly. At a minimum, you will need to report to the grantor annually, and you need to ensure that those reports reconcile to your books and records. I am also seeing significantly greater oversight being exercised by grantors. Responding to this additional oversight can take valuable time away from your employees. And if you happen to pass some of the money through to another recipient, becoming a grantor yourself, all of these oversight burdens you bear as a grantee you must actually execute as a grantor.

- **Audit requirement.** Recipients of federal grants that expend more than $750,000 in federal awards are required to get an audit in that year. If you fall below that threshold, you are not required to get an audit as a condition of expending federal grant monies.

- **Clawback.** Perhaps the biggest risk is that, if you don't spend the monies appropriately or fail to follow the grant regulations, you may need to repay them to the grantor. So, it is critical to have adequate monitoring controls in place to ensure that you are managing this clawback risk.

So, given these additional burdens discussed above, a question you may be asking is "how much does that realistically cost me"? While there is no widely available data indicating that cost, the federal government does allow, as part of its Uniform Grant Guidance, that a 10 percent administrative indirect cost rate can be charged to the federal government. While this is really meant to defray the indirect costs of administering the grant, I have always thought of this as a way of funding the administrative burden that the grantor imposes. That rate represents a floor, not a ceiling, though, in terms of administrative burden. My experience is that the compliance costs can generally run up to 25 percent of the grant funding received.

In closing, be wary of the allure of this "easy money". It can come with many strings attached, imposing extra burdens that must be managed, and, if not managed well, can lead to a risk of having to repay that money. However, if well monitored and managed, grant monies can be a great new source of funding supporting your mission

> "Before you go chasing those new grants, you should be aware that they can come with a heavy administrative burden."

By Jack Reagan, Managing Director (Columbia, MD)

GUIDESTAR AND METRICS: BIG DATA IS AVAILABLE AND VALUABLE!

GuideStar® is a major player and one of the top charity watchdogs in the United States. Through their website at www.guidestar.org, they provide all tax exempt entities in the US with the ability to tell their story, share their mission and solicit program funding. This article highlights how big data from tax exempts and their tax filings of form 990 can be leveraged to provide valuable information to the Not-For-Profit (NFP) sector. Specifically, they ask tax exempts for the following:

- Overview – general information, mission and impact statements.
- Financial data – revenues, expenses, expense details for independent contractors, and balance sheet data.
- Documents – 990s, 990-Ts, audited financial statements, annual reports, and IRS filings (form 1023/determination letters).
- Programs & results – details on all programs, including program outcomes and funding needs.
- People & governance – principal officer, CEO, board chair, board leadership practices, list of board/officers, highest paid employees. and compensation, organizational demographics, paid tax return preparer and independent contractors and compensation.

GuideStar's website provides free access to certain basic data on all tax exempt entities (search for entities and access the most recently filed 990s for 3 years) – all you need to do is register. However, they offer access to their metrics and valuable data to compare your organization on financial and compensation of similar organizations for fees for certain types of data. Our firm has a pro-series license that provides us with significant and unique data and metrics, including access to all 990s on file and the ability to download revenues, expenses and balance sheet data for the past 5 years. What does that mean to you - Big Data is available to you. For example, they classify entities by applicable Internal Revenue Code (IRC) section with the vast majority as traditional public charities "501(c)(3)s".

Guidestar Data by Type of Tax Exemption:		# of Entities	Percentage
Public charities - charitable, religious, scientific, literary & other	501(c)(3)	1,688,590	66.7%
Private non-operating charities	501(c)(3)	179,931	7.1%
Private operating charities	501(c)(3)	10,507	0.4%
Civic leagues and social welfare	501(c)(4)	150,416	5.9%
Labor & agriculture	501(c)(5)	73,076	2.9%
Business leagues/associations	501(c)(6)	96,079	3.8%
Social & recreational	501(c)(7)	78,512	3.1%
Fraternal societies	501(c)(8)	93,014	3.7%
Political organizations	527	2,404	0.1%
Nonexempt charitable trusts - public charities	4947(a)(1)	1,342	0.1%
Nonexempt charitable trusts - private foundations	4947(a)(1)	8,638	0.3%
Other tax exempt entities -501(a), 501(c), 170(c) and 54	31 others	147,628	5.9%
	Totals	**2,530,137**	100.0%

The next two tables illustrate how GuideStar classifies entities by entity type and 990 and single audit filings. You will notice that 17.2 percent of the database of entities are revoked due to the lack of tax filings. Also, only 14.4% of all entities file the full form 990 (as compared to forms 990-EZ and 990-N (e-postcard). Only one percent of these entities have single audits under the Uniform Guidance for federal award expenditures > $750,000. With the new tax act recently signed into law on Dec. 22, 2017 *"Tax Cuts and Jobs Act (TCJA)"*, it is anticipated that many more entities will be filing form 990-T for unrelated business income due to several changes in the tax laws, including, but not limited to, the limits on the use of net operating loss carryovers (now limited to each activity), taxing of certain fringe benefits (transportation, on-premises gyms & other athletic facilities), and payment of excessive "parachute" compensation to the highest-paid employees).

Guidestar Stats - Entity Type:		# of Entities	Percentages
Parent entities		4,871	0.2%
Subordinate entities		786,265	31.1%
Independent entitles		1,739,001	68.7%
	Totals:	**2,530,137**	100.0%
Revoked (those that have not filed a 990 form in the last 3 years)		434,069	17.2%

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Guidestar Stats - 990 and Single Audit Filings:	# of Entities	Percentages
990 (for revenues> $200,000 or assets> $500,000)	363,411	14.4%
990-PF (private foundations)	116,887	4.6%
990-T (for reporting unrelated business income and related taxes)	30,908	1.2%
Single Audit (for federal award expenditures> $750,000)	24,407	1.0%

Note that many corporations, lawyers and accountants use GuideStar to verify data on charities and use this information to offer advice to clients on the questions they have about transparency and financial accountability. Similar to other charity watchdogs like the Better Business Bureau and Charity Navigator, they assign seals of transparency, based on the data provided (e.g., platinum, gold, silver & bronze).

Other Guidestar Stats - Entity Profile "Seal of Transparency"		# of Entities	Percentage
Platinum		4,138	0.2%
Gold		11.454	0.5%
Sliver		17,145	0.7%
Bronze		16,659	0.6%
No rating		2,480,741	98.0%
	Totals	**2,530,137**	100.0%

It is imperative that your charity periodically update and monitor its data with GuideStar and other charity watchdogs. Transparency and accountability are critical to positioning your entity for consideration for funding from major donors.

As noted previously, UHY Advisors can provide you with custom reports that benchmark your entity against others. The comparisons can be geographic, by IRC section, by mission focus based on codes of National Taxonomy Exempt Entities (NTEE), financial data (such as revenues/expenses > $1 million), as well as many other types of data.

UHY Advisors has offices In 17 cities and 10 states	State	# of Entities by State	# of 501(c)s with Revenues/Expenses > $1 million	
Irvine (Orange County)	CA	267,900	10,363	
West Hanford and Norwalk	CT	31,672	1,491	
Miami	FL	134,667	4,130	
Atlanta	GA	71,757	1,990	
Chicago	IL	110,062	4,210	
Columbia and Frederick	MD	54,480	18,648	
Detroit, Sterling Heights, Farmington Hills and Ann Arbor	MI	80,524	2,679	
St. Louis	MO	57,945	1,839	
Albany, New York City and Rye Brook	NY	158,676	9,017	
Houston	TX	179,347	5,018	
Subtotals		1,147,030	59,385	62.9%
Other States/Areas		1,383,107	35,040	37.1%
Totals		**2,530,137**	**94,425**	**100.0%**
		100%	3.7%	

On January 23, 2018, the American Institute of CPAs sponsored a webinar "*Metrics for Mission Impact*" by Oracle-NetSuite®. This program featured the reporting hierarchy of NFPs including management reporting, financial reporting and tax/statutory reporting. In addition, they discussed how NFPs deal with issues involving new business models, new constituent expectations and disconnect between the front and back office. Finally, they illustrated the concept of *Mission Metrics: Proven Benefits for Nonprofits as Full Financial Transparency, Simplified Reporting and Compliance and Constituent Stewardship*.

Summary: The stakes are high for all exempt organizations to be transparent and accountable. Those entities that are proactive with their mission, their resources and their message will continue to thrive and be leaders in their fields. We look forward to continuing our role and sharing knowledge with those involved in the tax exempt area.

By Patrick Rohrkaste, Managing Director (St. Louis, MO)

NOT-FOR-PROFIT INDUSTRY INSIGHT

With the increasing complexity of laws and regulations, it's important for associations, foundations, charities, hospitals, schools and other tax-exempt entities to seek out professionals with extensive experience in nonprofit compliance issues. We understand there are many challenges affecting the industry and provide the attention needed to help clients stay focused on their job at hand.

UHY LLP's National Not-For-Profit Practice offers comprehensive audit and assurance, tax planning and compliance and business advisory services to meet the unique, complex needs of nonprofit organizations.

These types of specialized services, which cut across the traditional service lines, demonstrate our philosophy of skilled professionals integrating industry expertise with technical services.

OUR LOCATIONS

CA Irvine 949 556 8905
CT Norwalk 203 401 2101
CT West Hartford 860 519 1726
FL Miami 305 438 7993
GA Atlanta 678 602 4470
MD Columbia 410 423 4800
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MI Ann Arbor 734 213 1040
MI Detroit 313 964 1040
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