UHY LLP
Certified Public Accountants

ANNUAL NOT-FOR-PROFIT UPDATE

Thursday, August 23, 2018

Presented By:
Erica Battle, CPA
Marlene J. Beach, CPA

The next level of service

YOUR PRESENTERS

Erica Battle, CPA

Erica is a CPA specializing in Not-for-Profit attest and tax services. She has a Masters degree in Accounting from Walsh College and a Bachelors degree in Art History from the University of Michigan. Erica has over 20 years experience in providing accounting and management consulting services; with over 10 years dedicated specifically to nonprofit entities.

Erica's nonprofit experience includes not only accounting, but also development, marketing, strategic planning and governance. Before returning to CPA work in 2014, she worked at Gilda's Club Metro Detroit, Detroit Chamber Winds & Strings and the DIA. She is an active volunteer in the community, currently serving on the boards of Detroit Children's Choir, Signal Return, The Scarab Club, DIA Friends of Arts & Flowers, and as an advisory board member for Gift of Life Michigan and the National Association of Women Business Owners. She serves as a grant panel reviewer for Michigan Council for Arts & Cultural Affairs and takes an active role in nonprofit education, developing and presenting several workshops over the years.

Erica is also a member of the Michigan Association of Certified Public Accountants (MICPA), the American Association of Certified Public Accountants (AICPA) and the Society of Nonprofits

YOUR PRESENTERS

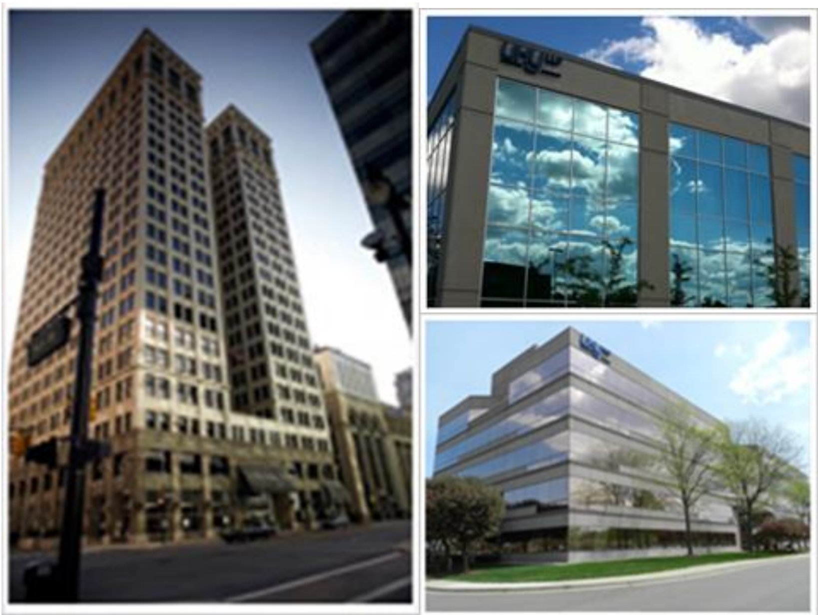
Marlene J. Beach, CPA

Marlene is a CPA, CFE, CVA specializing in Governmental, Educational and Not-for-Profit attest services. She has over 25 years experience in providing accounting and management consulting services. In addition to being a licensed CPA in Michigan, Marlene is also a Certified Fraud Examiner (CFE) and a Certified Valuation Analyst (CVA). As a part of and in addition to providing audit and attest services to governmental and private entities, Marlene has experience providing accounting system evaluations and internal control assessments

Marlene is a member of the Government Finance Offices Association's Special Review Committee for the Certification of Achievement for Excellence in Financial Reporting Program. As a part of this Committee, Marlene reviews CAFRS from different types of governments across the country, which offers her unparalleled exposure to the broad range of public-sector practice, and helps her to keep abreast of the most recent developments in authoritative standards affecting accounting and financial reporting for state and local governments.

Marlene is also a member of the Michigan Association of Certified Public Accountants (MICPA), the MICPA Governmental Accounting and Auditing Task Force, the MICPA Fraud Task Force, the American Association of Certified Public Accountants (AICPA), the Association of Certified Fraud Examiners, the National Association of Certified Valuators and Analysts, the Michigan Municipal League, the Michigan Government Finance Officers Association and the Michigan Association of Public Employee Retirement Systems. She is a former accounting instructor at Davenport University, speaks at State and Local conferences, and serves as the lead governmental and Single Audit instructor at UHY.

ABOUT OUR FIRM



LOCAL

- 50 years of experience
- Ranked 5th largest accounting firm in Southeast Michigan by Crain's Detroit Business
- 380 employees in Ann Arbor, Detroit, Farmington Hills and Sterling Heights
- Largest accounting firm presence in Macomb County
- Practice leaders with Big 4 experience and training

NATIONAL

- 17 offices across the US
- One of the top professional services firms in the country
- PCAOB registered
- Most recent peer review resulted in a *Pass* opinion, the highest possible result
- More than 750 professionals providing comprehensive audit, attest, tax, advisory and related services

INTERNATIONAL

- Member firms in 320 business centers across more than 95 countries
- Over 8,100 professionals
- 16th largest international accounting and consultancy network
- Member of the Forum of Firms

UHY'S NOT-FOR-PROFIT PRACTICE

- UHY LLP performs attest services for over 315 not-for-profit clients
- We perform over 60 Uniform Guidance single audits annually
- Our experience with not-for-profit entities includes the following sectors:
  - Arts and Culture
  - Health and Welfare
  - Educational Institutions
  - Foundations
  - Private Clubs
  - Religious Organizations
  - Trade Associations
  - Government Agencies
  - Other Public Sector Organizations

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UHY'S NOT-FOR-PROFIT PRACTICE

- Our team members are provided with national and local training specific to not-for-profit entities
- We utilize several resources to ensure our staff keeps current on all industry developments
- We provide periodic information and training seminars for our clients and other not-for-profit entities
- We issue a quarterly newsletter that focuses on issues specific to not-for-profit entities
- We send electronic e-blasts for hot topics affecting not-for-profits

NOT-FOR-PROFIT SERVICE OFFERINGS

Audit & Assurance

- Audits, reviews and compilations of financial statements
- Single audits
- Financial and compliance audits
- Attestation services including agreed-upon procedures reports and service auditor reports (SSAE16)
- Audits of financial statements of employee benefit plans
- Financial reporting assistance
- Collateral audits
- Implementation of accounting standards
- Audit committee advice
- Financial forecasts

Tax Planning & Compliance

- Preparation of Form 990, 990-T, 990-PF, and state equivalent returns
- Employee benefit plan filings (e.g., Form 5500)
- Related for-profit corporate, partnership and trust filings
- Tax incentives
- Unrelated business income tax (UBIT) planning
- Sales and use taxes
- Property tax planning
- IRS resolution

Other Advisory Services

- Charitable and trust registration preparation
- Form 1023 application assistance
- Financial fraud examinations and investigations
- Review and development of fraud prevention policies and procedures
- Resource Solutions
- Financing assistance
- Transaction Services
- Cost assignments and allocations
- Profit enhancement solutions
- Benchmarking
- Enterprise risk management
- Design, implementation and testing of internal controls
- Contract compliance

TOPICS

REVENUE RECOGNITION

(ASU 2014-09 & ASU 2018-08)

FINANCIAL STATEMENT UPDATES

(ASU 2016-14)

SINGLE AUDIT HIGHLIGHTS

TAX REFORM ACT

REVENUE RECOGNITION

(ASU 2014-09 & ASU 2018-08)

ASU 2014-09 Implementation Dates

Public Companies, Certain not for profits and certain employee benefit plans	All Other Entities
Fiscal years beginning after 12/15/17 (and interim periods within)	Fiscal years beginning after 12/15/18 (interim periods within fiscal years beginning after 12/15/29)

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Revenue Recognition: ASU 2014-09

Affects all entities that enter into contracts with customers to transfer goods or services or nonfinancial assets.

New revenue recognition policies should apply the following steps to recognize revenue from contracts:

- Identify the contract(s)
- Identify the performance obligation under the contract
- Determine the price
- Allocate the transaction price to the various performance obligations
- Recognize the revenue as the entity satisfies the performance obligations

Revenue Recognition: ASU 2018-08

ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

- Issued in June 2018
- Further clarification on contract revenue for nonprofits with respect to ASU 2014-9
- Effective for most entities beginning after December 15, 2018

Revenue Recognition: ASU 2018-08

Provides clarification for:

- Determining whether a transaction is a contribution or an exchange transaction (contract revenue)
- Distinguishes between unconditional and conditional contributions

Revenue Recognition: ASU 2018-08

Grants – contribution or contract?

- Grants from government or private sources need to be reviewed to determine if they have performance obligations as an exchange transaction, if not they are considered a contribution.

- Generally, cost reimbursing grants will continue to be accounted for as they have traditionally been under existing guidance- revenue is recognized as the allowable expenses are incurred.

FINANCIAL STATEMENT UPDATES

(ASU 2016-14)

ASU 2016-14 Implementation Dates

All Entities	
Fiscal years beginning after 12/15/18 (interim periods the following year)	

TRANSITION

- Transition:
  - In year of adoption apply <u>all</u> provisions of the new ASU
  - For comparative years presented; apply all provisions, except can choose not to present –
    - Analysis of expenses by nature and function (*except for Voluntary Health and Welfare Entities that are required under current GAAP to present Statement of Functional Expenses*), and/or
    - Disclosures around liquidity and availability of resources
  - In year of adoption, disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented.

SPECIFIC CHANGES

- Net Asset Classes
- Expense Reporting
- Investment Return
- Statement of Cash Flows
- Liquidity & Availability

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NET ASSET CLASSES

MOVE FROM THREE NET ASSET CLASSES TO TWO

Current Presentation	Unrestricted	Temporarily Restricted	Permanently Restricted
New Presentation	Without "Donor" Restrictions	With "Donor" Restrictions	

DISCLOSURE REQUIREMENTS

- With Donor Restriction
  - Include the nature and amount of the restriction

- Without Donor Restriction
  - Include board designated
    - New disclosure requirements for reporting amount, purpose and type of board designations

IMPLEMENTATION – BALANCE SHEET

- Standard presentation

Net assets:	
Without donor restrictions	97,677
With donor restrictions	115,657
Total net assets	213,334

- Further break-out is allowed

Net assets:	
Without donor restrictions -	
Undesignated	92,677
Designated by the Board for [purpose]	5,000
	97,677
With donor restrictions -	
Time restricted only, for periods after 20X1	5,250
Purpose restricted	8,250
Perpetual in nature	102,157
	115,657
Total net assets	213,334

EXAMPLE DISCLOSURES – BOARD DESIGNATIONS

- Balance Sheet

Net assets without donor restrictions:	
Undesignated	56,377
Quasi-endowment	35,000
Operating reserve	1,300
Total net assets	92,677

- Text disclosure in notes

Note 13 – Net Assets Without Donor Restrictions

The Board of Directors of XYZ Organization has several standing board policies that affect the presentation of board designations on net assets. Bequests without donor restrictions are designated for long-term investment (quasi-endowment). The quasi-endowment fund balance totaled $35,000 at December 31, 20XX. Additionally, the Board of Directors has established an operating reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need. The operating reserve balance totaled $1,300 at December 31, 20XX.

UNDERWATER ENDOWMENTS

- Revised net asset classification:
  - To be reflected in net assets with donor restrictions rather than net assets without donor restrictions

- Enhanced Disclosure
  - Current GAAP requirements to report aggregate amounts by which funds are underwater still apply, however now must also disclose the aggregate of the original gift amounts for the funds, the fair value and any board policy, or actions taken regarding appropriation from the funds

EXAMPLE DISCLOSURES - UNDERWATER ENDOWMENTS

Underwater Endowment Funds -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires NFP A to retain as a fund of perpetual duration. NFP A has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

As of June 30, 20X1, three donor-restricted endowment funds had aggregated original values totaling $3,500, current fair values totaling $3,300, and deficiencies totaling $200. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

EXPIRATION OF CAPITAL RESTRICTIONS

- Gifts of cash restricted for acquisition or construction of PP&E
  - No longer allowed to imply a time restriction, absent explicit donor stipulations
- Now use placed-in-service approach
  - Report expiration of restriction on donations used to acquire or construct a long lived asset
  - Reclassify amounts from donor restricted to without donor restrictions for long lived assets placed in services as of the beginning of the period of adoption
- Eliminates the option to release the donor imposed restriction over the estimated useful life of the asset

SPECIFIC CHANGES

- Net Asset Classes
- **Expense Reporting**
- Investment Return
- Statement of Cash Flows
- Liquidity & Availability

NEW REQUIREMENTS FOR EXPENSES

- Present an analysis of expenses by function and nature in one location
  - May be presented in the notes, in the statement of activities, or as a separate statement
  - Disaggregation of functional expense classifications by their natural expense classifications
  - Voluntary Health and Welfare entities no longer required to present a separate statement of functional expenses
- Include a description of the method used to allocate costs among program and support functions
- Additional guidance about management & general expenses

ANALYSIS OF EXPENSES - EXAMPLE

- Presentation in the notes or in a separate statement

	Program Services			Supporting Activities			
	Program A	Program B	Program Subtotal	Management and General	Fund-raising	Supporting Subtotal	Total Expenses
Salaries, benefits, and taxes	$ 7,400	$ 5,625	$ 13,025	$ 1,130	$ 960	$ 2,090	$ 15,115
Grants to other organizations	2,075	2,675	4,750				4,750
Supplies and travel	890	1,512	2,402	213	540	753	3,155
Services and professional fees	160	2,090	2,250	200	390	590	2,840
Office and occupancy	1,160	1,050	2,210	218	100	318	2,528
Depreciation	1,440	1,370	2,810	250	140	390	3,200
Interest	171	164	335	27	20	47	382
Total expenses	$ 13,296	$ 14,486	$ 27,782	$ 2,038	$ 2,150	$ 4,188	$ 31,970

ANALYSIS OF EXPENSES - EXAMPLE

- Presentation on face of the statement of activities

Expenses:	
Grant activities -	
Grants	$ 12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	17,059
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
	1,234
Total expenses	$ 18,293

EXAMPLE DISCLOSURE OF ALLOCATION METHODS

Note 5 – Methods Used for Allocation of Expenses Among Program and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include depreciation, the Executive Director's office, communications department, and information technology department. Depreciation is allocated based on a square footage basis, the Executive Director's office is allocated based on a time and cost study of where efforts are made, certain costs of the communications department are allocated based on the benefit received, and the information technology department is allocated based on a cost study of specific technology utilized.

ADDITIONAL GUIDANCE ON M&G ALLOCATION

- Activities that represent <u>direct conduct</u> or <u>direct supervision</u> of program or other supporting activities require allocation from management & general activities
- Examples added:
  - IT – benefits various functions and generally would be allocated
  - CEO – could be allocated to program, fundraising, M&G
  - CFO – could be allocated to M&G and investment expense
  - HR – generally would assign all to M&G
  - Grant Accounting and Reporting – program reports would be program (grant-related) but financial reports and related accounting would be M&G

SPECIFIC CHANGES

- Net Asset Classes
- Expense Reporting
- **Investment Return**
- Statement of Cash Flows
- Liquidity & Availability

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INVESTMENT RETURN

- Net presentation of investment expenses against investment return
  - Netting limited to EXTERNAL and direct INTERNAL expenses
  - **Removes** requirement to disclose the gross investment income and expense (permitted but no longer required)
    - Investment footnote
    - Endowment footnote

DEFINING INTERNAL INVESTMENT EXPENSES

Involve the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return.

- Salaries, benefits, travel, and other costs associated with staff responsible for development and execution of investment strategy
- Allocable costs associated with internal investment management and supervising, selecting, and monitoring of external investment management firms
- DO NOT include items that are not associated with generating investment return such as costs associated with unitization and other such aspects of endowment management

SPECIFIC CHANGES

- Net Asset Classes
- Expense Reporting
- Investment Return
- **Statement of Cash Flows**
- Liquidity & Availability

CHANGES TO STATEMENT OF CASH FLOWS

- Can continue to use either direct or indirect method
- If use direct, no longer required to show indirect reconciliation

SPECIFIC CHANGES

- Net Asset Classes
- Expense Reporting
- Investment Return
- Statement of Cash Flows
- **Liquidity & Availability**

LIQUIDITY AND AVAILABILITY OF RESOURCES

- Goal is to make it easier for the readers of the financial statements to assess an organization's liquidity and determine the resources available to fund general expenditures.
- *Qualitative* information on how a NFP manages its available liquid resources and its liquidity risk *(in the notes)*
- *Quantitative* information that communicates the availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year *(on the face of the financials and/or in the notes)*

COMPONENTS AFFECTING LIQUIDITY

- For Quantitative disclosure availability of financial assets are affected by:
  - Nature of the assets – i.e. receivables to be collected in more than one year, investments held in an annuity trust
  - External limits imposed by donors, laws, and contracts with others - i.e. restricted net assets (temporary restricted donations or endowment)
  - Internal limits imposed by board decisions – i.e. board designated assets, liquidity reserves
- For Qualitative disclosure consider items that are available in the event of unanticipated liquidity needs:
  - Unused lines of credit
  - Release of board designations
  - Long term investments

SAMPLE FOOTNOTE

Note 8 – Availability of Financial Assets

The following reflects the organization's financial assets as of 12/31/2018, reduced by the amounts not available for general use within one year due to contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long term investing in the operating activities or capital reserves. These amounts could be drawn upon if the governing board so approved.

Cash	$ 35,142
Investments	267,890
Receivables	61,300
Total financial assets	364,332
Receivables to be collected in more than one year	(30,000)
Restricted funds	
Endowment	(115,000)
Other donor restrictions	(23,000)
Investments in a charitable remainder trust	(20,000)
Board designated funds	
Capital reserves	(15,000)
Operating Reserves	(10,000)
Financial assets available to meet general expenditures within one year	$ 151,332

TIPS FOR SUCCESSFUL IMPLEMENTATION

- Preparer and auditor collaboration
  - Review the requirements and determine that the message you want to convey to your stakeholders complies with the requirements

- Review sample disclosure
  - Obtain a few examples to see what is the best fit for your organization.

- Engage those charged with governance
  - Discussions with board members responsible for financial reporting oversight should be considered. Proactive engagement upfront will curtail last minute confusion and disruption

SINGLE AUDIT HIGHLIGHTS

SINGLE AUDIT HIGHLIGHTS

- **Session Outline**
  - What Is The Yellow Book?
  - Single Audit Components
  - What To Look For In An Audit Firm?

SINGLE AUDIT HIGHLIGHTS

- **What is the Yellow Book?**
  - Generally Accepted Government Auditing Standards ("GAGAS")
  - Issued by the Comptroller General of the United States
  - United States Government Accountability Office

SINGLE AUDIT HIGHLIGHTS

- **When is a Yellow Book Audit Required?**
- Single Audit
  - Federal Grant Expenditures of $750,000 or more
- When required by the grant agreement
- State Regulation
  - K-12 Schools
  - Community Mental Health Authorities

SINGLE AUDIT HIGHLIGHTS

- **Single Audit Components**
- Financial Statement Audit
  - Federal Award Expenditures of $750,000 or more
- Compliance Audit of Federal Awards Expended
- Federal Awards do not have to be received directly from the Federal Government

SINGLE AUDIT HIGHLIGHTS

- **Federal Financial Assistance**
  - Grants
  - Cooperative Agreements
  - Loans
  - Loan Guarantees
  - Property – including donated surplus property
  - Interest Subsidies
  - Food Commodities

SINGLE AUDIT HIGHLIGHTS

- **What to Look For In an Audit Firm**
  - Independence

SINGLE AUDIT HIGHLIGHTS

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- **What to Look for in an Audit Firm**
- Education and Certification
  - CPA
- Peer Review

SINGLE AUDIT HIGHLIGHTS

- **What to Look for in an Audit Firm**
- Continuing Education
  - 24 hours of classes specific to auditing the single audit and government fields
  - Additional 56 hours of classes that enhance the auditor's expertise in single audit and government fields

SINGLE AUDIT HIGHLIGHTS

- **What Makes UHY Qualified**
  - UHY is a licensed CPA Firm with licensed CPAs
  - UHY personnel teach Single Audit classes at MICPA conferences
  - UHY personnel attend numerous conferences sponsored by the AICPA and the MICPA
  - UHY personnel that work on Single Audits are required to attend training classes specific to the Single Audit Environment
  - UHY personnel have written and administered federal grants

TAX REFORM ACT

TAX REFORM ACT – DIRECT IMPACTS TO NONPROFITS

- Unrelated Business Income (UBI)
- Executive Compensation Tax
- Endowment Excise Tax
- Taxes on Fringe Benefits Provided to Employees
- Repeal of Advance Refunding Bonds
- Athletic Seating

UNRELATED BUSINESS INCOME

- UBI will no be calculated separately for each unrelated trade or business activity – therefore UBI from one activity can no longer be used to offset the income of another unrelated activity
- No carryback of Net Operating Losses (NOL) will be allowed; however, carryforwards do not expire, but are limited to 80% of taxable income
- The UBI tax rate will now be 21 % flat rate

EXECUTIVE COMPENSATION TAX

- Compensation in excess of $1 million will now be subject to a 21% excise tax
- Excessive parachute compensation paid to any covered employee will also be subject to excise tax
  - Covered employees are current or former employees who is one of the five highest compensated employees for the current tax year, or was previously a covered employee for any preceding tax year after 12/31/16
  - Parachute payments are generally any payments that exceed 3 times the base   compensation. Employees paid under $120k are excluded
  - Medical professionals are excluded
- Expect additional scrutiny for employees being classified as contractors or employees compensated through pass-through or other entities in order to avoid the excise tax.

ENDOWMENT EXCISE TAX

- Net investment income of certain private colleges and universities will now be subject to 1.4% excise tax.
- Applicable institutions are those that have:
  - At least 500 tuition paying students
  - More then 50% of tuition-paying students located in US
  - College/University is not defined as a state college or university
  - Aggregate FMV of assets of at least $500k per student at the end of the preceding tax year

TAXES ON FRINGE BENEFITS PROVIDED TO EMPLOYEES

- Funds used to pay for employee transportation fringe benefits and on-premises athletic facilities will be treated as unrelated business income

REPEAL OF ADVANCE REFUNDING BONDS

- Interest on a bond issued to advance refund another bond will now be included in gross income (previously excluded from gross income).
  - Advance refunding bonds are used to refinance debt at lower rates and to pay principal, interest, or the redemption price on a prior bond issue. These bonds would be issued more than 90 days before the redemption of the prior issue.

ATHLETIC SEATING

- Charitable deductions will no longer be allowed for donations if the donor received the right to purchase tickets or seating to athletic events.

CONTACT INFORMATION

Erica Battle, CPA

ebattle@uhy-us.com

(248) 204-9374

Marlene J. Beach, CPA

mbeach@uhy-us.com

(248) 204-9427

www.uhy-us.com