
Perspectives

November 3, 2015





ESTABLISHING A 3-YEAR STRATEGY THAT WORKS



McGohan
Brabender



WHAT SUCCESS LOOKS LIKE AFTER TODAY'S SESSION

- 1** UNDERSTANDING OF WHAT IS INVOLVED
IN A MULTI-YEAR STRATEGY
- 2** EVERY GROUP HERE IS IN A DIFFERENT SPOT; BUT...
- 3** YOU MUST BE OPEN TO LOOKING AT THINGS
FROM A DIFFERENT PERSPECTIVE



DO YOU CURRENTLY HAVE A MULTI-YEAR
STRATEGY IN PLACE?

CAN YOU ANSWER YES TO 3 QUESTIONS?



IT ALL BEGINS WITH A PLAN...



PLANNING

MUCH WORK REMAINS TO BE DONE BEFORE WE CAN ANNOUNCE
OUR TOTAL FAILURE TO MAKE ANY PROGRESS.



CORE BELIEFS / STRATEGIC CONVERSATION

Our Current Program is...

Efficient	Shared Responsibility	Best
Flexible	Comprehensive	Behavior-influencing
Basic	User-friendly	Complex
Leading Edge	Fair	Simple
Value	Service Related	Under-valued
Expensive	Visible	Family-friendly
Choice	Security	Appreciated
Convenient	Portable	Understandable
Non-issue	Obligation	Adequate
Paternalistic	Predictable	Results-Based
Fragmented	Attractive	Under-Appreciated
Affordable	Retention	Competitive
Entitlement	Empowered	Traditional
Understood	Consumerism	Confusing
Innovative	Accountable	

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WHY?

ANSWERS THREE BASIC
QUESTIONS – FROM
THOSE ANSWERS
BECOME A PLAN

PROVIDES GUARDRAILS



CORE BELIEF TAKEAWAY #1

THE Toughest Decision – Are You Willing to Treat Your Employees Differently?



ENGAGED & COMPLIANT



ENGAGED & NON-COMPLIANT



DISENGAGED & NON-COMPLIANT



CORE BELIEF TAKEAWAY #2

Incentive Approaches



CORE BELIEF TAKEAWAY #3

Intensity / Urgency of Change



CRAWL



WALK



RUN



NOW WHAT?

Decision Time



DECISION MAKING

When decisions are not based on information, it's called gambling.



NOW WHAT?

Determine What is Driving Your Costs



"THE 13¢"

"Traditional Brokerage Services" that are often on auto-pilot



WHO SHOULD BE ON/OFF THE PLAN?

*SPOUSAL SURCHARGE & CARVE-OUTS
OVER 65 WORKING EMPLOYEES
"OTHERS"*

OTHER SURCHARGES

TOBACCO

ACCESS TO CARE

*PCPs – ER/UC
TELEMEDICINE
TRANSPARENCY*

CARVE-OUTS (RX / STOP-LOSS)

PLANS & FUNDING*

INCENTIVE APPROACH*



"THE 87¢"

Where the Real Opportunity Exists



UNDERSTANDING
THE CLAIMS STORY

STRATIFICATION
OF THE RISK

TRANSFORMATION
OF THE RISK



Now What?

UNDERSTANDING THE CLAIMS STORY



Now What?

STRATIFICATION OF THE RISK



69 ARE OVERWEIGHT



36 OF THOSE ARE OBESE
(A BODY MASS INDEX ABOVE 30)



12 HAVE DIABETES
(3 OF THEM DON'T KNOW IT...YET)



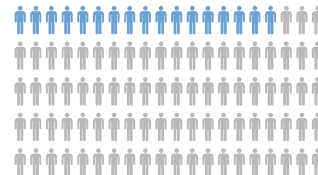
41 LIVE WITH CHRONIC PAIN



39 HAVE PRE-DIABETES
(THIS IS THE NUMBER WE NEED
TO PAY PARTICULAR ATTENTION
TO... THE CLOCK IS TICKING)



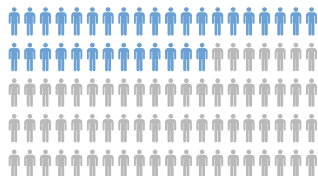
33 HAVE HIGH BLOOD PRESSURE



17 HAVE HIGH CHOLESTEROL



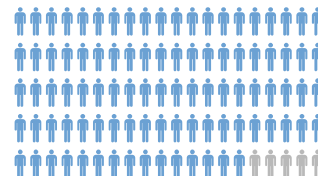
62 HAVE SLEEP ISSUES



33 HAVE HIGH TRIGLYCERIDES



19 SMOKE



95 FAIL TO GET ENOUGH
PHYSICAL ACTIVITY



77 STRUGGLE WITH STRESS



Now What?

STRATIFICATION OF THE RISK

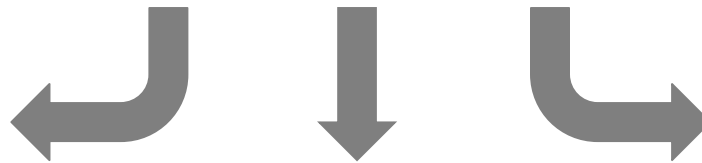


BIOMETRICS

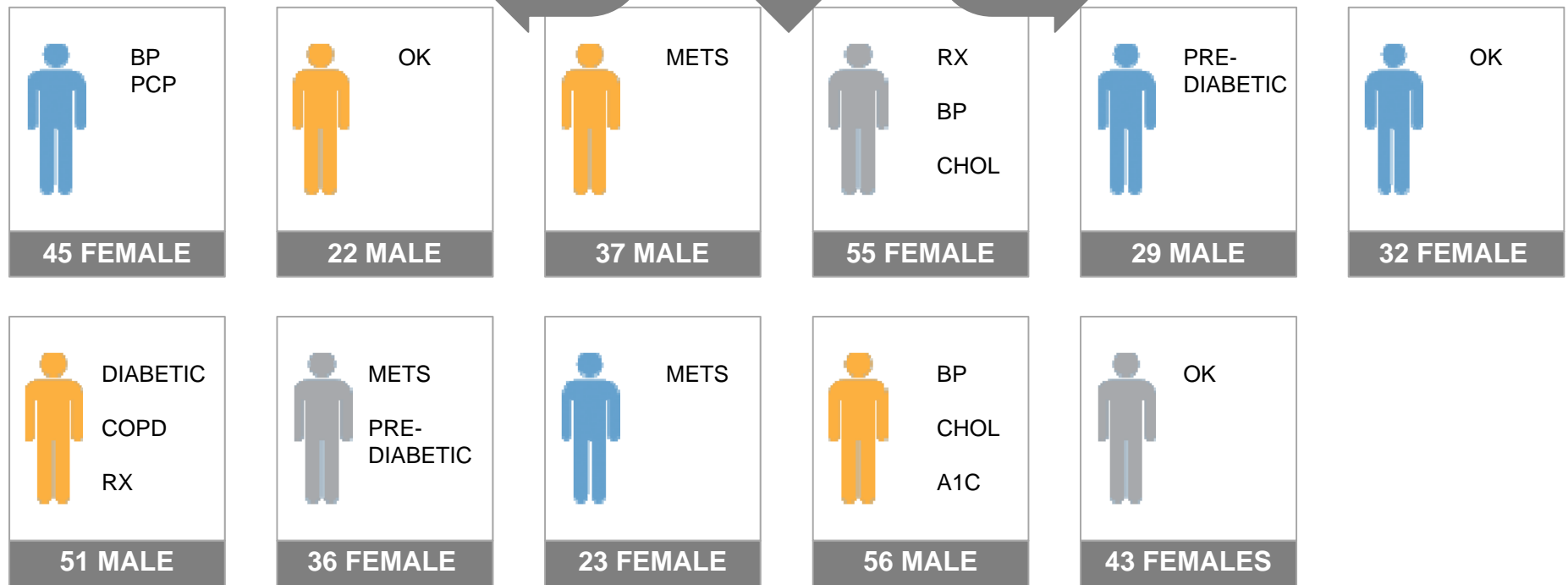
INTAKE QUESTIONS

CLAIMS DATA

DATA ANALYTICS




Now What? STRATIFICATION OF THE RISK





Matching People to Programs

TRANSFORMATION OF THE RISK



MetS 


Rx ADHERENCE 


DIABETES 


DIABETES 

MSK 


ER VISITS 


PRE-DIABETIC 


MetS 


DEPRESSION 


DIABETES 


CHOLESTEROL 


ER VISITS 


DIABETES 

MetS 

Rx ADHERENCE 

DIABETES 

TOBACCO 

BP 



Engagement

TRANSFORMATION OF THE RISK



MOTIVATION

It's not that I'm lazy, it's that I just don't care.



Engagement

TRANSFORMATION OF THE RISK

HOW WILL YOU GET THEM TO ENGAGE?



– 20



ENGAGEMENT/ACCOUNTABILITY

What Drives Behavioral Change?

***IS A \$10 SMOKING SURCHARGE GOING
TO CHANGE BEHAVIOR?***

***IS A \$25 GAS CARD FOR PARTICIPATING
IN A BIOMETRIC SCREENING GOING
TO CHANGE BEHAVIOR?***

***IS A WATER BOTTLE, T-SHIRT OR PEDOMETER
GOING TO CHANGE BEHAVIOR?***



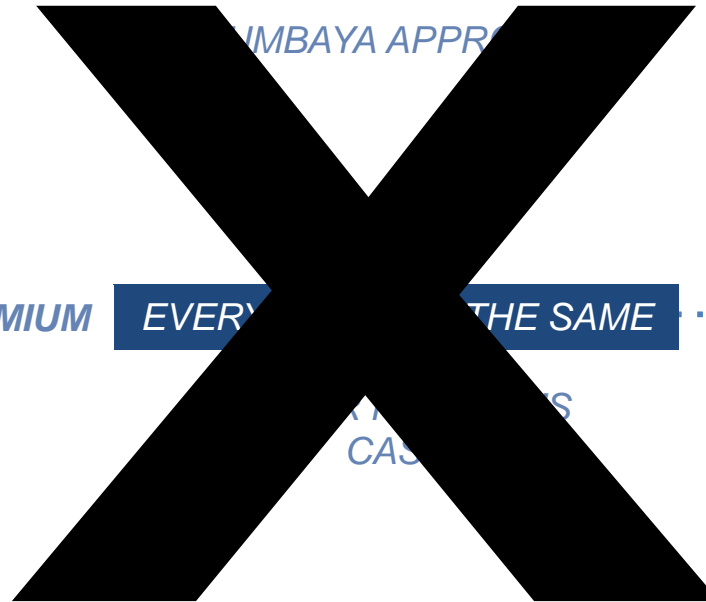
ENGAGEMENT/ACCOUNTABILITY

What Drives Change?

STICK YOUR FOOT TO THE COMMUNICATIONS COMMITMENT



Incentive Approaches
ENGAGEMENT/ACCOUNTABILITY



WHY IT DOESN'T WORK



Incentive Approaches

ENGAGEMENT/ACCOUNTABILITY

YEAR 2 - 3

*DISENGAGED EMPLOYEES
PAY HIGHER PREMIUMS*

PREMIUM

EVERYONE PAYS THE SAME

*ENGAGED EMPLOYEES
PAY LOWER PREMIUMS*

YEAR 2 - 3

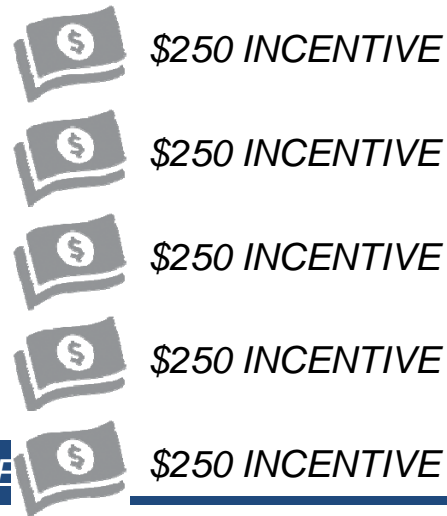


Incentive Approaches

ENGAGEMENT/ACCOUNTABILITY

HSA

RENTER OF INSURANCE



..... PREMIUM

OWNER OF INSURANCE



We Manage What We Measure
MEASUREMENT



We Manage What We Measure

MEASUREMENT

“THIS IS THE SINGLE BIGGEST OVERLOOKED COMPONENT”

*“IT DOESN’T MATTER IF IT’S ACTIVITIES OR OUTCOMES-BASED,
IF WE CAN’T MEASURE ITS EFFECTIVENESS, WE SHOULDN’T BE DOING IT”*

YEAR 1 (for first-timers)		YEAR 2			YEAR 3		
	EE	EE	SP	EE	SP		
Biometrics	60%	65%	60%	80%	80%		
Preventive Screenings	60%	70%	60%	80%	80%		
Tobacco Users	22%	15%	20%	10%	10%		
Pricing Transparency	70%	80%	70%	80%	80%		
Telemedicine Intro	70%	80%	70%	80%	80%		
Clinical Program #1		60%				OUTCOMES BASED	
Clinical Program #2		60%					
Clinical Program #3		60%					

PARTICIPATION-BASED MOVING TO OUTCOMES



We Manage What We Measure

MEASUREMENT

CLAIMS DATA

IS THE GROUP BETTER, WORSE, SAME?

KEEP IN MIND...

RX CLAIMS

KEEP IN MIND...

DATA ANALYTICS

PROJECTIONS AND RISK SCORES



THINGS TO KEEP IN MIND...

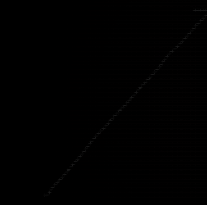
Year 1

Year 2

Year 3

SUCCESS

SUCCESS



WHAT PEOPLE THINK
IT LOOKS LIKE

WHAT IT REALLY
LOOKS LIKE

fast
FORWARD →



QUESTIONS?

THANK YOU!

David Homan
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Panel Discussion: Merger Activity Inside a Not-For-Profit

Tom Powers – Director of Assurance and Business Advisory Services,
GBQ Partners LLC

Chuck Gehring – CEO, LifeCare Alliance

Ed Cohn – CEO & President, Big Brothers Big Sisters of Central Ohio



Protecting Your Organization From Financial Fraud

Presenter: Rebekah Smith



Presented By:

Today's presenter:

Rebekah A. Smith, CPA, CFF, CVA, MAFF

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Why Are We Here?



Ripped from the Headlines!

- Man Facing Charges in \$8.7 Million Ohio Embezzlement Case
 - Exec Bilked \$850K from Sports Medicine Practice
 - Ohio Man Sentenced in \$1.9 Million Healthcare Fraud
 - Former Coastal Orthopedics Worker Admits Stealing \$860,000
 - Ohio Man Sentenced for Embezzling \$442K from Financial Clients
 - Woman Convicted for \$1.7 Million Embezzlement from Employer
 - Ohio Man Charged in \$2.5 Million Embezzlement from Credit Union
 - Ohio Man Charged with Embezzling \$1.8 Million from Credit Union
 - Ohio Man Indicted on Charges He Allegedly Embezzled over \$1 Million from Insurance Carrier
-

What is Fraud?



Defining Fraud

Financial Crimes

- The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

Other Types of Fraud

- Mortgage Fraud
- Identity Fraud (Frank Abagnale)
- Money Laundering
- Corruption

Association of Certified Fraud Examiners

Report to the Nations

No way this could
happen in my
organization!!

Report to the Nations

- 2014 Global Fraud Study
- 1,483 cases of occupational fraud that were reported by the people who investigated the frauds
- 100 countries, 6 continents
- "...how consistent the patterns of fraud are around the globe and over time."

**Organizations lose 5% of their
revenues to fraud**

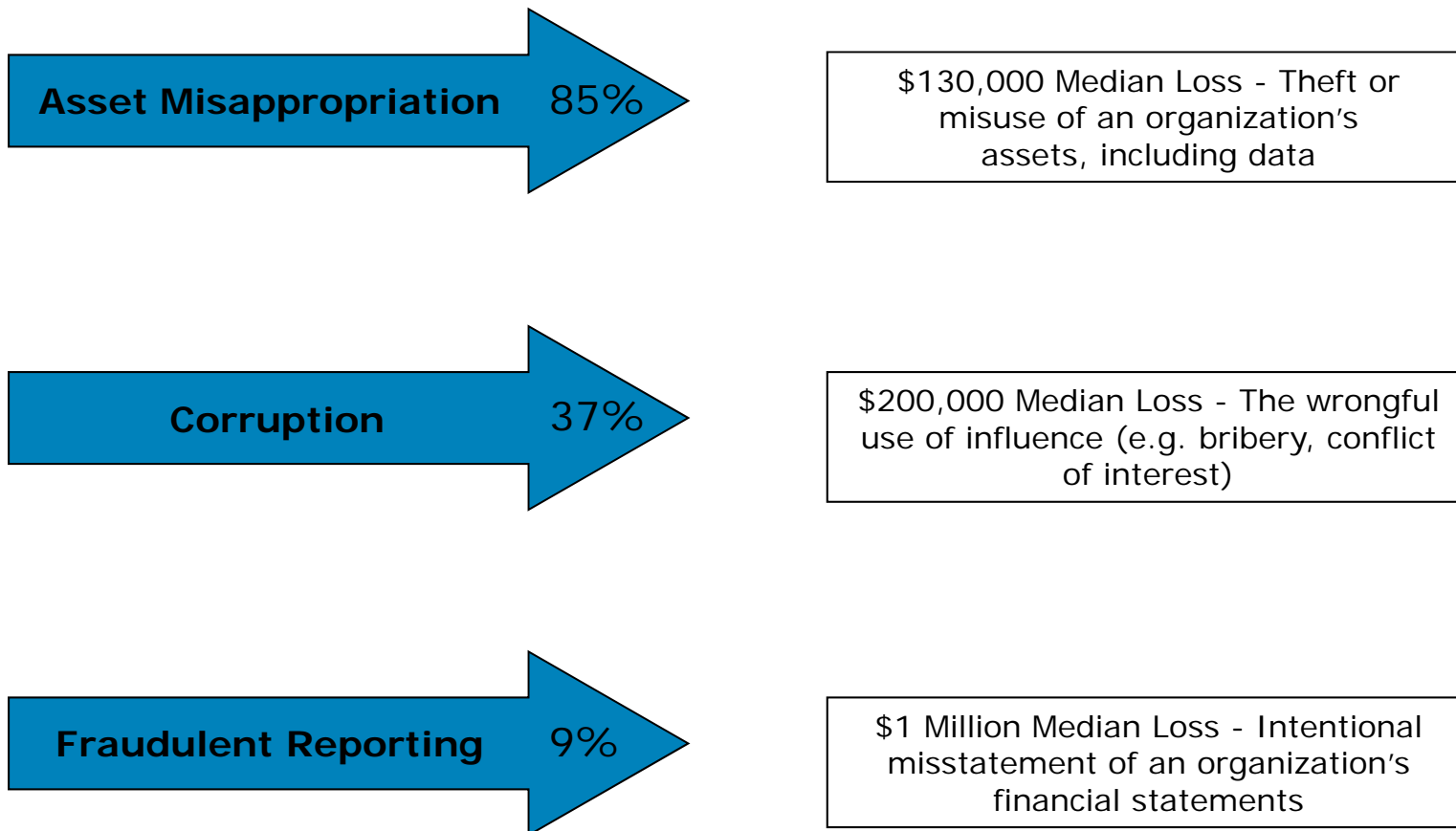
Summary of the Report to the Nations

Median loss	• \$145,000 (up from the prior study of \$140,000)
Time to discovery	• 18 months before being discovered (same as prior study)
Over \$1 million	• More than 22% were \$1 million or more
Common Scheme	• Most common is asset misappropriation (cash, inventory, assets) but the least costly
Most costly	• But not as frequent was financial statement fraud
Identification	• Most common method for identification – A tip
Hotlines	• Very helpful! Organizations with hotlines were much more likely to catch a fraud by a tip. Frauds in these organizations were less costly, Detected frauds 50% more quickly
Who	• Higher the level in the organization, the greater the loss

Source: ACFE 2014 Report to the Nations

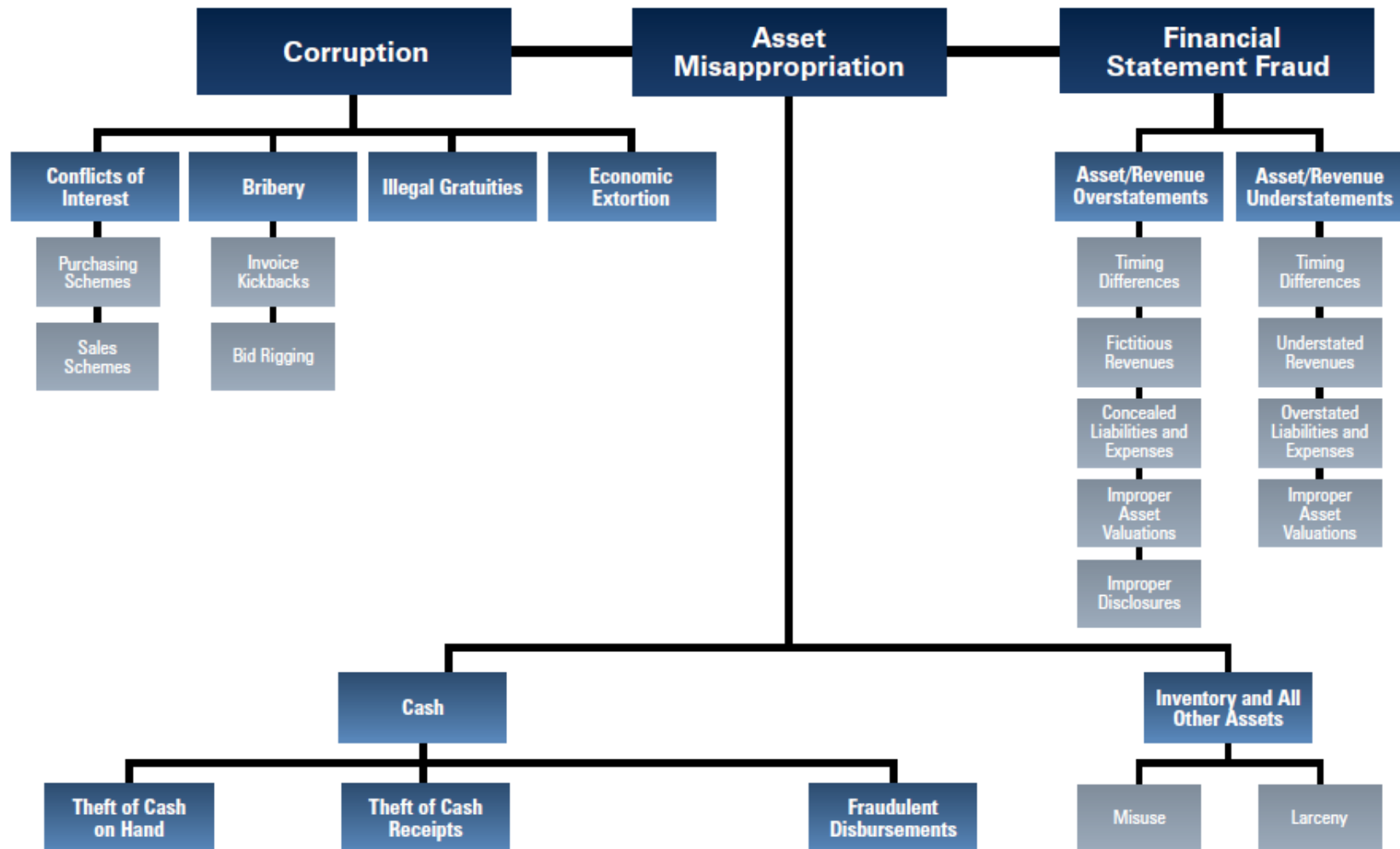


Types of Fraud



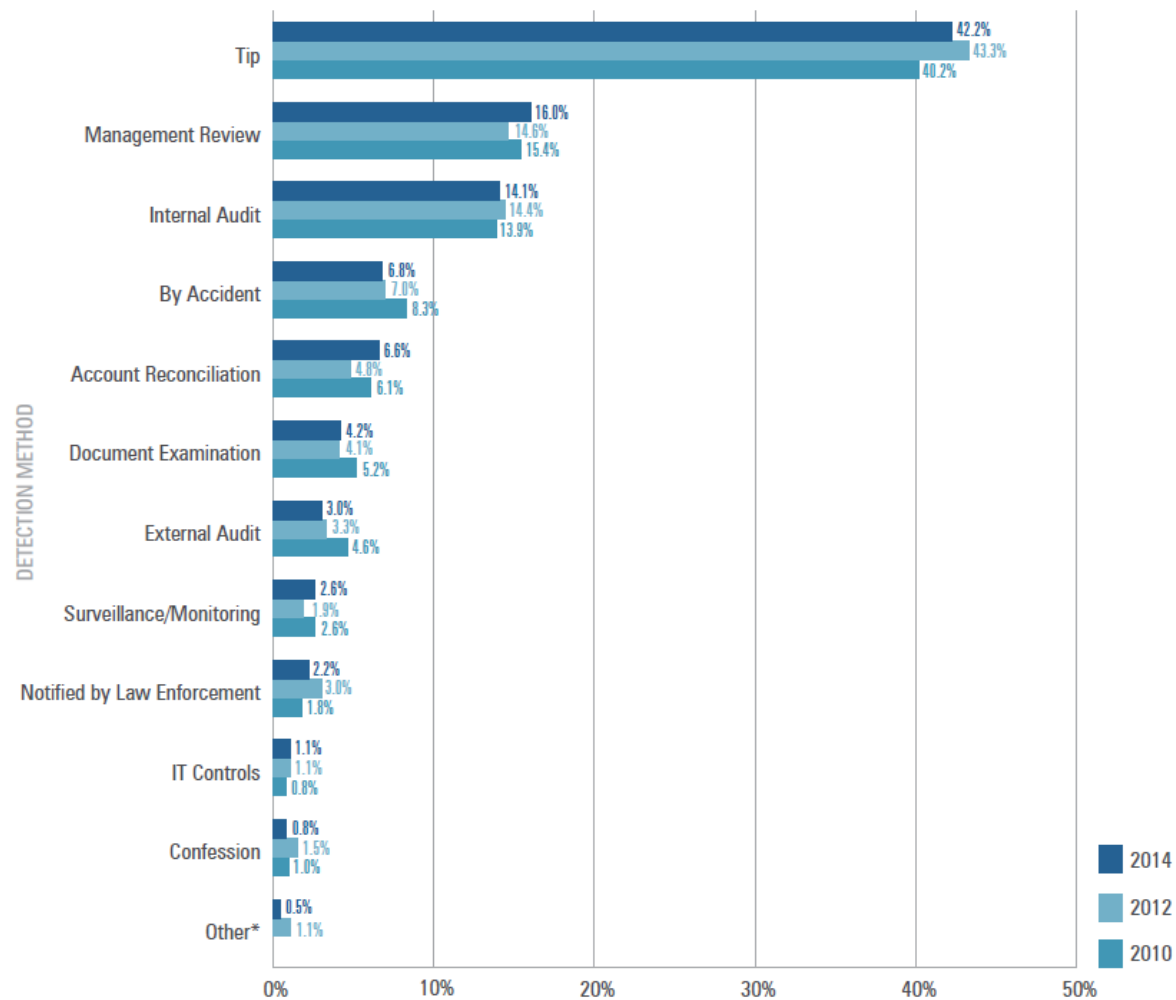
Source: ACFE 2014 Report to the Nations

Types of Fraud



Source: ACFE 2012 Report to the Nations

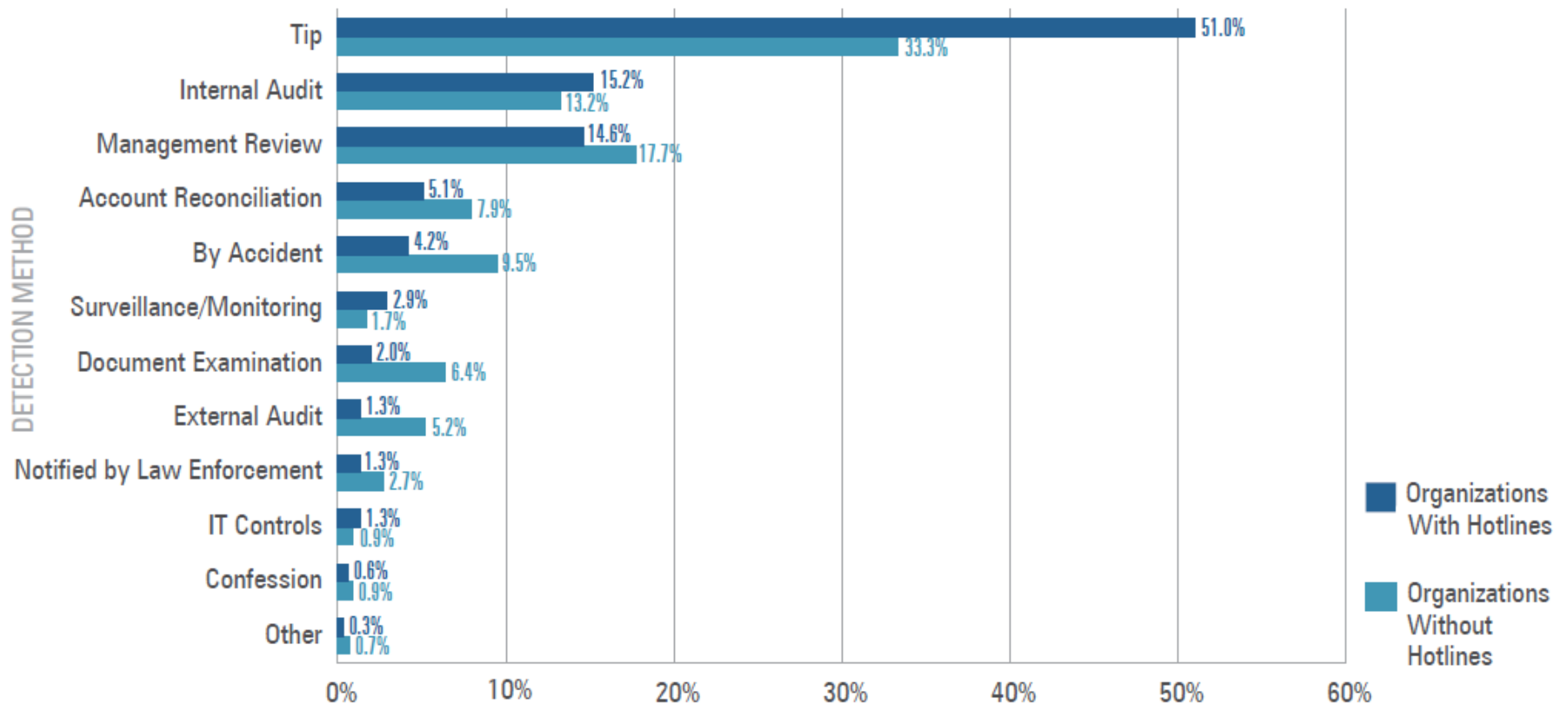
Detection of Occupational Fraud



Source: ACFE 2014 Report to the Nations



Impact of Hotlines

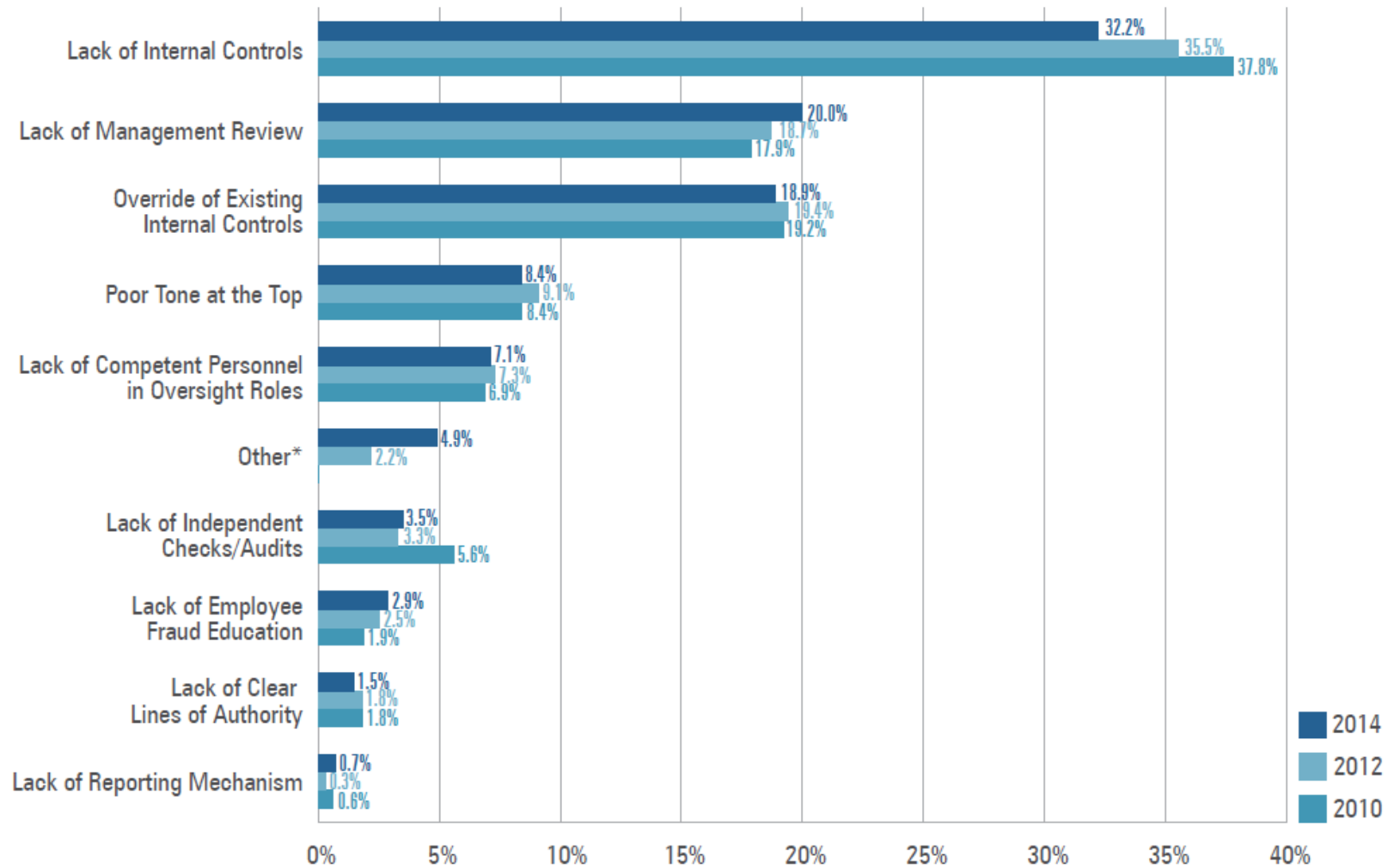


<http://www.redflagreporting.com/>

Source: ACFE 2014 Report to the Nations



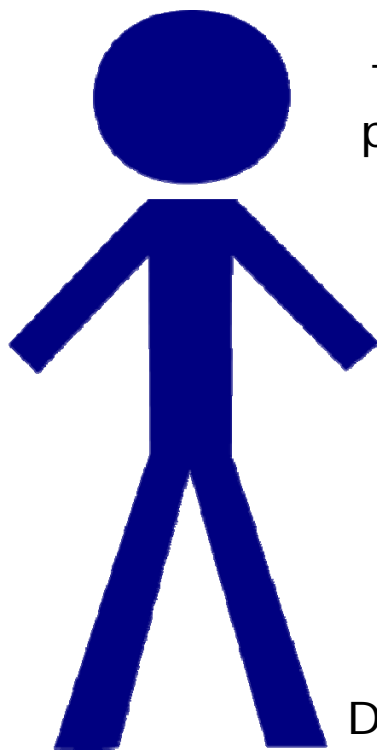
Factors Contributing to Fraud



Source: ACFE 2014 Report to the Nations



Fraud Perpetrators



The typical perpetrator is:

Tenure

Frequency

Department

- Without prior conviction (87%) or job termination/discipline (84%) for fraud
- Will probably act alone
- Male (57% in the U.S.)
 - Median losses for males are higher than females
- Between 31 and 45 years old (52%)

- The longer the tenure the greater the median loss

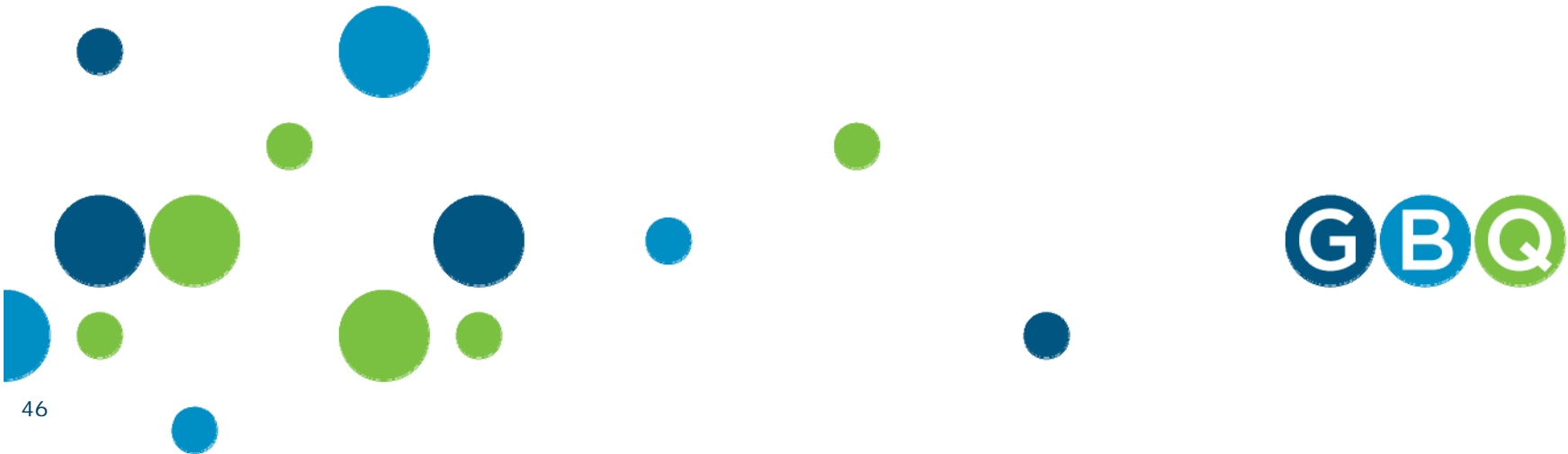
- Higher with employees at the 1-5 years of tenure

- Accounting department had the highest of all frauds, followed by operations, sales and executive management

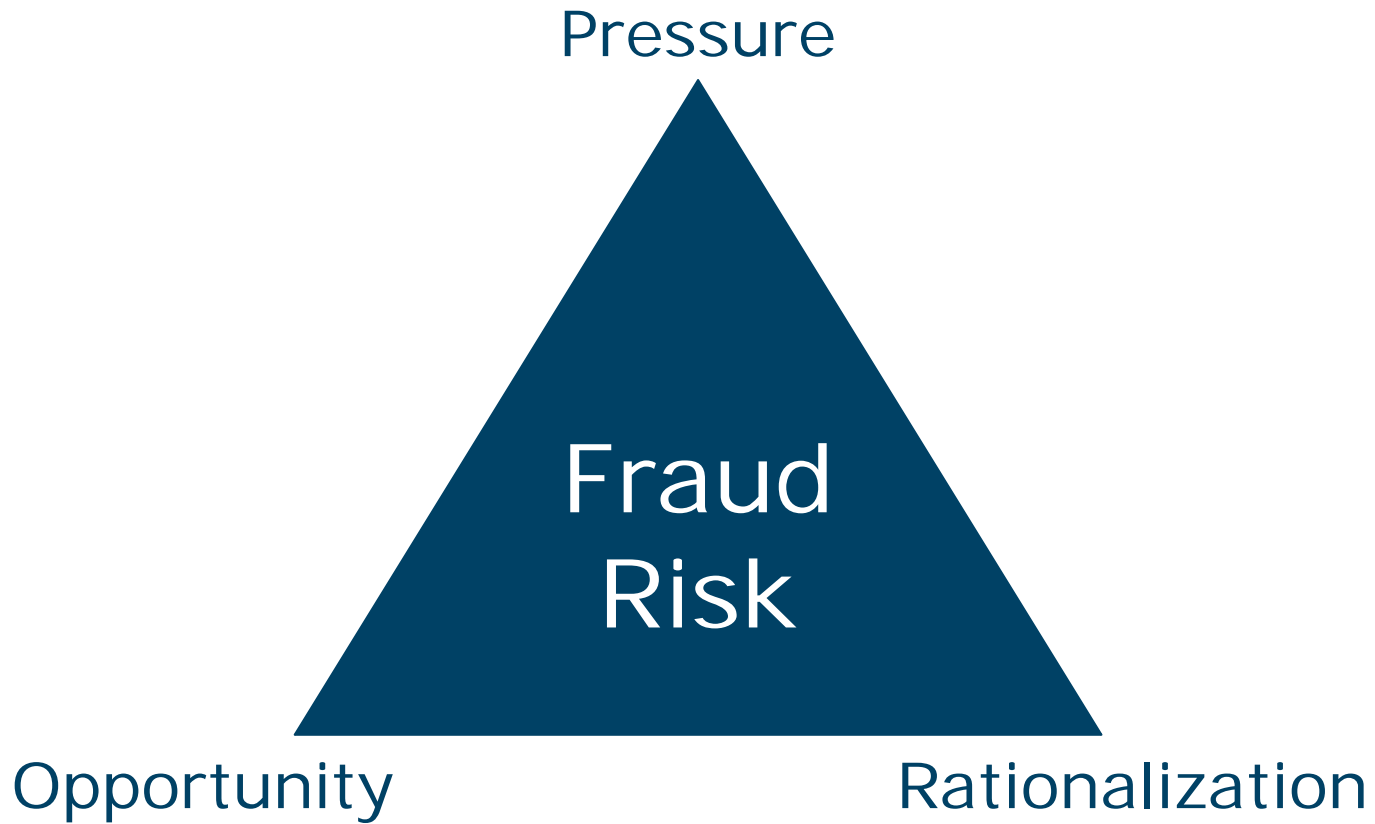
Source: ACFE 2014 Report to the Nations

Psychology of Fraud

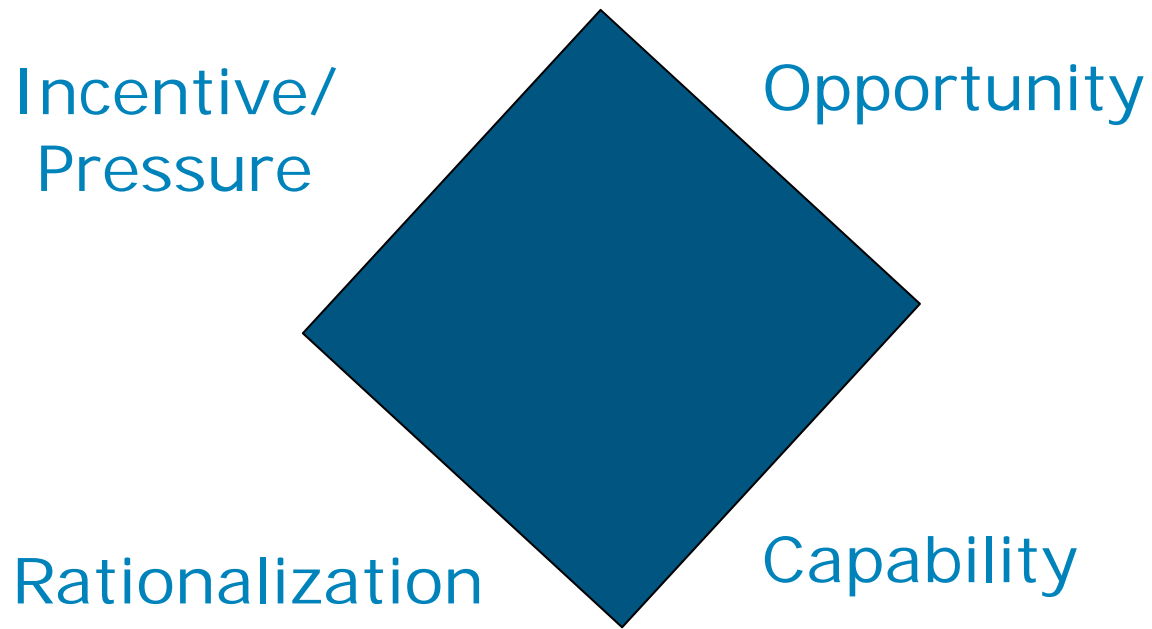
Why do they do it?



Understanding the Psychology of Fraud



Fraud Diamond



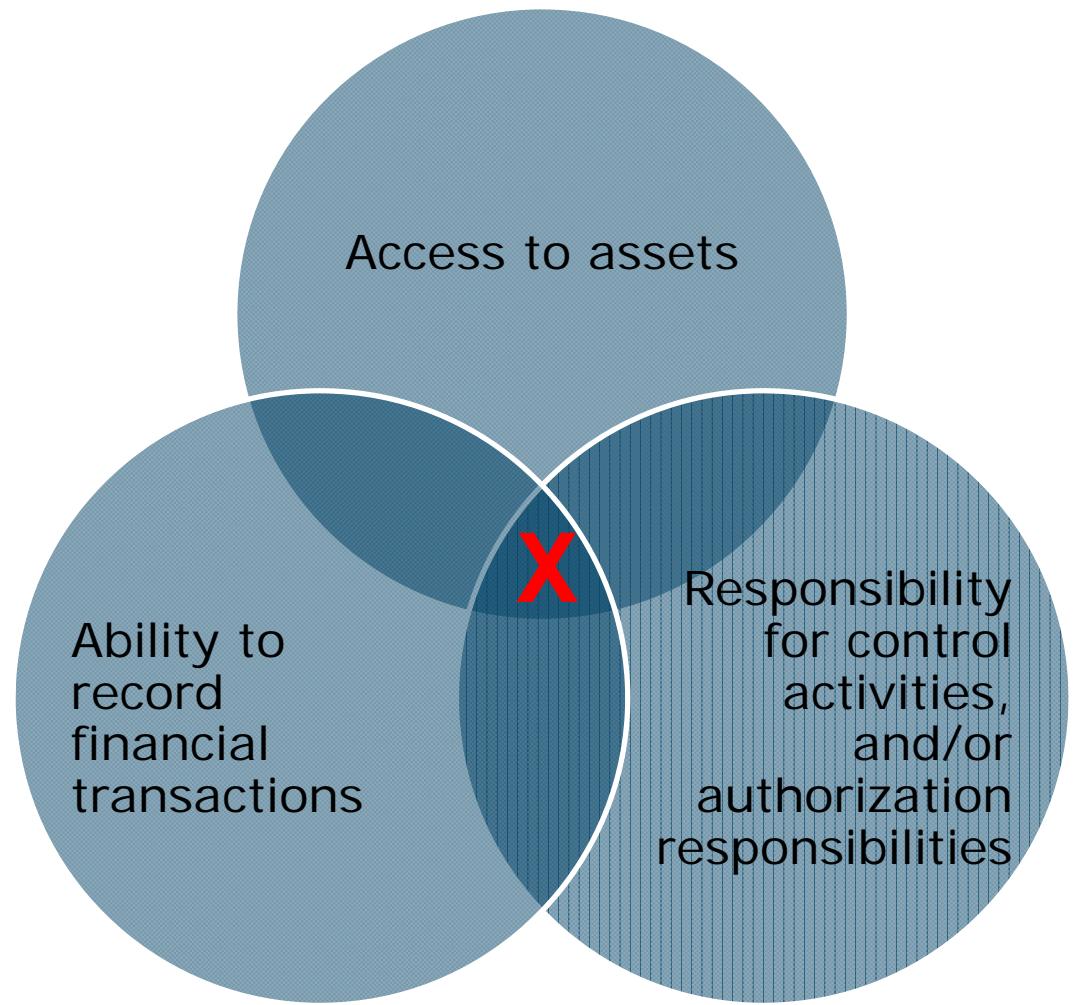
What Can be Done to Stop Fraud?



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How Does a Fraud Occur?

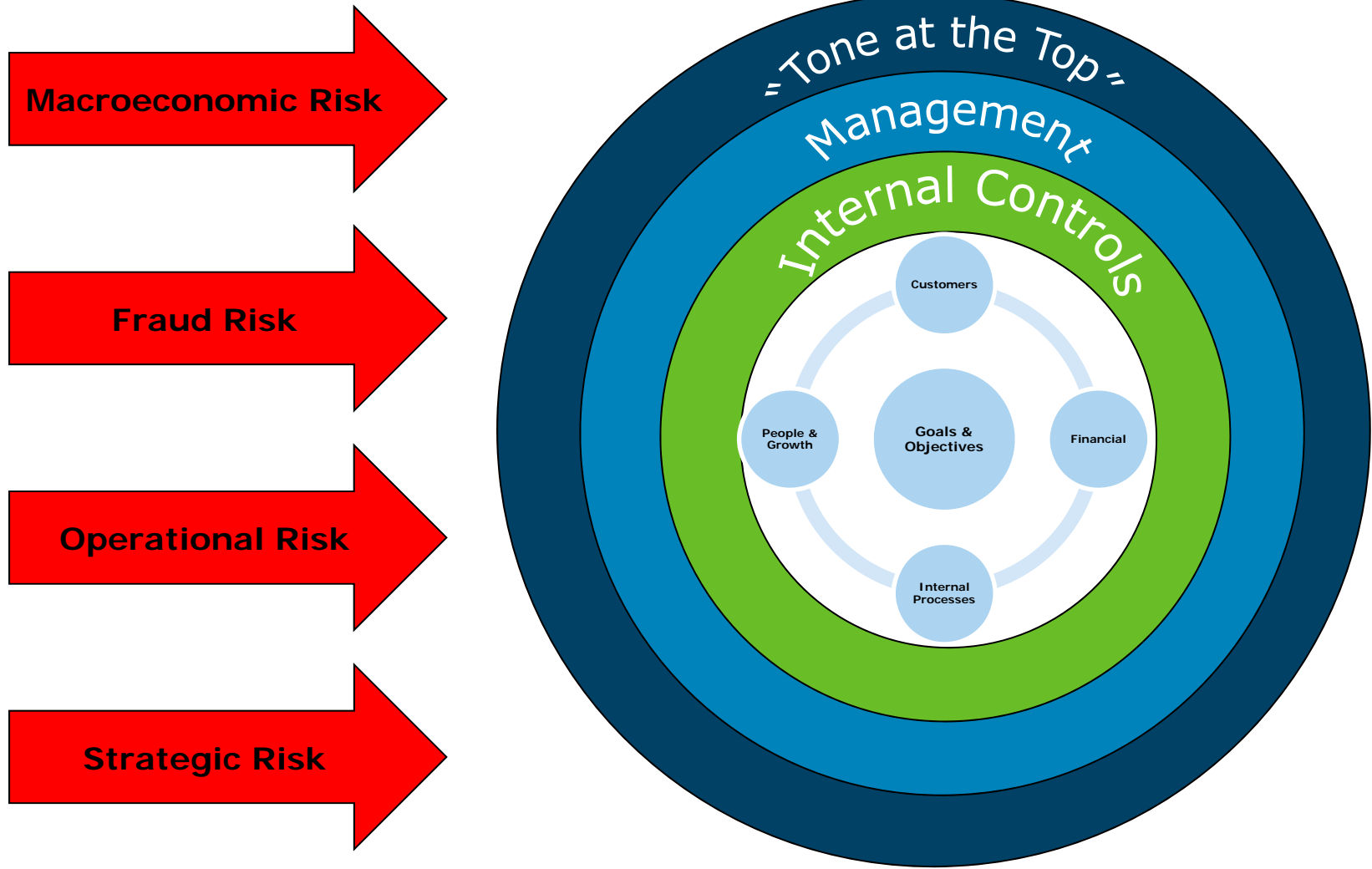
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Lines of Defense Against Risk

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Reducing the Risk of Fraud

- Eliminating any one of the three elements necessary for fraud will significantly reduce the potential for fraud.
- The easiest one to control is opportunity.
- A well-designed and functioning internal control system is the number one defense against errors and fraud.
- Separation of Duties – in any given financial accounting/reporting process (if at all possible) one individual should not have:
 - Access to assets;
 - Responsibility for control activities, and/or authorization responsibilities;
 - Ability to record financial transactions.
- Eliminate or significantly mitigate the opportunity.

Key Issues for Nonprofits

- Significant financial functions may be performed by volunteers or part-time employees with limited oversight.
- May be too small to properly segregate accounting and financial duties.
 - Alternative controls may assist to mitigate risk.
- May not have annual review or audit performed by a public accounting firm.
 - An audit will include review of internal controls as part of the planning process and may identify control issues.
- Oversight by volunteer board of directors may not be robust.
 - Consider forming a finance and/or audit committee that includes accounting or financial professionals not on the board of directors.

Prevention versus Detection

Prevention

- Focuses on policies, procedures, training and communication to stop fraud from occurring.
- Do not ensure that fraud will not be committed.
- Includes segregation of duties.
- First line of defense is the “tone at the top.”

Detection

- Focuses on activities that may recognize if a fraud has occurred or is occurring.

Preventive Controls

Approvals & Authorizations

- What requires approvals or authorizations?
- Did the approver follow the policy (i.e., did they actually review the PO when signing off on the check/invoice?)
- Is this on all transactions or is there a threshold?
- What does approval actually mean and where the evidence is recorded?

Physical Security (physical assets)

- What needs to be physically secured?
- How is it currently being secured?
- Who has access?
- How often does someone check the actual security?

Preventive Controls

Transaction/Application Controls

- Controls programmed into the system to ensure the integrity of data is input and processed (e.g., edit that prevents claims being paid on cancelled policies).

Technology

- Method of granting access to programs and within programs ensures appropriate segregation of duties.
- Access is restricted to appropriate personnel.
- Identification/Authentication.
- Secure connection is provided if remote access is required.
- Controls provide assurance that password standards are enforced and passwords are adequately secured.

Detection

- One of the strongest fraud deterrents is the perception that effective detective controls are in place.
 - ✓ Reconciliation
 - ✓ Analytical Procedures
 - ✓ Exception Reporting and Tracking
 - ✓ Ongoing Monitoring

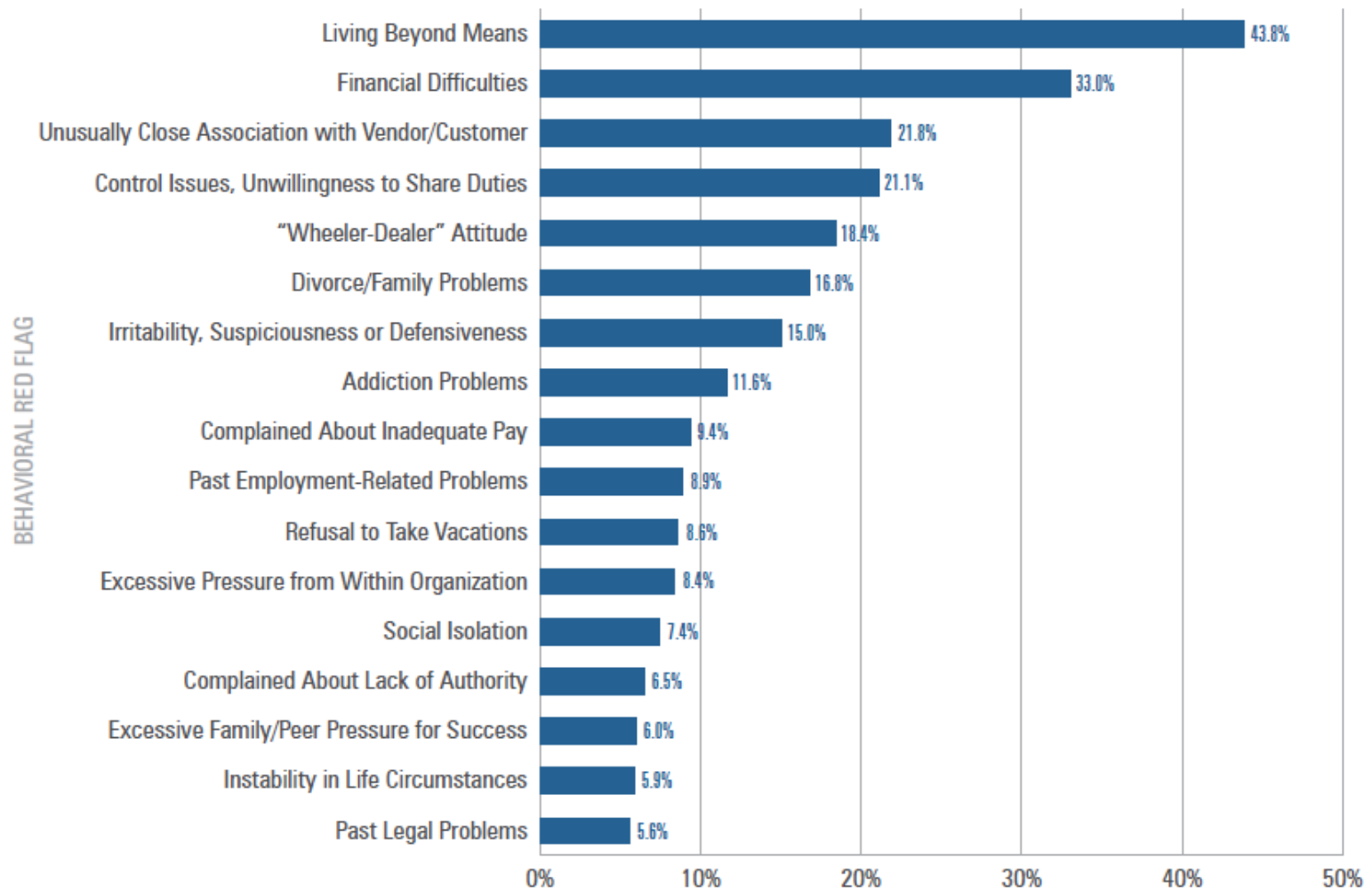
Practical tip:

A feeling that management is reviewing and reconciling and “watching” can be as effective.

Controls

Control	Percent of Cases
Code of Conduct	72.8%
External Audit of Financial Statements	72.5%
Employee Support Programs	65.6%
Management Certification of Financial Statements	63.4%
External Audit of Internal Controls over Financial Reporting	59.2%
Internal Audit Department	58.8%
Management Review	55.5%
Independent Audit Committee	53.3%
Hotline	51.5%
Fraud Training for Managers/Executives	50.3%
Fraud Training for Employees	48.4%
Anti-Fraud Policy	42.0%
Proactive Data Monitoring/Analysis	36.1%
Dedicated Fraud Department, Function or Team	34.8%
Formal Fraud Risk Assessments	34.5%
Surprise Audits	28.7%
Job Rotation/Mandatory Vacation	17.8%
Rewards for Whistleblowers	12.0%

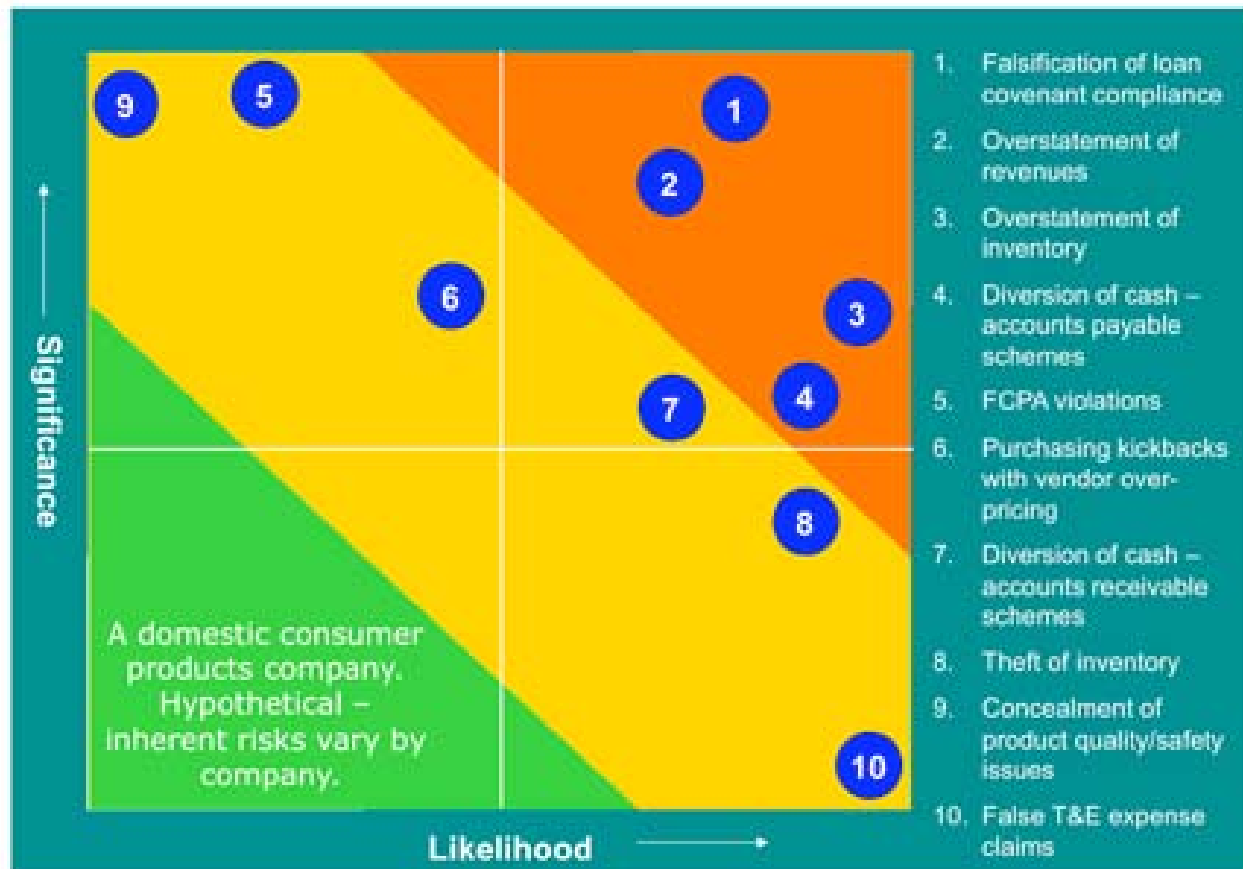
Red Flags



Fraud Risk Assessment

- Can be done internally or with external assistance.
- Understand the specific risks that directly or indirectly apply to your organization.
- Should be structured and tailored to the organization's size, complexity, industry and goals.
- Should be performed and updated periodically.
- Includes risk identification, a likelihood and significance assessment and a risk response.

How to Start



- Prepare a heat map.
- Identify all the areas for potential fraud.
- Rank based on likelihood and then significance to the organization.
- Those in the upper right, tackle first.

Fraud Risk Assessment

- Identify inherent fraud risk and potential fraud schemes.
- Assess likelihood and significance of inherent fraud risk.
- Respond to reasonably likely and significant inherent and residual fraud risks.
- Evaluate design and operating effectiveness of the relevant internal controls.

Questions?

Thank You!



Accounting and Auditing Update

Presenters: Mary Stucke

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Agenda

- Recently Issued Accounting Standards (ASUs)
 - Revenue Recognition (Topic 606)
 - Going Concern (Topic 205) Discontinued Operations (Topic 205 and 360)
 - Extraordinary Items (Subtopic 225-20)
 - Consolidation (Topic 810)
- Financial Statements of Not-for-Profit Entities
- Other Active Projects of the FASB:
 - Leases
 - Financial Instruments
 - Simplification Initiative

Revenue Recognition (Topic 606)

Objective: To develop a single, principle-based revenue standard for US GAAP and IFRS

- The revenue standard aims to improve accounting for contracts with customers by:
 - Providing a robust framework for addressing revenue issues as they arise
 - Increasing comparability across industries and capital markets
 - Requiring better disclosure

Revenue Recognition (Topic 606) (continued)

All contracts with customers, except:

- Lease contracts
- Insurance contracts
- Financial instruments
- Guarantees
- Non-monetary exchanges in the same line of business to facilitate sales to customers

Contracts not with customers are excluded:

- Contributions
- Collaborative arrangements

Revenue Recognition (Topic 606) (continued)

Core Principle: Recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled

Step 1: Identify the contract(s) 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 in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue Recognition (Topic 606) (continued)

- Non-Profits most common areas of application:
 - Membership agreements
 - Royalty / licensing contracts
 - Software licensing
 - Subscriptions
 - Products and services
 - Sponsorship
 - Conferences and seminars
 - Tuition
 - Advertising federal and state grants and contracts
 - Health care entities with long-term contracts and multiple deliverables
- Does not apply to contributions or promises to give

Going Concern (Topic 205)

Summary of Provisions

- Single threshold model similar in principle to current auditing standards (AU 341).
- Disclosure required when there is substantial doubt, or when substantial doubt has been alleviated primarily by management plans.
- Substantial doubt exists when it is probable that entity will not meet obligations for a period of one year from the financial statement issuance date.
- Applies to both public and nonpublic entities.
- Effective prospectively for annual periods ending after December 15, 2016 (FY 2016 / 2017 annual periods); for interim periods beginning FY 2017 / 2018. Early adoption permitted.

Discontinued Operations (Topic 205 and 360)

- Primary objectives of project: (1) Respond to stakeholders concerns that too many disposals of assets qualify for discontinued operations presentation; (2) Enhance convergence with IFRS:
- Henceforth, disc-ops presentation would be limited to those disposals involving major strategic shifts (e.g. separate major lines of business or major geographic areas of operations). Other disposals would merely be disclosed.
- Also eliminates the “no significant continued involvement” criterion.
- Effective for disposals beginning in FY 2015
 - PBEs and NFPs: apply prospectively for interim periods within 2015
 - Others: apply prospectively for annual 2015, interim periods beginning 2016
 - Early adoption is permitted

Extraordinary Items (Subtopic 225-20)

- Eliminated concept of “extraordinary items”
- Expanded previous disclosure requirements to encompass items that are both or either unusual or infrequent
- Better alignment with IAS 1, Presentation of Financial Statements
- Effective for fiscal years, and interim periods within FY 2016 / 2017

Consolidation (Topic 810): Specific Considerations for Not-for-Profits

Current Guidance in Topic 810

- Separate accounting model for limited partnerships and similar legal entities (810-20)
- Includes a presumption that a general partner (GP) controls and thus consolidates the limited partnership.
- Substantive kick-out or participating rights must exist to overcome the presumption.

Amendment

- Eliminates the separate accounting model.
- Eliminates the presumption of control by the GP.
- Adds for limited partnerships and similar legal entities that:
 - They may qualify as Voting Entities if partners have substantive kick-out or participating rights over GP
 - An LP with a controlling financial interest consolidates

Financial Statements of Not-For-Profit Entities



NFP Financial Statements Project – Key Objectives (Recommended by FASB’s NFP Advisory Committee (NAC))

- Update, not overhaul, the current model
- Improve net asset classification scheme
- Improve information in financial statements and notes about:
 - Financial performance
 - Cash flows
 - Liquidity
- Better enable NFPs to “tell their financial story”

Changes in Key GAAP Metrics

Line Item	Current	Proposed
Balance Sheet		
Unrestricted Net Assets	☒	☒
Temporarily Restricted Net Assets	☒	
Permanently Restricted Net Assets	☒	☒
Totals for Assets, Liabilities, and Net Assets	☒	☒
Revenue, Expenses, and Other Changes		
Operating Excess/Deficit Before Transfers		☒
Operating Excess/Deficit After Transfers		☒
Investment Return, Net		☒
Health Care Performance Indicator	☒	
Change in Unrestricted Net Assets	☒	☒
Change in Temporarily Restricted Net Assets	☒	
Changes in Permanently Restricted Net Assets	☒	☒
Total Change in Net Assets	☒	☒

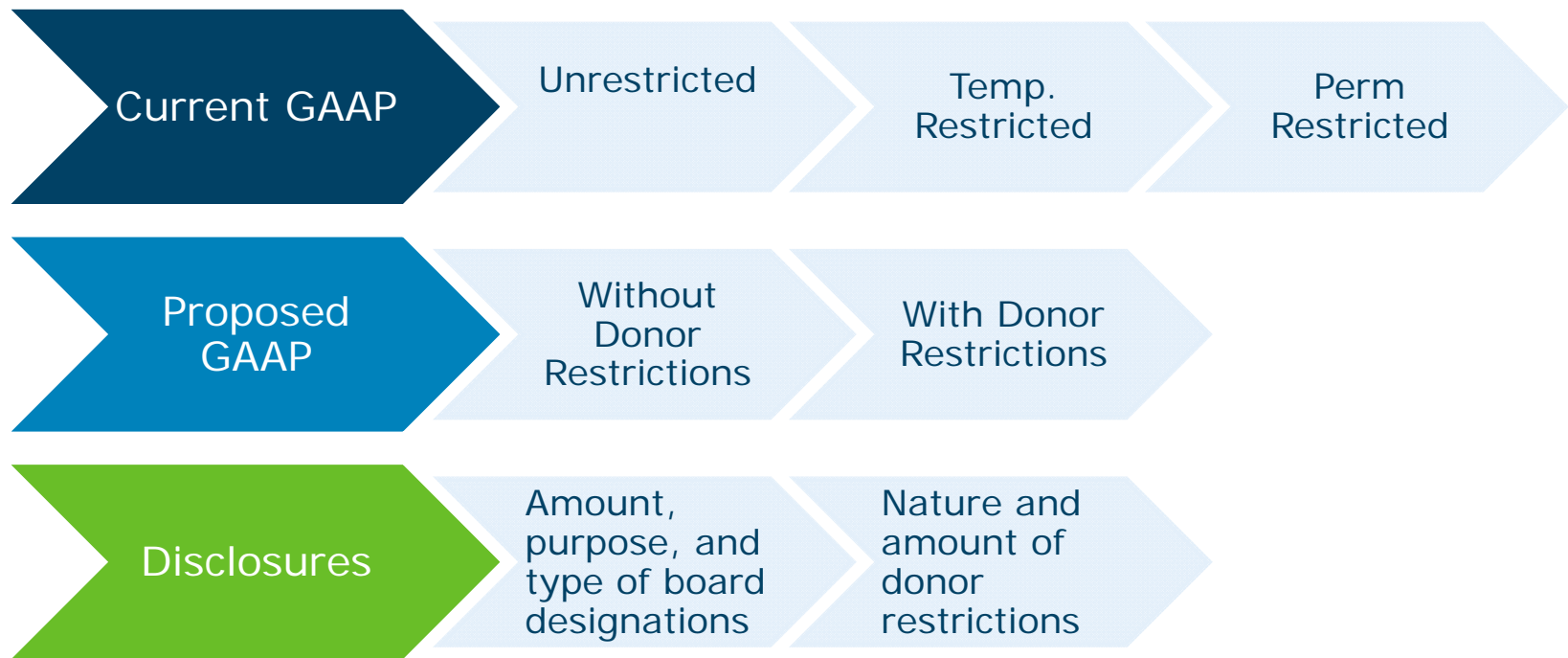
Other Significant Proposed Changes

- Direct method cash flows (indirect would be optional), with certain realignments
- Expenses: nature-by-function (choice of location), with related disclosure
- Reporting of “underwater” endowments, with enhanced disclosure
- New required disclosures:
 - Board designations
 - Information useful for assessing liquidity

Overall Common Themes From Comment Letters Received by NAC

- Support for Board's overall objective update current model.
- Desire by many to maintain as much consistency as possible between NFPs and For-Profit reporting requirements.
 - Comparability within industries (NFPs and similar For-Profit entities) may be more important than comparability between dissimilar NFPs, especially for more "business-like" NFPs.
 - Most users come from For-Profit background.
- Desire for proposal that allows sufficient flexibility to reflect difference among NFPs.
 - Industry differences
 - Size differences
- Concern regarding the potential cost to implement some of the proposals, especially for small NFPs.

Net Assets



Information Useful for Assessing Liquidity

The Board decided that an entity should define the time horizon it uses to manage its liquidity (for example 30, 60, or 90 days) and disclose the following information:

1. Quantitative information about:
 - The total amount of financial assets
 - Amounts that are not available to meet cash needs within the time horizon because of (1) external limits and (2) internal actions of a governing board.
 - The total amount of financial liabilities that are due within that time horizon
2. Qualitative information about how the entity manages its liquidity.

“Underwater” Endowments

Revised net asset classification

- To be reflected in net assets with donor restrictions rather than in net assets without donor restrictions

Enhanced disclosures

- In addition to aggregated amounts by which funds are underwater (current GAAP), also disclose aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, and any governing board policy or decision to reduce or not spend from such funds.

Reporting of Expenses

- Analysis of operating expenses by nature and function – one place in the F/S (statement of activities, separate statement, or schedule in notes, with additional qualitative information about cost allocations)

	FUNCTION				Total Operating Expenses	Non-Operating	Total Expenses
	Program Activities		Supporting Activities				
	Program A	Program B	M&G	Fundraising			
N	Salaries & Benefits						
A	Grants to Others						
T	Equipment Rental & Maintenance						
U	Occupancy Cost						
R	Depreciation						
E	Information Technology						
	Professional Service Fees						
	Supplies						
	Travel						
	Printing & Publication						
	Interest						
	Other						
	Total						

*Either nature or function (or both) on face of Statement of Activities

Other Proposes Changes & Status

- Other Items Being Discussed
 - Net Presentation of Reporting of Investment Returns
 - Cash Flow Statement require Direct Method
 - Re-categorize certain items to better align operating cash flows with the operating measures
 - Capital transactions
- Project Timeline: Steps Still to Come
 - Comment period ended – Aug. 20, 2015
 - Begin Board Re-deliberations - Mid-Fall 2015
 - Final Standards - TBD

Other Active Projects



Other Active Projects

- Leases
- Financial Instruments
- Simplification Initiative

Leases

- Originally issued August 17, 2010
- Attempting to establish a consistent approach for Lessee and Lessor:
 - **Transparency and Consistency** among organizations that lease assets
- “Right to Use” approach, similar to the capital lease approach
 - Minimal effect on net assets– record asset and liability
 - Effect on covenants for debt agreements
 - Effect on requirements for grant agreements
 - Challenge w/determining incremental borrowing rate (interest rate implicit in lease)
 - Donated space is excluded
 - Need to assess capitalization threshold

Leases (continued)

- Status:
 - Original exposure draft period ended December 15, 2010
 - Over 800 comment letters received
 - In July 2011, IASB and FASB announced intention to re-expose anticipated later 2011 but continued to meet during 2012
 - Decisions were sufficiently different, warranted re-exposure
 - Revised Exposure Draft released May 2013 with comments due in September; Boards are still deliberating
 - Implementation date pending
 - Effective dates also still under consideration
 - FASB has decided on a dual approach for lessee accounting; IASB has decided in a single approach for lessee accounting
 - Lessor would determine lease classification on the basis of whether it is effectively a financing or sale of the equipment / property

Financial Instruments

- Retain existing US GAAP for Financial Instruments, except for the following:
 - Investments in equity securities will be measured at FV-NI, except
 - Equity method investments
 - Equity securities without readily determinable fair value (market to observable price changes)
 - Fair value change resulting from own credit for financial liabilities measured under fair value option will be recognized through OCI
 - Valuation allowance on a DTA related to an AFS debt security to be assessed in combination with other DTAs
 - Disclosures Changes
 - Private entities not required to disclose fair value of financial instruments not recognized at fair value in Balance Sheet
 - Reduced disclosures for public entities about fair value information of financial instruments not recognized at fair value in Balance Sheet

Simplification Initiative

- Debt Classification – exposure draft being issued Q4 2015
- Debt issuance costs – final ASU available (ASU 2015-03)
- Emerging Issues Task Force 14-B, Fair Value Hierarchy Levels for Certain Investments
 - No longer required investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient to be categorized in the fair value hierarchy
- Simplification initiative will cover an array of other issues as well.

Questions?

Thank You!



Nonprofit Tax Update

Presenter: Melissa Rager



Presented By:

Today's presenter: **Melissa R. Rager, CPA**

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Summary

1. Tax-Exempt Application Update
2. Schedule A Changes
3. Schedule B Changes
4. Schedule J and Executive Compensation
5. Schedule L Changes
6. IRS Audit Update
7. IRS Priority Guidance Plan 2015-2016
8. Small Business Health Care Credit Updates

Tax-Exempt Application Update

- Form 1023-EZ Update
- Same qualifications as filing Form 990-N (e-postcard)
 - Gross receipts normally under \$50,000
 - Assets normally under \$250,000
 - \$400 user fee
 - File within 27 months after the end of the month in which you were legally formed – effective date is date of legal formation
 - File outside of 27 months – effective date is date of submission of Form 1023-EZ
 - May need to contact the IRS if application is pending and need to file Form 990-N
 - Most instances, IRS processes in less than 30 days
 - Has reduced inventory of applications over 90%
- EO Select Check

Schedule A Changes

- Public Charity Status – supporting organization changes
- Supporting Organization – “...organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations...”
 - Type I – “...operated, supervised, or controlled by its supported organization(s), typically by giving the supported organization(s) the power to regularly appoint or elect a majority of the directors or trustees of the supporting organization. **You must complete Part IV, Sections A and B.**”
 - Type II – “...supervised or controlled in connection with its supported organization(s), by having control or management of the supporting organization vested in the same persons that control or manage the supported organization(s). **You must complete Part IV, Sections A and C.**”
 - Type III functionally integrated – “...operated in connection with, and functionally integrated with, its supported organization(s)...**You must complete Part IV, Sections A, D, and E.**”
 - Type III non-functionally integrated – “...operated in connection with its supported organization(s) that is not functionally integrated. The organization generally must satisfy a distribution requirement and an attentiveness requirement. **You must complete Part IV, Sections A and D, and Part V.**”

Schedule B Changes

- Clarification on Schedule B contributor listing
 - Better guidance on when the identity of contributors can be excluded if the total contribution is less than the greater of \$5,000 or 2% of the organization's revenue (contributions and grants)
- Page 1 of Schedule B under Special Rules
 - Establish 33 1/3% support test was met for current or prior year
 - Check the box on Schedule A, Part I, line 7 or 8
 - Check the box on Schedule A, Part II, line 13

Schedule J and Executive Compensation

- Hot topic for IRS
- Board of directors have a responsibility to establish compensation for certain officers (executive director, CEO, CFO)
- Compensation standards should be “reasonable and not excessive”
- Form 990, Section VI, Part B, line 15 describes the process for determining compensation of the above and whether or not the process has changed
- Successful steps listed in line item of Section VI, Part B, line 15
 - Utilize an independent person to review and approve compensation
 - Utilize comparability data – salary surveys, geographic region, nonprofits with a similar background/mission
 - Document, document, document (board meeting minutes)
 - In addition, annual review and approval, written policy in place

Schedule L Changes

- Interested person definition for Part I of Schedule L – disqualified person
- Interested person definition for Parts II-IV of Schedule L
 - Persons listed in Form 990, Part VII, as well as former from past 5 years
 - Creator or founder of the organization
 - A substantial contributor - \$5,000 or more and is required to be reported by name in Schedule B
 - Member of the organization's grant selection committee
 - A family member of any individual described above
 - A 35% controlled entity of one or more individuals and/or organizations described above
 - An employee of a substantial contributor or of a 35% controlled entity of such person (plus caveats)
 - Does not include a section 501(c)(3) organization, an exempt organization with the same tax-exempt status as the filing organization, or a governmental unit.
 - Reasonable effort – e.g., annual questionnaire

IRS Audit Update

- Audit Statistics Per FY 2013 Enforcement and Service Results
- Areas of Focus
 - UBIT
 - Executive Compensation
 - Compliance - Inconsistencies

Examination - Tax Exempt Organization Return Closures

	FY 2004	FY 2005	FY 2006*	FY 2007	FY 2008	FY 2009	FY 2010	FY2011	FY 2012	FY 2013
Total Returns Examined	5,800	4,953	7,079	7,580	7,861	10,187	11,449	11,699	10,743	10,575
Returns Processed in Prior Calendar Year	863,494	849,342	849,227	867,696	888,412	823,087	776,300	858,865	798,903	771,675
Coverage	0.67%	0.58%	0.83%	0.87%	0.88%	1.24%	1.47%	1.36%	1.34%	1.37%

IRS Priority Guidance Plan 2015-2016

- 2015 - 2016 Priority Guidance Plan
 - 29 pages issued 7/31/15
 - 277 projects that are **priorities** from July 2015 through June 2016
 - No deadline
 - Exempt organization to dos:
 - Revenue procedures updating grantor and contributor reliance criteria under §§ 170 and 509
 - Revenue procedures to update Revenue Procedure 2011-33 for EO Select Check
 - Proposed regs under § 501(c) relating to political campaign intervention
 - Final regs and additional guidance on § 509(a)(3) supporting organizations
 - Guidance under § 512 regarding methods of allocating expenses relating to dual use facilities
 - Final regs under § 4944 on program-related investments and other related guidance
 - Guidance under § 6033 relating to the reporting of contributors
 - 13 total

Small Business Health Care Credit Updates

- Updates for tax years beginning after 2013
 - Maximum credit increases to 35% of premiums paid for tax-exempt eligible small employers and 50% of premiums paid for all other eligible small employers
 - To be eligible, small employers generally must pay premiums on behalf of employees enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace
 - Credit is available to eligible small employers for a 2 consecutive tax year credit period

- Eligible Small Employers
 1. You paid premiums for employee health insurance coverage under a qualifying arrangement (generally uniform percentage)
 2. You had fewer than 25 full-time equivalent employees for the tax year
 3. You paid an average annual wage for the tax year of less than \$51,000 per full-time equivalent

** Employers treated as a single employer

Small Business Health Care Credit Updates (continued)

- Payroll tax limitation
 - Cannot exceed certain payroll taxes for years beginning in 2014
 - Payroll taxes include federal income taxes withheld by the employer from wages, Medicare taxes withheld and paid from employees' wages
- Various worksheets per Form 8941 instructions to assist in preparation
- Eligible tax-exempt employers file Form 990-T to claim refund

Questions?

Thank You!



Fiduciary Responsibilities and Financial Literacy for Nonprofit Boards of Directors

Presenter: Paul Anderson



Presented By:

Today's presenter: **Paul R. Anderson, CPA**

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Objective

Create a higher level of awareness of responsibilities of Board Members of Nonprofits by addressing the following:

- Most Common Guidance and Terminology
- Fiduciary Responsibilities
- Internal Controls
- Budgeting
- Financial Reporting and Monitoring
- External Audits
- Finance/Audit Committees
- IRS Reporting

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Is this Your Board?
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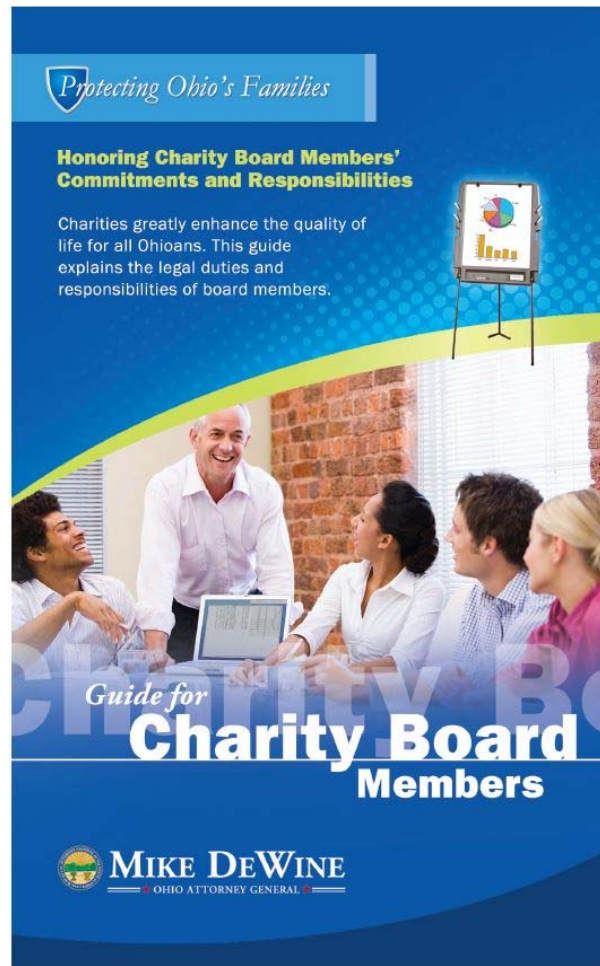


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Guidance from Ohio's Attorney General

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Legal Fiduciary Responsibilities

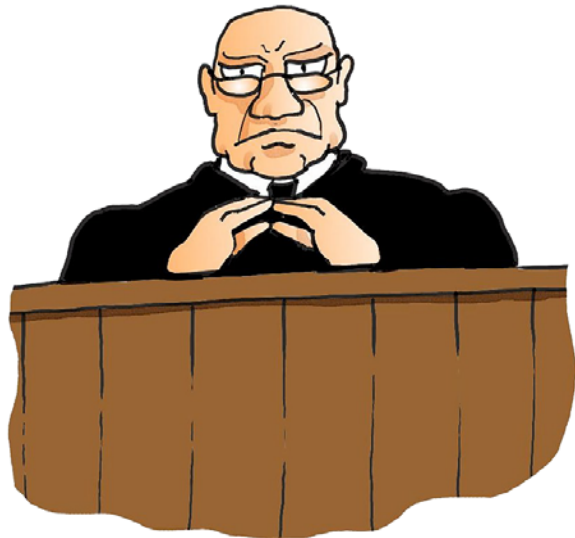
- Duty of Care
- Duty of Loyalty
- Duty of Compliance
- Duty to Maintain Accounts
- Breach of Fiduciary Duties

Can a Trustee be Held Liable?

The short answer is **YES!**

Trustees have been held liable for:

- Conflict of interests
- Ignoring charitable obligations by personally profiting
- Accountable for shortfalls, if not prudently managed and decisions documented



Duty of Care

- Attend board meetings and assigned committee meetings
- Prepare for meetings by reading and reviewing materials distributed for meetings
- Ask questions before decisions are made
- Exercise independent judgment and not merely acquiesce to the staff's requests

Duty of Care (continued)

Oversight and review of the Executive Director/President/CEO's performance and compensation:

- How often are evaluations performed?
 - What is the process?
- How is compensation established?
 - Is it benchmarked?
- Who reviews the expense reports?



Duty of Loyalty

- Interest of the Nonprofit is #1
- Without Self-Interest
- Written policy for conflict of interest of board and key management
- Request update annually
- How are conflict issues resolved and by whom?

Duty of Compliance

- Be faithful to the NPO's purposes
- Comply with NPO's governing documents
 - Articles of Incorporation, By-Laws, Other Docs
- Be familiar with laws applicable to the NPO
- Comply with state and federal registration and reporting requirements
 - IRS Form 990



Duty to Manage Accounts

- Accountability of the organization
- Establish procedures to ensure that the NPO is fiscally sound and operates in a fiscally responsible manner
 - Annual budget
 - Ensure accurate records and accounting
 - Establish appropriate internal control and accounting systems
- Prudent investments management

Duty to Manage Accounts (continued)

- Develop fundraising goals and policies and assist in acquiring resources for programs
 - Ensure appeals are honest and fairly presented
- Prudent expenditures and value purchasing
- Accurate board minutes detailing board action and discussion



Part VI: Governance, Management and Disclosure

- Written document retention and destruction policy?
- Did the process for determining compensation include the following?
 - Review/approval by governing body or compensation committee
 - Comparable compensation data
 - Documentation in respect to the deliberation/decisions regarding compensation arrangements
 - Applied to the: CEO, Executive Director and other top management officials
- Schedule O to disclose the positions for which the process was used and the last year the process was undertaken for each person

Best Practices Study by Urban Institute

- Annual audit
- Independent audit committee
- Written conflict of interest policy
- Formal whistleblower policy
- Document destruction and retention policy



Sarbanes/Oxley and Nonprofits

- Not specifically required by the State of Ohio for NPOs
- Two items that are applicable on a federal level for all types of entities:
 - No retaliation against whistleblowers
 - No destruction of documents

Common Board Committees

- Executive
- Finance
 - Audit
- Programs
- Development/Fundraising/Resources
- Board Membership
- Personnel
- Information Technology
- Ad Hoc – Limited Life/Purpose

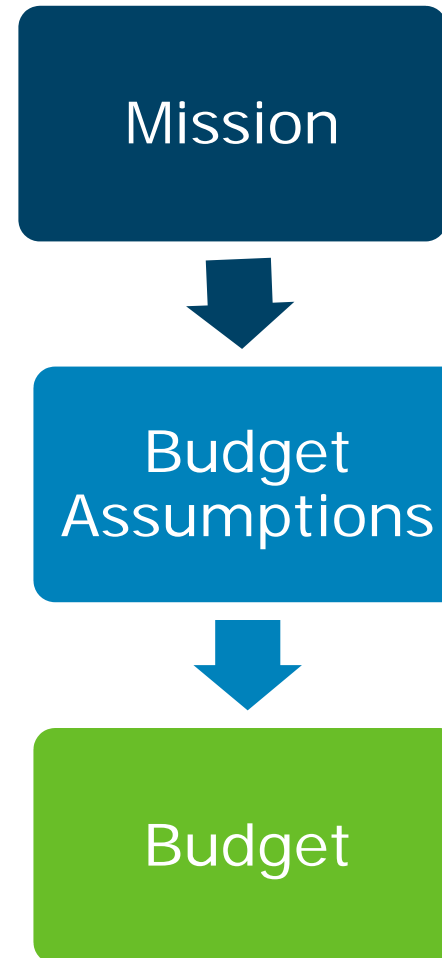
The current trend is for less standing committees and more ad hoc type committees.

Audit/Finance Committees

- Responsibilities:
 - Budgeting
 - Financial Reporting
 - Assessment of Risks and Internal Controls
 - Oversight of the Audit function
- Who should be on the Committee?
 - Recommend that at least one member should have specific accounting or financial management experience
 - The remainder should be 'financially literate'

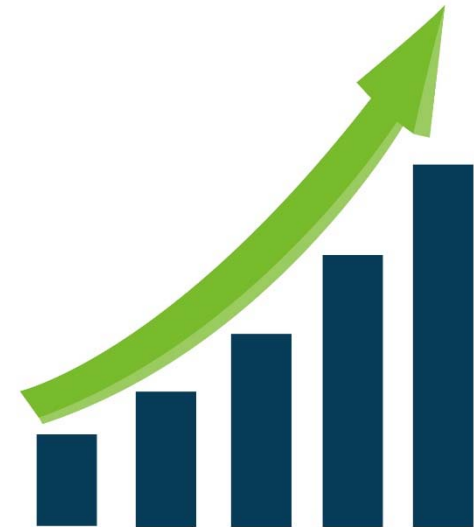
Annual Budgeting

- Provides clear direction for spending
- Linked to goals and expectations relating to program services, fundraising, etc.
- Understand process for budget
- Approved by Board in advance of the year
- Monitoring on a regular basis



Financial Reporting

- Review the budget assumptions and achievability
- Review the monthly financial statements in comparison to budget and to prior month and year
- Be comfortable with the accounting treatment of any significant or unusual transactions
- Understand the impact of changes in accounting standards
- Review of the Draft Form 990

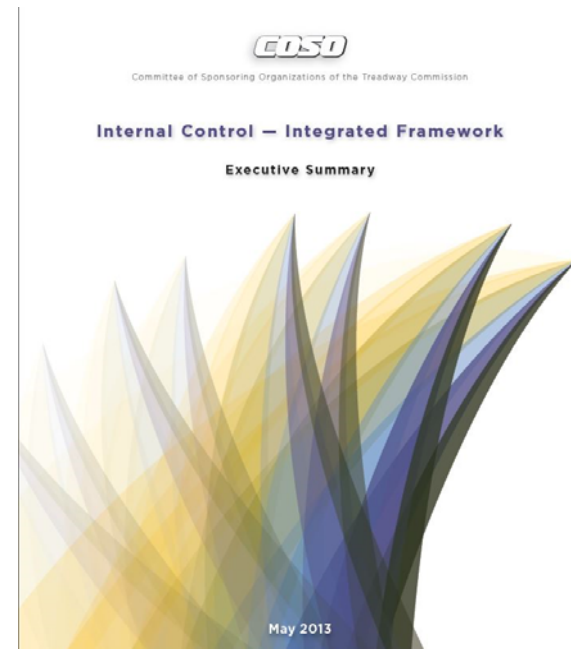


Risk and Controls

- Understand and monitor risks effectively
- Understand that a strong internal control system is the key to risk management
- The Committee can create the right tone at the top
- Review and assess the Nonprofit's operating and financial risk management process
- Review and assess the Nonprofit's system of internal controls
- Understand significant operational policies

Internal Control Consists of 5 Components (COSO Guidelines)

1. **Control Environment:** Tone
2. **Entity's Risk Assessment:** Internal assessment of risk and related response to those risks
3. **Information and Communication Systems:** Identification and capturing of information in a form and time frame that enable people to carry out various responsibilities
4. **Control Activities:** Policies and procedures to ensure that directives are achieved
5. **Monitoring:** Assessment of quality of internal control performance over time



Audit Function

- Assessment of Auditor
 - Selection and partner rotation
 - Independence
 - Annual audit plan
- Reviewing the draft audit report and findings
 - Understanding any audit adjustment
 - Evaluate findings and management's response
- Meet with Auditors annually in executive session

Resources

Guide for Board Members: Attorney General, State of Ohio

- <http://www.ag.state.oh.us>

Urban Institute

- <http://www.urban.org/index.cfm>

Board Source

- <http://www.boardsource.org/>

The Board Member's Guide: Making a Difference on Your Board and in Your Community

- *The Academy for Leadership and Governance/The Jefferson Center for Learning and the Arts*

Nonprofit Board Answer Book

- *National Center for Nonprofit Boards*

Questions?

Thank You!

