Wegner CPAs

May 30, 2018

To the Board of Directors
American Network of Community Options and Resources
Alexandria, Virginia

In planning and performing our audit of the consolidated financial statements of American Network of Community Options and Resources (ANCOR) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered ANCOR's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ANCOR's internal control. Accordingly, we do not express an opinion on the effectiveness of ANCOR's internal control.

We became aware of the following matters, which we believe represent opportunities for further strengthening internal controls, organizational transparency, and operating efficiencies.

Consider Reviewing Capitalization Policy

We noted that ANCOR has a capitalization policy of $1,500 for property and equipment that has a useful life of greater than one year. We recommend ANCOR periodically review its current policy and determine if the threshold is reasonable for its operations and to avoid having to keep ongoing records of relatively small value purchases. The IRS has established the de minimis safe harbor election, to neither capitalize any amount paid in a tax year for the acquisition of a unit of tangible property nor treat as a material and supply for property that doesn't exceed $5,000 if the taxpayer has an applicable financial statement or $2,500 without applicable financial statement.

We further recommend ANCOR annually review its depreciation schedule and dispose of any assets that ANOCR no longer has or is no longer in service.

Recently-issued Accounting Standards

During the next several years not-for-profit organizations will face the task of implementing three new Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU) that will have an impact on their financial reporting:

- ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard is effective for fiscal years beginning after December 15, 2017 (i.e., fiscal year ending June 30, 2019), with early adoption permitted.

- ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Most not-for-profit organizations must apply this standard for fiscal years beginning after December 15, 2018 (i.e., fiscal year ending June 30, 2020). Earlier adoption is permitted for any fiscal year beginning after December 15, 2016.

- ASU 2016-02, *Leases (Topic 842)*. Most not-for-profit organizations must apply this standard for fiscal years beginning after December 15, 2019 (i.e., fiscal year ending June 30, 2021). Earlier adoption is permitted.

ASU 2016-14 has the earliest effective date; however, some implementation steps for the other two standards should start soon, and some organizations may need to begin with a different standard because of unique implementation complexities. The attachment at *Appendix I* examines each of the three standards in more detail. Given the significant reporting and disclosure changes involved, we recommend that ANCOR begin evaluating its current accounting system to identify whether any changes need to be made to comply with the upcoming changes in the near future.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with ANCOR personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within American Network of Community Options and Resources, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Wegner CPAs, LLP

Glenn Miller, CPA
Partner

Appendix I

ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities

ASU 2016-14 will affect every not-for-profit organization; however, the FASB has indicated that it intends this standard to be an update, not a complete overhaul, of the current financial reporting model for not-for-profit organizations. The new standard simplifies and improves how a not-for-profit organization classifies its net assets as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The goal of this standard is to improve how not-for-profit organizations communicate their financial performance and condition to their stakeholders while also reducing certain complexities in preparing financial statements.

The primary changes in the new standard are as follows:

- Combination of the permanently restricted and temporarily restricted classes of net assets into a single class, *net assets with donor restrictions*. Unrestricted net assets will be referred to as *net assets without donor restrictions*.

- Reporting the underwater amounts of donor-restricted endowment funds in *net assets with donor restrictions* and enhancing disclosures about underwater endowments.

- Disclosure about the liquidity and availability of financial assets to meet cash needs for general expenditures within the next year.

- Reporting expenses by both functional and natural classes by all organizations, not just voluntary health and welfare organizations, and additional guidance for allocating costs.

- An option to omit the reconciliation of the change in net assets to operating cash flows when an organization presents the statement of cash flows using the direct method. The standard continues to permit organizations to choose between the direct method and indirect method of reporting operating cash flows.

- Requirement to report investment return net of investment expenses.

- Disclosure, as of the end of the reporting period, of the amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources that are free of donor-imposed restrictions.

The new liquidity and availability disclosures will require information that may not be currently tracked by not-for-profit organizations. Also, some organizations may need to revisit their policies and practices about internal designations of net assets.

ASU 2014-09, Revenue Recognition

ASU 2014-09 introduces a comprehensive, principles-based framework for recognizing revenue and supersedes virtually all industry-specific revenue recognition guidance. The standard applies to any entity that enters into contracts with customers to transfer goods or services. For not-for-profit organizations, the standard may affect revenue recognition for items such as tuition, room and board, fee for service arrangements, membership dues, or special events. Because the standard affects only exchange transactions, accounting for items such as contributions and split-interest agreements will not change.

Government grants have been identified as one of the potentially biggest issues for not-for-profit organizations regarding application of this standard. Organizations have struggled to determine whether government grants should be accounted for as contributions or if they are considered exchange transactions, and ASU 2014-09 does not provide any immediate answers. The FASB has a project on its agenda with the goal of improving and clarifying the existing guidance on revenue recognition of grants by not-for-profit organizations.

Even for exchange transactions that are clearly within the scope of the new standard, it is not yet entirely clear how to apply the standard. Both the FASB and the American Institute of Certified Public Accountants have formed task forces to inform the FASB about potential implementation issues that could arise when organizations implement the new standard and to help resolve those issues.

Most not-for-profit organizations have not determined how the standard will affect them. At this time it could be unwise for not-for-profit organizations to launch a full-scale implementation effort. However, organizations that are primarily supported by exchange transactions should currently spend some time testing their existing recognition policies against the recognition process in ASU 2014-09 and determine if there are any revenues for which new information systems need to be designed to implement the standard. Then, the organization will be ready when the clarification provided by additional new standards is available.

ASU 2016-02, Lease Accounting

ASU 2016-02 applies to any entity that enters into a lease (with a few exceptions that are unlikely to affect most not-for-profit organizations). Although the new standard applies to both lessees and lessors, the changes in this standard will have their greatest effects for entities that are lessees because the standard requires those entities to recognize right-to-use assets and lease obligations associated with all leases in the statement of financial position.

By requiring that essentially all leases be reported as assets and liabilities, the financial statements of many not-for-profit organizations will change dramatically. Although lessees are allowed to make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of twelve months or less, the relief afforded by that election is limited because it is not available if there is an option to extend the lease beyond twelve months and the organization is reasonably certain to exercise that option. The election also is not available if the lease includes an option to purchase the underlying asset and the organization is reasonably certain to exercise that option.

For most not-for-profit organizations determining the effort necessary to implement the standard requires locating all of its leases. Capital leases and their terms are probably tracked currently, but operating leases may require more effort because the current accounting standard does not require organizations to track the lease terms that are necessary to implement the new standard. Furthermore, capital leases of smaller dollar value items such as copiers, computers, and similar other equipment may have been dismissed in the past as immaterial, but the impact of those leases on financial statements will need to be reassessed under the new standard.

After the leases are located, the relevant terms from the leases have to be extracted in order to complete the present value calculations that determine the amounts to be recognized for the lease assets and liabilities.