CliftonLarsonAllen LLP
CLAconnect.com

Finance Committee and Management
The Arc of East Central Iowa
Cedar Rapids, Iowa

In planning and performing our audit of the financial statements of The Arc of East Central Iowa, herein the Organization, as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit, we became aware of some matters that are an opportunity for strengthening internal controls and operating efficiency. Our comment and suggestion regarding these matters is summarized below. We previously provided a written communication dated October 29, 2019 on the Organization's internal control. This letter does not affect our communication dated October 29, 2019.

GENERAL CONTROLS

Reconciliations

During our audit we noted no indication of documented review for monthly reconciliations of receivables and payables. We recommend that all review and approval processes be evidenced by signing or initialing and dating applicable items. This will protect the Organization and all parties involved should any issues that may arise in the future.

Software Access

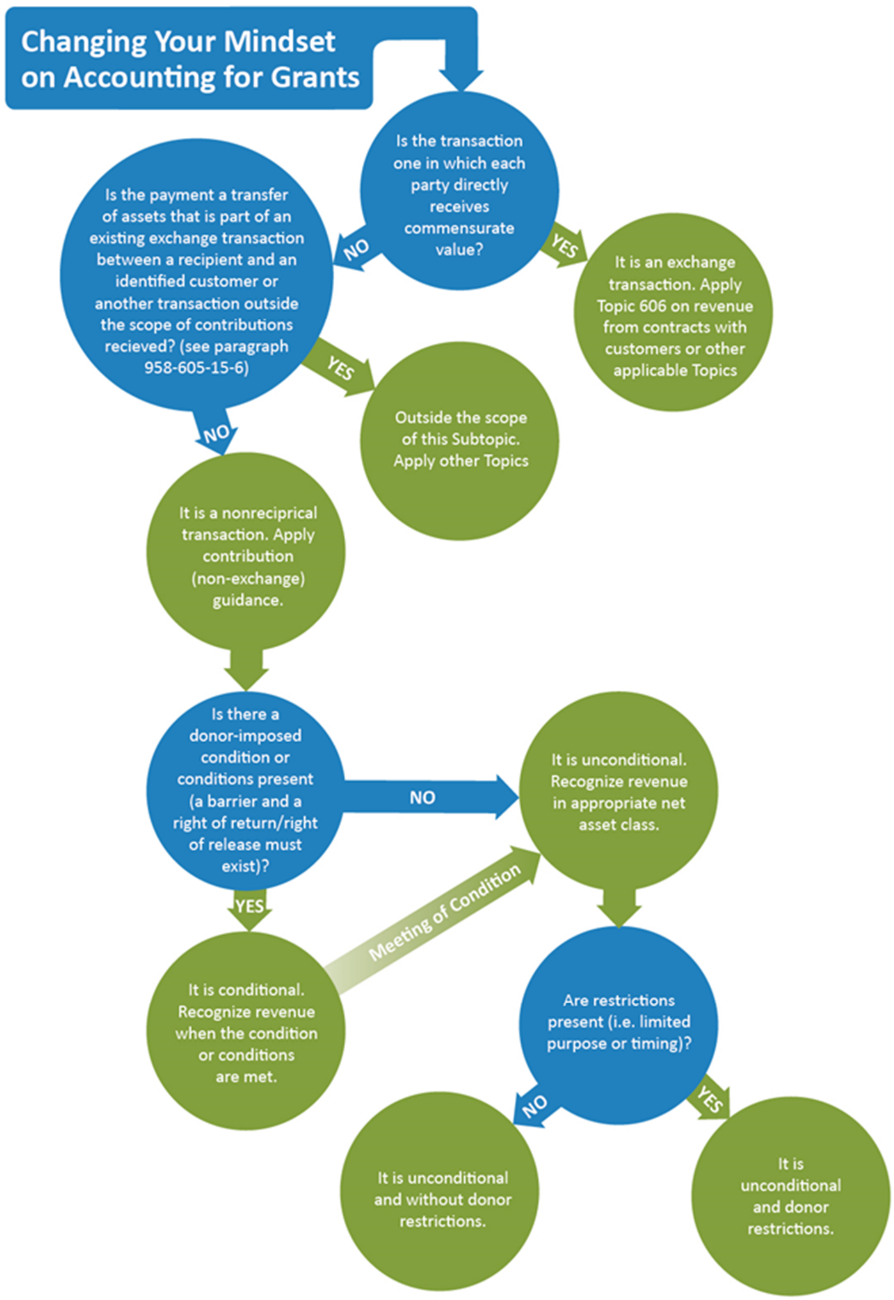
During the audit, we noted two users, director of finance and finance coordinator, had full administrative rights. We also noted that the director of finance had two logins, as an individual and administrator. We recommend that an individual outside of the finance department be designated as the administrator. We also recommend a review of software rights in the finance department to eliminate incompatible rights.

EMERGING ISSUES

On June 21, 2018, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made.*

The update provides clarifying guidance on accounting for the grants and contracts of nonprofit organizations as they relate to the new revenue standard (ASU 2014-09, *Revenue from Contracts with Customers*), and aims to minimize diversity in the classification of grants and contracts that exists under current guidance.

To help organizations better understand the impact of the standard, the guidance includes illustrative examples and a flowchart to provide a framework to evaluate and properly classify revenue streams.


Changing Your Mindset on Accounting for Grants
Is the transaction one in which each party directly receives commensurate value?
NO
YES
It is an exchange transaction. Apply Topic 606 on revenue from contracts with customers or other applicable Topics
Is the payment a transfer of assets that is part of an existing exchange transaction between a recipient and an identified customer or another transaction outside the scope of contributions recieved? (see paragraph 958-605-15-6)
YES
Outside the scope of this Subtopic. Apply other Topics
NO
It is a nonreciprical transaction. Apply contribution (non-exchange) guidance.
Is there a donor-imposed condition or conditions present (a barrier and a right of return/right of release must exist)?
NO
It is unconditional. Recognize revenue in appropriate net asset class.
YES
It is conditional. Recognize revenue when the condition or conditions are met.
Meeting of Condition
Are restrictions present (i.e. limited purpose or timing)?
NO
It is unconditional and without donor restrictions.
YES
It is unconditional and donor restrictions.

Reciprocal versus nonreciprocal transactions

Step one in the ASU flowchart asks organizations to distinguish between reciprocal (exchange) and nonreciprocal (contribution) transactions. Under current practice, many nonprofits treat governmental entity grants and contracts as exchange transactions, regardless of the substance of the grant or contract.

But for many, the current mindset is that the government does not give contributions; that way of thinking equates the benefits received by the general public to the government receiving commensurate value in return for the assets transferred.

ASU 2018-08 makes it clear that the benefit received by the general public is not the same as the resource provider receiving that benefit (i.e., the government receiving commensurate value in return for the transfer). In addition, execution of the resource provider's mission does not equate to commensurate value. Therefore, under the new guidance, these transactions are considered nonreciprocal.

Determining conditional contributions

Grants and contracts that were previously accounted for as exchange transactions are not necessarily contributions. Step two in the flowchart requires organizations to determine whether a contribution is conditional. Answering this question includes consideration of the following:

- Is there a barrier to overcome?
- Does the agreement contain either a right of return of assets transferred or a right of release of the donor or grantor from its obligation to transfer assets?

The updated guidance includes examples of barriers such as:

- Measurable performance-related requirements (i.e., matching funds, helping a specific number of individuals, etc.)
- Primary purpose agreements (include a specific spending purpose)
- Limited spending discretion

If the contribution is considered unconditional, the final step is to determine if any restrictions exist and to recognize the revenue in the appropriate net asset class.

Implementation of the new standard

Three scenarios are provided to illustrate the possible differences that may affect how the standard impacts your organization include:

- In the past, if you receive funding up front, you may have accounted for the entire grant as a temporarily restricted contribution: the portion that is still subject to the right of return (if a barrier is not met) would now be shown as deferred revenue.
- If you previously accounted for agreements as exchanges, and your policy is to not show restrictions met during the same year as being received as unrestricted support, the revenue would be shown initially as restricted and then as a release from restrictions.
- If you were accounting for grants and contracts using a cost-based reimbursement model, the revenue recognition is likely the same. In the past, you recognized revenue as you met the barrier (i.e., performed the required service). This approach would remain the same in the future, as the condition and the restriction are likely met simultaneously.

* * *

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization 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 board of directors, finance committee, management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
October 29, 2019