A BIMONTHLY PUBLICATION DEDICATED TO PROVIDING IDEAS AND EDUCATION TO TAX-EXEMPT ORGANIZATIONS

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Ideas and education for tax-exempt organizations on everything from vital tax and accounting issues to tips on improving operations.

In this issue:

Consolidation of for-profit limited partnership by not-for-profit entity

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. After the ASU was issued, questions arose as to the application of the ASU to the consolidation of a for-profit limited partnership (or similar entity) by a not-for-profit entity that is a general partner.

Accounting Standards Codification (ASC) Subtopic 958-810 requires a not-for-profit entity that is a general partner of a for-profit limited partnership (or similar entity) to apply the consolidation guidance in ASC 810-20, unless that partnership interest is reported at fair value under other guidance. ASU 2015-02 eliminated the guidance in ASC 810-20, and requires a not-for-profit entity that is a general partner of a for-profit limited partnership (or similar entity) to apply the guidance in ASC 810-10.

ASC 810-10 (as amended by ASU 2015-02) is limited to providing guidance on when a limited partner should consolidate an entity. The specific guidance in paragraph 810-10-15-8A discusses consolidation by a limited partner that owns (directly or indirectly) more than 50 percent of the limited partnership's

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kick-out rights. That paragraph is applied once an entity has considered the guidance in the Variable Interests Entities subsection of ASC 810-10. However, not-for-profit entities generally are not within the scope of the Variable Interests Entities subsection of ASC 810-10. Accordingly, in situations in which a not-for-profit entity that is a general partner applies the General Subsections of ASC 810-10, the guidance is unclear as to when the general partner should consolidate.

To clarify the consolidation guidance for not-for-profit entities, the FASB recently issued ASU 2017-02, *Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*. This ASU amends the consolidation guidance in Subtopic 958-810 to maintain current practice. Therefore, under the amendments, a not-for-profit entity that is a general partner continues to be presumed to control a for-profit limited partnership, regardless of the extent of its ownership interest, unless that presumption is overcome. The presumption is overcome if the limited partners have either substantive kick-out rights or substantive participating rights. To be substantive, the kick-out rights must be exercisable by a simple majority vote of the limited partners' voting interests or a lower threshold.

ASU 2017-02 is effective for not-for-profit entities for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If a not-for-profit entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

An entity that has not yet adopted the amendments in ASU 2015-02 is required to adopt the ASU 2017-02 amendments at the same time it adopts ASU 2015-02 and to apply the same transition method elected for the application of ASU 2015-02. An entity that already has adopted ASU 2015-02 is required to apply the ASU 2017-02 amendments retrospectively to all relevant prior periods beginning with the fiscal year in which the ASU 2015-02 amendments initially were applied.

Can outsourcing help your organization neutralize rising labor costs?

With the labor market shrinking and wages increasing, nonprofit organizations are currently facing several issues when hiring for key finance, accounting and information technology (IT) roles. Hiring and retaining qualified talent is already highly competitive, and organizations must have a plan in place for these critical functions. An outsourcing strategy can help nonprofits address staffing concerns, while also controlling costs, leveraging experienced resources and focusing internal employees on the core mission.

Accounting, finance and IT require specialized knowledge to understand and implement evolving technology and enhanced business processes. Unfortunately, due to budget constraints, many nonprofits may not be able to afford enough in-house resources. As a result of these trends, organizations must consider new strategies to improve operations, manage risks and regulations, and ultimately increase success.

In the past, nonprofits may have avoided outsourcing because of negative perceptions about losing control or quality. However, the strategy has evolved greatly in recent years, and can help organizations quickly become more strategic with qualified resources that understand the intricacies of the industry, technology strategies and finance and accounting processes and reporting. While outsourcing may begin as an initiative to cut costs, today's providers can recruit and retain better talent than many organizations, due to effective training programs and the attractiveness for employees to work in several settings and scenarios.

Your organization can benefit from this experience, and should at least evaluate the potential of outsourcing strategies for your critical accounting, finance and IT functions. And the cost component cannot be ignored, as you can take advantage of fractional employees from an outsourcing provider that are more cost-effective than full-time employees. In addition, outsourcing can help you become a more proactive organization, implementing best practices and systems and aligning with current trends to enhance decision-making and flexibility to grow your organization.

For more information on how outsourcing strategies can support your success, read RSM's recent article, Utilizing outsourcing to counteract rising labor costs. In addition, make plans to join RSM's nonprofit specialists for a webcast on Wednesday, March 1 at noon EST. During the event, we will discuss how increasing labor costs are affecting the industry, how to drive innovation through strategic outsourcing partnership and developing best practices in outsourcing models and approaches. Register for the webcast now.

Leveraging the cloud to strengthen your technology platform

The cloud is one of the biggest technology enablers for nonprofits, and has become a valuable information technology (IT) tool for many organizations. The cloud can provide real advantages to your organization that were previously out of reach, including scalable solutions and cost savings, with more access, security and efficiency. However, the cloud is more than just a single solution, and it's important to understand what an implementation involves and how to choose the right solution.

As the cloud matures, it has become a particularly attractive technology solution for nonprofit organizations, offering a more cost-effective alternative to a traditional technology department. It provides a predictable, manageable expense, agility to scale up and down as needed, and the ability to reduce reliance on on-premise systems. It can also help your organization better align IT resources with organizational strategies, providing more support for mission goals.

Many organizations may not realize that three different cloud options provide differing levels of security and functionality. The public cloud can include vendor-managed cloud applications and environments, and also offers a virtual environment to house your software and data, replacing on-premise facilities and equipment with access through a web browser and internet connection. In a private cloud environment, your organization owns some (or all) of the dedicated equipment and maintains increased control, but can still take advantage of an ongoing subscription model and reduced maintenance requirements. Finally, the hybrid cloud is a custom platform, blending elements of on-premise systems with private and public cloud solutions.

Forward-thinking organizations should be analyzing and making decisions about the cloud by prioritizing capability, performance, total cost and availability against other options. Developing a cloud road map can help your organization determine which parts of your IT infrastructure align to specific cloud solutions and reveal opportunities to improve performance and make more strategic technology investments.

For more information on how to implement a successful cloud strategy for your organization, read RSM's recent e-book, Navigating your way through the cloud journey.

Annual Nonprofit Summit Series

IN-PERSON EVENT | February 23, 2017

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Make plans to join us for our 6th Annual Nonprofit Summit Series. This full-day seminar and networking event is focused on the unique finance and operational needs of nonprofit organizations.

Our team of local and national presenters will provide an analysis of the challenges and opportunities facing nonprofit organizations today, including:

- Nonprofit accounting update
- Tax update including Form 990 and areas of tax focus for exempt organizations
- Leveraging technology to modernize the finance function
- Not-for-Profits ≠ Not for Attackers — an in-depth look at how your organization can address a potential breach
- Local topics by market
- Tax reform — The world beyond the 2016 elections

The summit will also include ample opportunities to engage in Q&A and network with presenters and attendees.

Register today! Space is limited.

We think you'll find this lively and informative annual event time well spent.

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March 7 — New York

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Feb. 28 — Raleigh

Pennsylvania
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March 23 — Washington

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