October 24, 2019

Board of Trustees
Unity of Fairfax Church Of The Daily Word, Inc.
Oakton, Virginia

Management Letter

We have audited the financial statements of Unity of Fairfax Church Of The Daily Word, Inc. ("UFFX") as of and for the year ended December 31, 2018. In connection with our audit, the following matters came to our attention which we believe will be of interest to the Finance Committee. These matters are observations only and do not represent deficiencies in internal control or material weaknesses.

Board Designated versus Donor Restricted

UFFX maintains segregated reserve and restricted cash accounts. The source of these funds includes donor contributions and board designations and QuickBooks has been set up to track these funds using classes.

There are important distinctions between donor-restricted contributions and board-designated funds:

- Board-designated funds are unrestricted funds meaning the Board can un-designate the funds using the same board actions that created the original designation.
- Donor-restricted contributions must be spent on the donor's intended purpose. The Board cannot re-allocate these funds.

UFFX should be tracking the board-designated and donor-restricted sources within the segregated bank accounts.

In cases where a fund contains both board-designated and donor-restricted sources, such as the Benevolence Fund, the accounting rules require that donor-restricted funds be drawn-down first. Additionally, board-designated funds can be re-designated by the Board if the Board knows the amount of the un-spent Board funds.

Accounting Policy Manual

UFFX does not have an approved accounting policy manual. An accounting policy manual outlines the policies and procedures that the accounting staff should follow to produce accurate and reliable financial reports that will aid UFFX's leadership team in its decision-making. It also defines the roles of staff and leadership and sets expectations for each function.

Given UFFX's one-year Treasurer term, an accounting policy manual would provide a path to consistent financial reporting that would aid the long-term strategic decisions of UFFX.

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New Accounting Changes

Nonprofit Financial Reporting Changes

The Financial Accounting Standards Board ("FASB") has revised the nonprofit financial reporting rules. Nonprofit financial statements have been prepared under FASB's current guidance since 1993. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources—and the changes in those resources—to donors, grantors, creditors, and other financial statement users.

The major components of the revisions are:

- Presentation of Financial Statements of Not-for-Profit Entities, decreases the number of net asset classes from three to two. The new classes will be 'net assets with donor restrictions' and 'net assets without donor restrictions.'
- Require nonprofits to provide in the notes qualitative information on how it manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statement and/or in the notes.
- Requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature.

The effect of these revisions to UFFX will not be significant because UFFX's accounting system already captures the required accounting data, or UFFX already complies with the revisions.

This standard is effective for fiscal years beginning after December 15, 2017. This standard will affect the UFFX's fiscal year beginning January 1, 2018.

Upcoming Accounting Changes

Revenue Recognition

The FASB 's new revenue recognition standards were created because there is confusion in whether revenue transactions are contributions or exchange transactions. Nonprofits recognize contributions upon receipt, and exchange transactions either at a point in time or over time based on facts and circumstances. In certain circumstances, a revenue transaction can include a contribution and an exchange transaction which would require the separate revenue recognition models for the same transaction.

This standard will affect how UFFX recognizes membership dues. UFFX will have to determine the underlying performance obligations within a dues payment and the amount in excess of the performance obligations. Revenue will be partially recognized when the dues payment is made as a contribution and when the performance obligations are met as an exchange transaction.

UFFX should consider the effect of the revenue recognition changes on the 2019 annual budget. If there is a contribution component to membership dues, those amounts would be recorded as contribution revenue in the period received. Membership dues paid in advance of the dues year would be partially recognized as contribution revenue in the period received and also deferred and recognized in the dues year. Currently, the entire dues payment is deferred and then recognized in the dues year.

This standard is effective for fiscal years beginning after December 15, 2018. This standard will affect the UFFX's fiscal year beginning January 1, 2019.

Lease Accounting

The FASB's lease accounting will require all organizations that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on its balance sheet. Essentially, all leases for periods of greater than twelve months will be treated as capital leases.

UFFX will have to identify its leases for periods greater than one year and capitalize the assets and liabilities on its balance sheet.

This standard is effective for fiscal years beginning after December 15, 2019. This standard will affect UFFX's fiscal year beginning January 1, 2021.

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This communication is intended solely for the information and use of management and the fiscal committee, and others within UFFX, and is not intended to be, and should not be, used by anyone other than these specified parties.

Mullin PC