

WHAT IS YOUR AUDITOR ASKING FOR?

Preparing Your Nonprofit for an Initial or Annual Audit

November 5, 2021

North Carolina



Center *for* Nonprofits

HOW CAN YOU OPTIMIZE YOUR AUDIT?

We will provide a **deep dive** into the audit **process** and how nonprofits can **prepare** for their audit as **efficiently** and **effectively** as possible. This program will help **streamline** your back of house **operations** so that resources can **remain focused** on the **nonprofits core mission**

North Carolina



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LEARNING OBJECTIVES

- Understand why Organizations have annual audits
- What assurance does an independent audit provide
- Preparing for an annual audit
- Designing supporting schedules that allow for a better audit trail
- Streamlining the audit cycle
- Use the audited financial statements to evaluate and assess the operating results of your organization



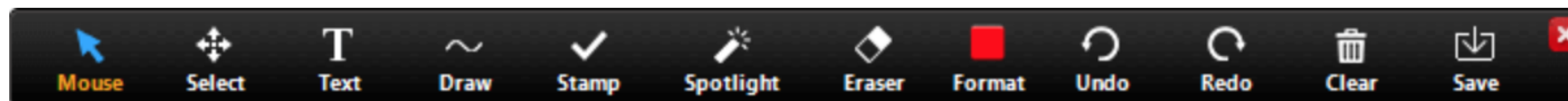
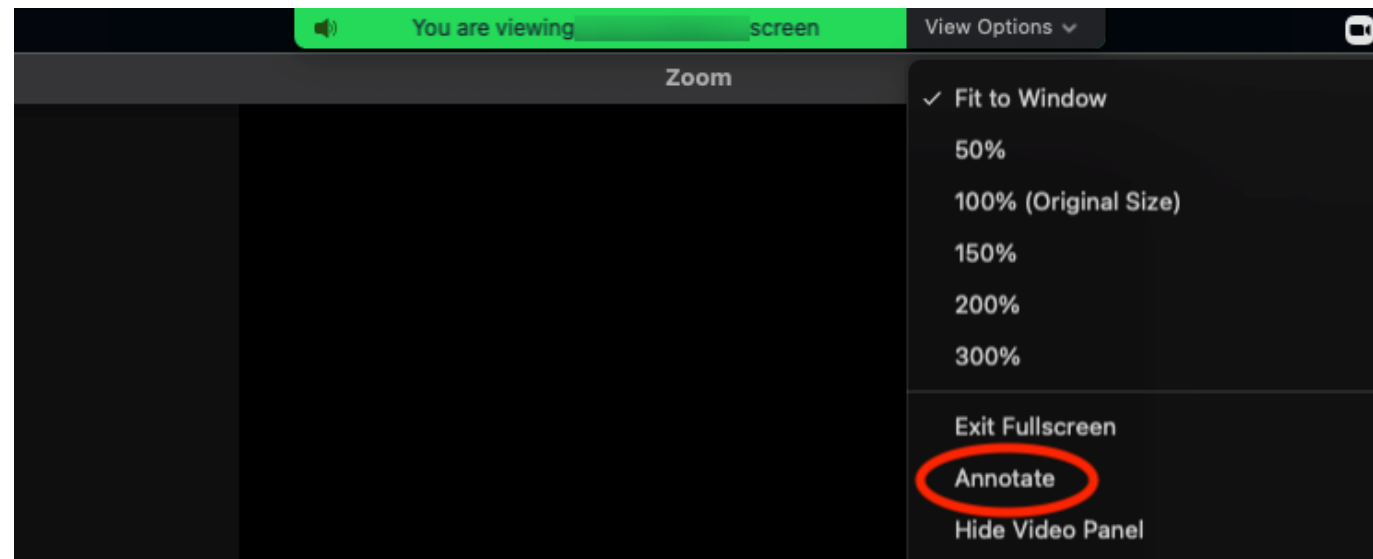
PULSE CHECK QUESTION

HAVE YOU PARTICIPATED IN AN ANNUAL AUDIT BEFORE?

- A. My organization has had an annual audit before
- B. My organization is preparing for/going through an initial audit
- C. My organization has never had an audit before
- D. My organization is not sure even what an audit is



LET'S COLLABORATE!



USE ONE WORD TO DESCRIBE YOUR AUDIT EXPERIENCE OR PERCEPTION OF AN AUDIT

Use the annotation tool and write on the screen



WHY DO ORGANIZATIONS HAVE AN ANNUAL AUDIT?

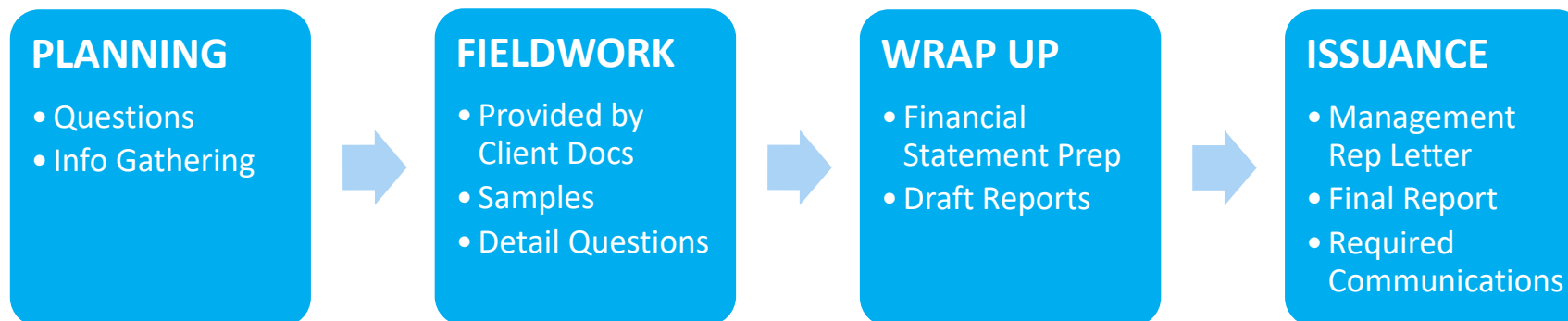
- Fiduciary responsibilities (Board Mandated)
- Federal Funding over \$750k (Uniform Guidance Audit)
- State Requirements (Government Auditing Standards)
- Grants requirements
- Loan and/or lease requirements
- Local-National Nonprofit Affiliation agreements



WHAT IS AN INDEPENDENT AUDIT?

The audit is the **highest level** of assurance service that a CPA performs and is intended to **provide a user comfort** on the **accuracy of financial statements**. The CPA performs procedures in order to obtain “**reasonable assurance**” (defined as a high but not absolute level of assurance) about whether the financial statements are **free from material misstatement**.

-American Institute of Certified Public Accounts



WHAT ARE THE BENEFITS OF AN AUDIT?



Provide accounting guidance updates



Support on complex transactions



Connector of those with services you may need



Keep you up to date on hot topic regulations and federal guidance

- Ex- PPP loans, ERC, Shuttered Venues Grant, CARES Act Funding



Consultation on implementation of new accounting pronouncements

- Lease Topic 842 – COMING SOON!



Compliance with laws and regulations

- UGG reporting, 990 compliance, Yellowbook, etc.



Help optimize operations through discussions of best practices

- No surprises for the board for risky areas



Internal Control suggestions



Streamline financial data to analyze and generate required reports



Board Governance



Provide story with mission “financial autobiographer”



Unlock new funding opportunities

- Grants/Contributions
- Lending
- Federal Funding



HOT TIP: Invest in your relationship with your audit firm and look forward when choosing a firm so they can provide services as you grow. Don't just think about what you need know - what will you need in the future

MYTHBUSTERS: WHAT AN AUDIT IS NOT

To uncover fraud

As a “gotcha” moment

To get management in trouble

Internal control audit

Forensic audit



WHAT ARE THE AUDIT DELIVERABLES

Audit Committee Meetings (Planning and Reporting)

Audit Opinion with audited financial statements (which are managements)

Communication with those Charged with Governance

Management Letter (if applicable)

Many audits do in person/virtual presentations to the board as well



PULSE CHECK QUESTION

IS YOUR AUDIT PLANNING AN ANNUAL THING THROUGHOUT THE YEAR OR DONE RIGHT BEFORE THE AUDIT?

- A. My organization is always preparing for audit
- B. My organization prepares some here and there
- C. My organization prepares right before the audit begins





PREPARING FOR YOUR AUDIT

Tips & Tricks to best prep for your audit

- Audit Preparedness Folder (maintained throughout the year)
- List of things to tell your auditor (process, personnel, programs)
- Know your “Story”
- Prep your team



HOT TIP: Block off time during audit fieldwork to ensure you are available for the auditor's questions and requests. More time on the front end = Less time on the back end. Many items are selected based on the schedules provide that we will discuss below.



AUDIT PREPAREDNESS FOLDER

Maintained folder to drop important documents throughout the year

- Closed/Opened Bank Accounts (account numbers and bank contacts)
- Major Promises to give (emails, letters, applications, etc.)
 - more than 50% greater than your average gift
- Large Payments Received (Donors, Grantors, Federal/State)
- Large prepaid contracts (insurance policies, future event contracts, etc.)
- New Loans or Lease agreements (agreements, account numbers, invoices)
- Major changes to fixed assets
- Gifts In Kind (with valuations)
- Major or unusual expenses (invoices, contracts, progress reports, letters of intent)
- Major budget changes
- Board resolutions impacting finances (board minutes)
- Legal/Litigation situations



HOT TIP: Reach out to auditors throughout the year to discuss any complex/one off transactions to avoid delays in the audit. We are always one email away!



LIST OF THINGS TO TELL YOUR AUDITOR

Important changes to tell your auditor about





KNOW YOUR “STORY”

Help your auditors be your autobiographer

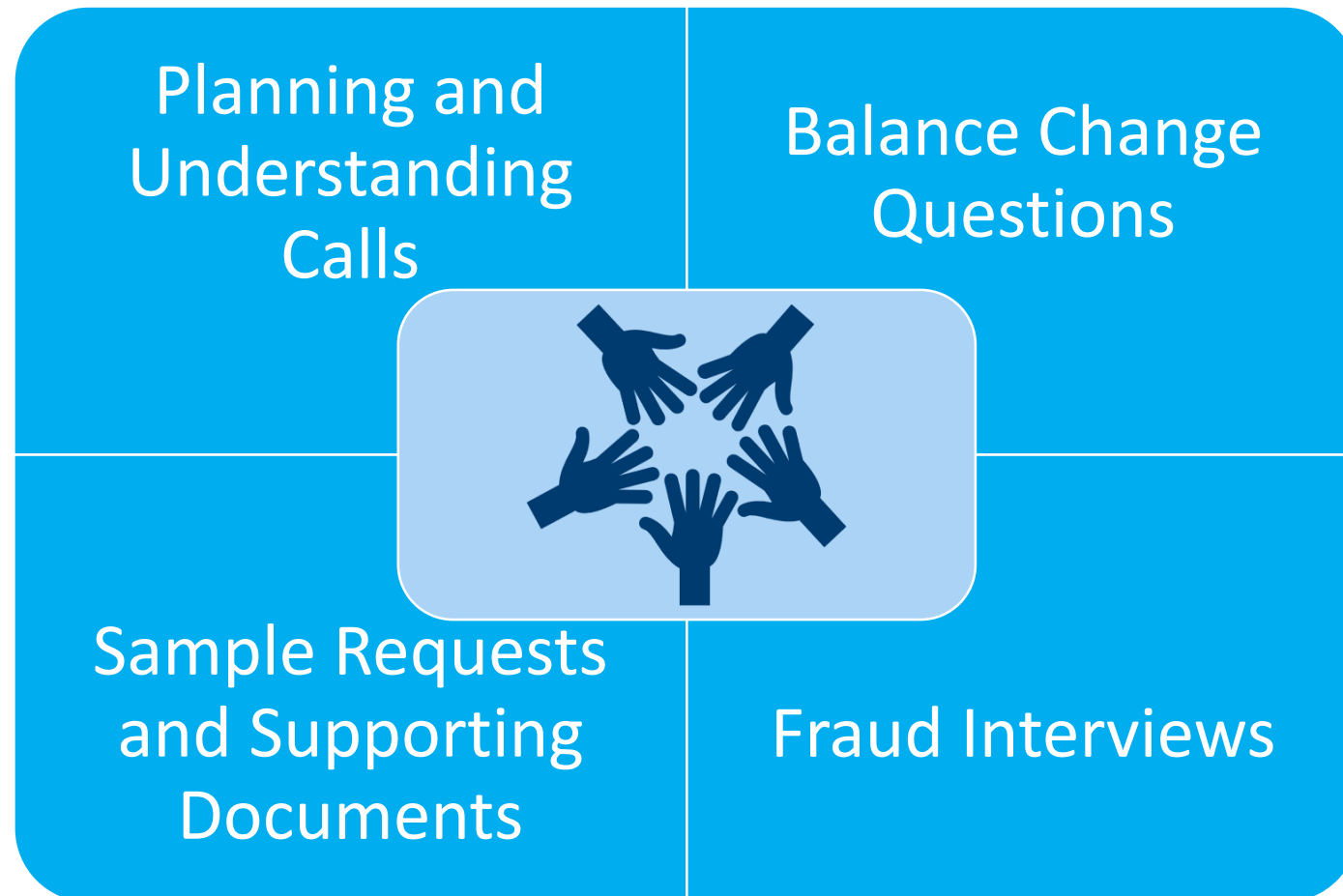
- Review key financial decisions throughout the year like you are reading a book
 - What did you **budget** for?
 - What happened **unexpectedly**?
 - Any **major account changes** from prior year?
 - Any new **significant contracts**?
 - How did **external events** impact your organization?
 - Did you host any **Special Events**?
 - Do you have **inventory**?
 - **Changes in employee** benefits, payroll, cost of living adjustments
 - What are is your teams **Skills Knowledge and Education “SKEs”**





PREP YOUR TEAM

Tell your audit team that they will be asked



Your Audit Team:

Treasurer/Audit Committee Chair
Executive Director/CEO/CFO
Controller/Director of Finance
Accounting/Finance Staff



BEST PRACTICES FOR STREAMLINING PAGE 1

Get ahead of the auditor's questions - *What changed in your Promises to Give?*

XYZ NFP								
Promises to Give								
6/30/22								
	<u>Donor</u>	<u>Pledge Date</u>	<u>Original Amount</u>		<u>7/1/2021 Balance</u>	<u>Pledges</u>	<u>Payments</u>	<u>6/30/2022 Balance</u>
	Donor A	5/31/21	\$ 100,000		\$ 50,000		\$ (50,000)	\$ -
	Donor B	8/1/21	\$ 250,000			\$ 250,000	(125,000)	125,000
	Donor C	9/30/21	\$ 50,000			50,000		50,000
					\$ 50,000	\$ 300,000	\$ (175,000)	\$ 175,000

BEST PRACTICES FOR STREAMLINING PAGE 2

Get ahead of the auditor's questions - *Why did you Net Assets change?*

XYZ NFP								
Net Assets With Donor Restrictions Rollforward								
6/30/22								
	Donor	Purpose Restriction	Time Restriction	7/1/21	Additions	Releases	6/30/22	
	Donor 1	to provide literacy training	N/A	\$ 25,000	\$ -	\$ (15,000)	\$ 10,000	
	Donor 2	to build a playground	N/A	10,000	10,000	(20,000)	-	
	Donor 3	to provide afterschool meals	1/1/22-12/31/22		50,000	(25,000)	25,000	
	Donor 4	to provide parenting coaching	4/1/22 - 3/31/23		10,000	(3,333)	6,667	
				\$ 35,000	* \$ 70,000	\$ (63,333)	\$ 41,667	**
				*Agrees to PY accounting records			**Agrees to CY Accounting Records	



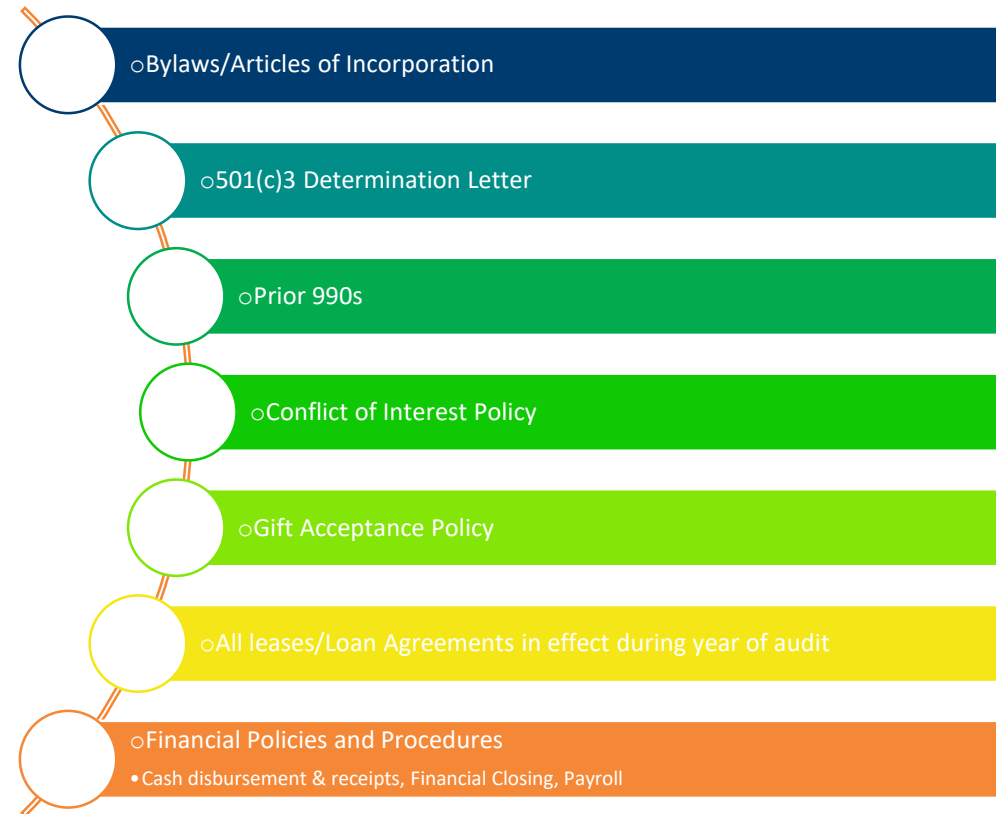
BEST PRACTICES FOR STREAMLINING PAGE 3

Get ahead of the auditor's questions – *What is the value of Gifts in Kind?*

XYZ NFP					
6/30/22					
Gifts In Kind					
	Donor	Donation Date	Description	Fair Value	Fair Value Basis
	ABC Corp	12/15/21	Office Equipment		
			3 Lap Tops	\$ 1,500	New laptops, obtained FV based on sales data
			Printer	\$ 75	New printer, obtained FV based on sales data
	CRZ Co	2/21/22	Parcel of Land	\$ 250,000	Appraisal by Appraisers R Us
	Corp Z	4/27/22	4 Tickets to the Big Game	\$ 4,000	Based on ticket price printed on tickets
			Total	\$ 255,575	Should match accounting records



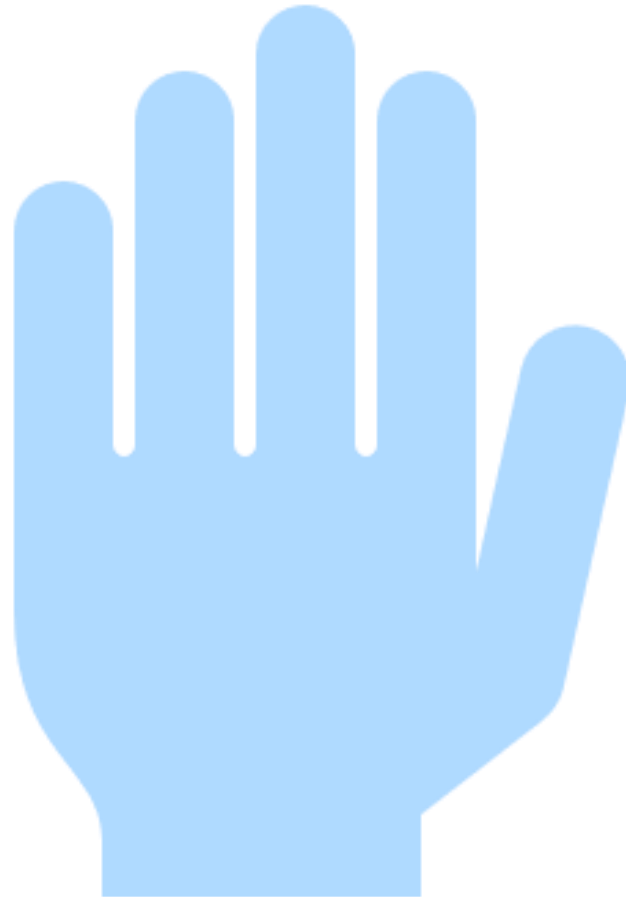
FIRST AUDIT – DOCS/POLICIES TO ROUND UP AND HAVE READY





PULSE CHECK QUESTION

WHAT QUESTIONS HAVE YOU BEEN ASKED DURING AN AUDIT THAT YOU DIDN'T KNOW THE ANSWER TO OR HOW TO ANSWER?





COMMON ROADBLOCKS AND TIPS TO AVOID

“Failing to Plan, is Planning to Fail” - *Someone smart*

Missed Deadlines

The Dreaded Extra Bill

Confusion on Audit Adjustment

Board Scheduling Issues



- Collaborate with your auditors to build a schedule, keeping in mind:
 - PTO/Holidays
 - Month End Close
- Have a regular scheduled meeting with your auditors to discuss status, questions, and items to finalize
- Don't be afraid to ask questions about adjustments or financials
 - These are YOUR financials, and we want you to own them
 - Auditor's make mistakes too
- Get your key board members to schedule dates BEFORE the audit begins.



EVALUATE AND ASSESS THE OPERATING RESULTS OF YOUR ORGANIZATION

Operating Cash Flow

Current Ratio

Cash Runway

Liquidity and
availability of
resources

Ratio of with and
without donor
restricted net assets

Ratio of cash to with
donor restricted net
assets

Statement of
Functional Expense
Allocation

Revenue
Concentration Ratio

Contingencies

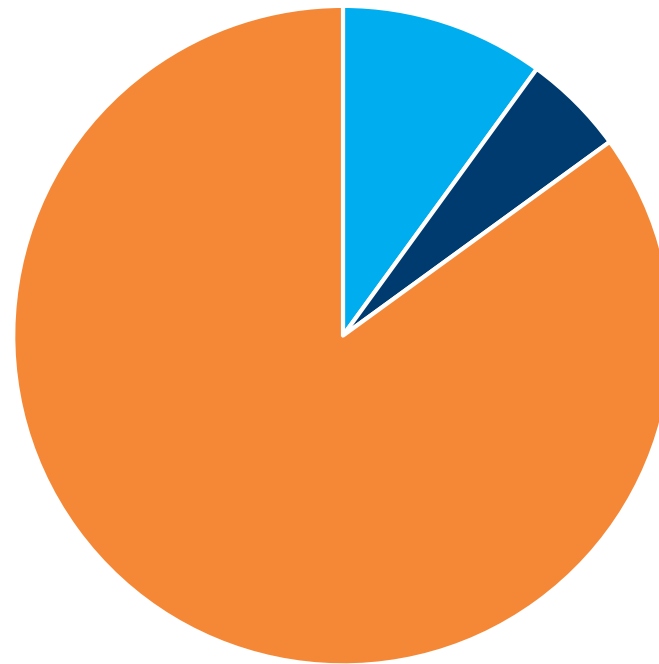
Promises to Give over
the next 5 years

Uniform
Guidance/Compliance
Reporting



EVALUATE AND ASSESS THE OPERATING RESULTS OF YOUR ORGANIZATION

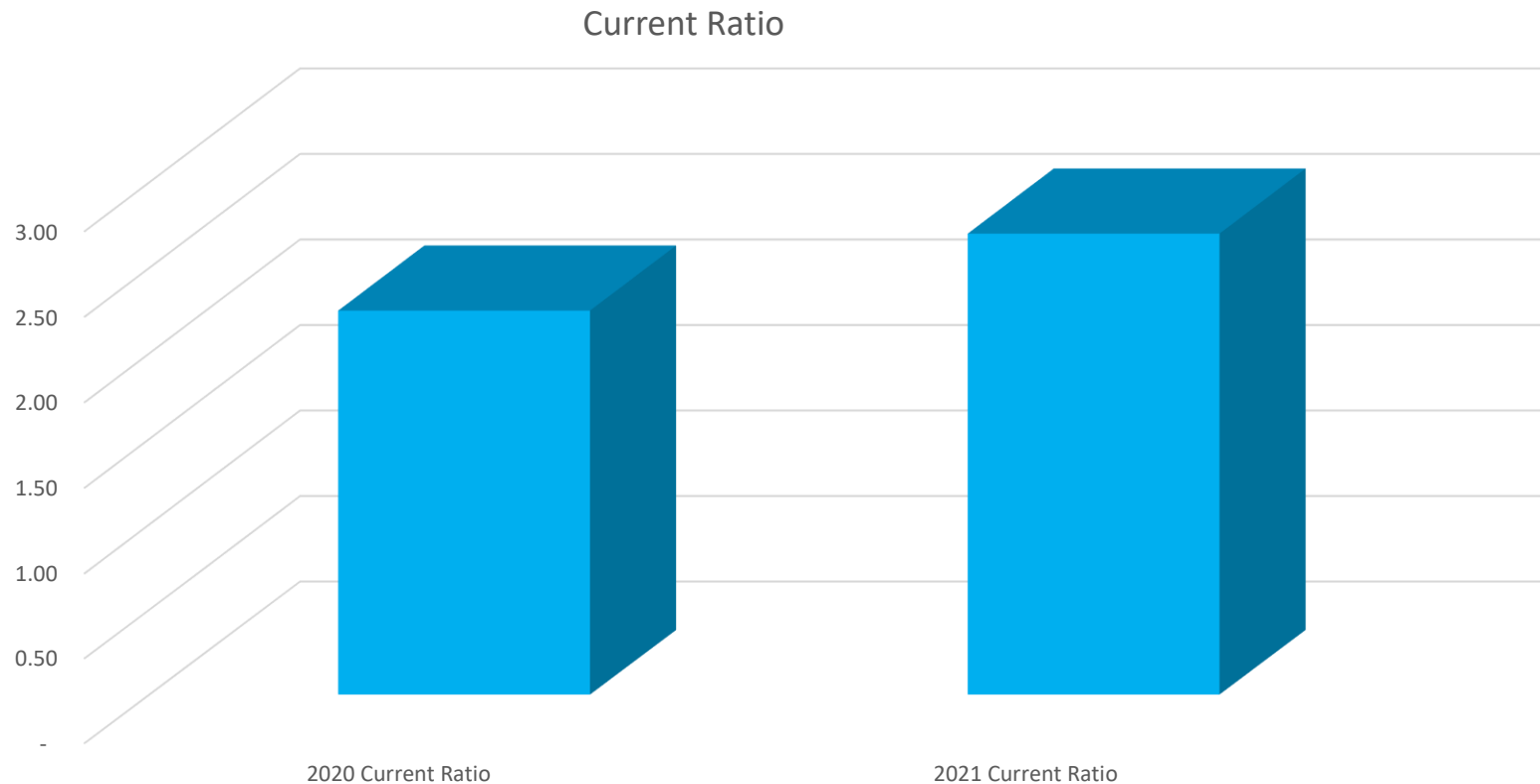
Functional Expense Percentages



■ Administration ■ Fundraising ■ Program Services



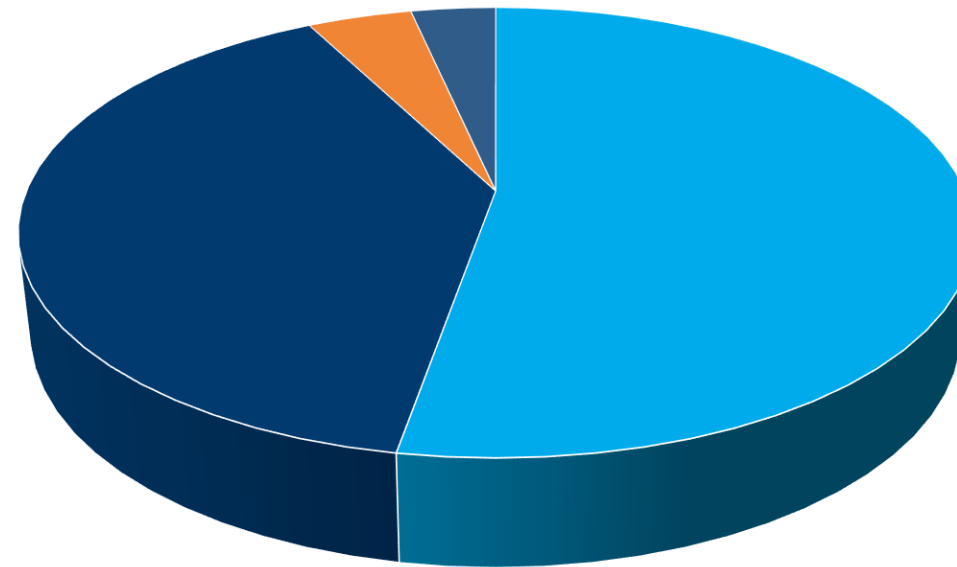
EVALUATE AND ASSESS THE OPERATING RESULTS OF YOUR ORGANIZATION





EVALUATE AND ASSESS THE OPERATING RESULTS OF YOUR ORGANIZATION

Revenue Diversification



■ Government Grants

■ Private Contributions

■ Memberships

■ Ticket Sales



ADDITIONAL VALUE PROPOSITION



ESG



Donor Presentations



Grant Applications



Board Governance



Community Confidence



PULSE CHECK QUESTION

WHAT IMMEDIATE CHANGE ARE YOU GOING TO IMPLEMENT GOING FORWARD?



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