

Best Practices for Handling Non-Profit Audits

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San Jose | November 6-8 | 2019

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Gregg Bossen, CPA, PC

1. If you had to pick what is the single most significant part of a nonprofit audit that causes clients the most trouble?

Without a doubt, the answer is restricted grant tracking. The vast majority of nonprofits who receive financial statement audits do so in order to receive grants the majority of which are restricted in some way. Ironically enough most of these nonprofits are not tracking how the dollars are spent within their accounting system. Instead many clients spend hours after the fact attempting to discern how dollars were spent both for grant reporting as well as for the auditor. I've been given spreadsheets with amounts on them from clients that have no apparent relationship to the financials at all. As an auditor I can't rely on that. It is vital that nonprofits tag expenses as being paid out of grant within the accounting system. This is the only way an auditor can gain some comfort as to the accuracy of the numbers. It also ensures that no expense is inadvertently double counted on two different grants. A good answer in QuickBooks is to use the customer or project list to track grants. One can also use the attach feature to upload the signed grant agreements and attach them to each grant within QuickBooks, making them easily accessible at audit time.

2. * How important is it to generate financial statements that are GAAP based during the year?

Actually, nonprofits are not required to generate financial statements that are GAAP based for internal use during the year. I would go so far as to say that I wouldn't advise it either. The required format of financial statement under GAAP can be confusing for most board members and often makes it more difficult for the organization to analyze performance when compared to a budget. For example, many nonprofits like to budget for both fixed asset purchases as well as a monthly set aside to a reserve fund neither of which would appear on a GAAP based statement of activities. I have no qualms telling my clients to expense these things during the year to accounts with budgeted amounts, with corresponding with backouts to the balance sheet using contra accounts at the bottom of the statement of activities (other expense type) that do not have budgeted amounts. If desired, these contra accounts can be filtered out altogether when presenting to the board.

3. * What coming changes in accounting standards affecting nonprofits should we be aware of?

Probably the biggest change coming down the pike is accounting standards update no. 2016-02 (leases topic #842) which affects how operating leases are to be reported for for-profits and not-for-profits alike. Most nonprofits must incorporate this new standard on audited financial statements for fiscal years beginning after December 15, 2019. This new standard is requiring the total present value of all future lease payments made by lessees to be recorded at the time a lease is signed as a liability with a corresponding asset representing the intangible "right of use" of the leased property.

Gregg Bossen, CPA, PC

By doing this, readers of the financial statements will now see a more complete picture of all future liabilities the organization has directly on the statement of financial position. Monthly lease payments will reduce the liability account with a second corresponding entry to expense the monthly portion of this "right of use" intangible asset to a rent or lease expense account. The specifics of how this will work are to a certain extent still being hammered out in the nonprofit accounting community and will no doubt continues to evolve as implementation begins. This is an area I would encourage you to get out in front of by speaking with your auditor about it now.

4. What exactly is the difference between a compilation, a review and an audit?

There are actual 4 different types of financial statement services your CPA can provide to you.

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- **Basic financial statement preparation:** these are financial statements that may be prepared by a CPA but are usually for internal use. They carry with them no assurance as to the accuracy or completeness or even the format of the statements. Accordingly there is no report given with them. You may choose to share these financial statements with outside parties but any CPA will include a statement at the bottom of each page that says "no assurance is provided". These statements are not meant to be relied on by outside parties and only exist as a choice so that you may engage an accountant to prepare financials for your organization without reporting on them which will save money. Accountants providing these statements are usually functioning as bookkeepers only.
- **Compilation:** these are financial statements similar to the above choice (basic financial statement preparation) in that they carry no assurance of accuracy or completeness but unlike the above choice do come with a report signed by a CPA. While this report does not attest to the accuracy or completeness of the amounts, the format of the statements are disclosed with reference as to whether the format is in accordance with generally accepted accounting principles (GAAP). A compilation is usually intended for distribution to lenders and other outside parties who may appreciate the businesses association with a CPA without requiring a level of assurance on the accuracy of the financial statements.

Gregg Bossen, CPA, PC

- **Review:** Unlike the above two choices, a review includes a set of financial statements along with a report that gives “limited assurance” that “there are no material modifications that should be made” on these statements. CPA’s performing a review will use analytical procedures such as comparing amounts to prior year and inquiring as to material differences in an effort to gain a minimal level of comfort as to the accuracy of the statements. Organizations choosing this option typically do so in an effort to comply with grants that will accept a review in lieu of a full audit. Reviews are typically less expensive than audits so this may be an attractive option for smaller nonprofits who may lack the funds necessary to complete a full audit.
- **Audit:** An audit provides the highest level of assurance that a CPA can offer and is intended to provide a reader comfort as to the accuracy, completeness and the format of the financial statements. Auditors will perform analytical review, sample testing, an examination of internal controls, physical examination of assets and other procedures in an effort to attain “reasonable assurance” (defined as a high but not absolute assurance) about whether the financial statements are free from material misstatement. The financial statements will include a report that will issue an “opinion” as to whether or not the accompanying financial statements fairly represent the financial position of the organization. As a practical matter most nonprofits relying on grants should be receiving an audit annually. Nonprofits who choose not to do this may find them selves at a distinct disadvantage as they attempt to grow.

5. I have clients that get audits every other year or every three years in an effort to save money. How does this affect the audit process?

Although it is understandable why a small nonprofit may skip getting an audit to save money, it does make performing an audit in the next year decidedly more challenging. Without a previous audit to rely upon, beginning balances for all balance sheet accounts must be audited as well as restricted grants amounts unspent as of the beginning of the year. This will result in additional audit fees as well as adjusting entries to beginning balances (unless the client numbers are perfect which rarely occurs) which in turn usually results in an amended 990 needing to be filed for the previous year. After calculating all the extra fees and time spent by staff it may well not have been worth it. I recommend that most clients choosing to receive audits do so every year.

6. I have clients that get audits every other year or every three years in an effort to save money. How does this affect the audit process?

Absolutely! This list should be given to you by your auditor at the signing of the engagement long before the auditor arrives at your office. It is called a PBC list (or prepared by client list) and if an auditor does not give one to you, ask for it before signing the engagement letter. If he or she doesn’t have one to give you, there are suggested lists on line but honestly I would view the lack of a PBC list provided by your auditor is a warning sign that this person may not be the best choice going forward. This list will certainly not be everything that your auditor will ask for, but it should be a good start.

7. * How important is it to have good internal controls before engaging in an audit?

While having strong internal controls are a very important part of any accounting system, the truth is many smaller nonprofits simply do not have the capacity to utilize traditional controls that are used by larger companies. For example, many nonprofits have a staff of one person who may be signing checks as well as reconciling the bank accounts when it is certainly better to split those two tasks between two people. While this is not optimal, it may be necessary in some cases. Weak internal controls do not mean that books are "unauditable". It does mean that an auditor will choose not to rely on those controls when doing test work but for smaller audits this is usually the case anyway. Having weak internal controls should not dissuade a client from having an audit. Actually I would say that the opposite is true. One of the outcomes of going through the audit is a separate management letter from the auditor that will suggest changes in internal controls to help clients going forward. In this way, an audit should be looked upon as an opportunity for learning and growth as opposed to a fearful experience where one might "get caught".

8. Will a traditional audit find fraud?

Not necessarily. A traditional audit in accordance with generally accepted accounting principles has a goal of issuing an opinion whether the financial statements are free of material misstatement that may be due to fraud or error. In other words, the goal is more about detecting a material misstatement as opposed to looking for fraud itself. If someone committed fraud that did not materially impact the overall financial statements, that fraud may go undetected. Statement on auditing standard no 99 (SAS 99) directs auditors to design audit procedures that may detect fraud as part of traditional test work but it's important to understand that traditional audits are ultimately looking more for material misstatements in amounts as opposed to looking for fraudulent activity. If a client is concerned about fraudulent activity that may have occurred, it may be wise to seek out what is known as a forensic audit as opposed to a traditional one. In a forensic audit the auditor is specifically looking for evidence of fraud that may be used in a court of law or legal proceeding.

Megan Genest Tarnow, The Mobius Group

When are audits required?

The federal government requires an audit when the nonprofit expends \$750,000 or more in government funds during a single fiscal year. Some foundations may require one in order to apply for funding. Individual states have various thresholds, typically based on the amount of contributed revenue or total gross revenue received in a given year. Significant contributions of in-kind good or services, such as might be received by a food shelf or nonprofit-run thrift store, can put the organization over the audit threshold, even if actual cash received would not.

Almost half the states, including Alabama, Arizona, Colorado, Delaware, Idaho, Iowa, Kentucky, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Texas, Utah, Vermont, and Wyoming, have no state audit requirement.

For the other states, the most common threshold is \$500,000 in contributed income, with Illinois being an outlier at \$300,000, Georgia and Florida at \$1M, and California at \$2M. The Secretary of State in Mississippi can require an audit if an organization's annual revenues are at least \$25,000 (which makes me want to take a deeper look at how this is applied!). And Texas, while not requiring an audit, does say that all organizations with annual income of \$10,000 must have current and accurate financial records in accordance with GAAP. I can only imagine the number of small Texas nonprofits that are not in compliance...

Further information on the audit requirements for the various states can be found here:

<https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements>

What are some common misconceptions about the audit?

I see a lot of smaller nonprofits who really don't have any idea how they are supposed to keep their books, or how nonprofit accounting rules are different from other businesses their size. Their books are a mess, and they expect the auditor to "fix it."

They don't seem to understand what the auditor is looking for, or who they really work for. Although the nonprofit cuts the check, the auditor works for the government, which wants to make sure donors are not being scammed; for the foundations, which want to know their grants are being used wisely, and for the public, both contributors and clients of the organization. They want to know if the organization is trustworthy, and is using its resources to advance its charitable purpose.

How can nonprofits prepare for an audit?

- Keep your books audit-ready! This means being familiar with the generally accepted accounting principals that apply to your organization, and how these are different from how other businesses your size keep their books. FASB has recently handed down the biggest changes in nonprofit accounting that we've seen since 1996, so make sure you understand how these will effect you and the organizations you work with.

Megan Genest Tarnow, The Mobius Group

- Use accrual accounting. It's really not any harder, it gives you a better overall picture of your organization's financial health, and it is GAAP for nonprofit organizations.
- Reconcile your accounts regularly. Know that matching to the bank feed is not the same thing as reconciliation. It is at least as important to know which transactions haven't cleared as to know which ones have. And don't stop with the bank accounts. Review and reconcile all your balance sheet accounts. This is what tells you if the organization is "okay," and are the primary thing the auditor will be reviewing. More thoughts on doing reconciliation right can be found here:
<https://mobiusgroupmn.com/reconciliation-everything-you-need-to-know/>
- Know the tricks. When your books are clean, the auditor will dig deeper. Get out ahead of them by watching for any unpaid prepaid expenses, or deferred revenue that is still receivable, and make reversing entries before you send your books to the auditor.

Are there ways nonprofits can use QuickBooks Online to make the audit easier?

Absolutely! While the auditor and the 990 are not the most important stakeholders in a nonprofits financials, you'll make things easier for everyone if you know what they are looking for and take that in to account when you set up the datafile.

Use classes to track Program, Admin and Fundraising, so you've got the information you will need for the Statement of Functional Expense.

Arrange your accounts so that you don't need a calculator to know things like total payroll expense.

Use the Invoices and Received Payments and Bills and Applied Payments reports to easily find the information you need on when payments were received or bills paid after the end of the fiscal year.

While QBO only supports a single receivable account, consider using a custom field in QBOAV to easily differentiate Pledges, Contracts, and Grants Receivable from standard accounts receivable.

We still hear from auditors who don't think QBO is an appropriate general ledger system for nonprofits. What would you say to them?

I'd say they need to take a deeper look at QBO.

Intuit's partnership with TechSoup makes QBO affordable for even the smallest nonprofits. Even QBOAV, which has some fantastic features, is only \$150 a year for 501(c)3s.

And we need to train auditors, so that they understand how we are using QuickBooks. There are so many fields that are available to us, and that can be hard for auditors who may be accustomed to using the Trial Balance as their only lens. While we are all using the chart of accounts to track natural categories (that's true, right??), we are using classes to capture the information we need for the Statement of Functional Expense. Many of us are using Projects for restricted grants, and if I've been able to influence you, you may be using Location to track activity and net assets with and without donor restrictions.

Megan Genest Tarnow, The Mobius Group

Even as we work to make auditors more comfortable with QBO, we also need to be aware of the issues they have traditionally had with it, and be sure we are using all the tools and features at our disposal to mitigate the risks they see as being inherent in the product.

I think QBOAV is particularly useful for this. Auditors hate how easy it is for people to have access to data they shouldn't have in QuickBooks. We can solve for at least some of this by being really thoughtful about the way we assign user permissions. Find more about QBOAV user permissions for nonprofits here:

<https://www.firmofthefuture.com/content/custom-user-permissions-in-quickbooks-online-advanced-for-nonprofits/>

We can use add-on apps like Bill.com, again with carefully designed user roles, to enhance separation of duties and make it easier for board members or other off-site staff to assist without having to come into the office. Auditors tend to be really happy when they see the audit trail.

We can set and enforce a closing date, and confirm there have been no changes to the prior period trial balance. We can listen to their arguments, and clearly document how we are addressing their concerns.

What's the biggest mistake you've seen people make in preparing for an audit?

A lot of people still struggle with recognizing restricted revenue, and that has only gotten more complicated with the new revenue recognition guidelines that took effect for fiscal years beginning after 12/15, 2018. I still run into people who haven't implemented FASB 116 and 117, which went into effect for smaller organizations in the fiscal year beginning after 12/15/1994. **1994!!** Instead of recognizing restricted contributions when they are received, they were booking them to either Deferred Revenue or directly to Restricted Net Assets, and only counting them as income when the restriction was met.

One key change in the new ruling is the determination that government grants and contracts, which have generally been considered earned income, are to be treated as contributions. The thinking there is that, in order to be "earned," the benefit of the transaction must be received directly by the customer, but the benefit from government contracts is not the government itself, but the public at large.

Under the new ruling, nonprofits are asked to show their work, which means they must take the time to document their thinking. Is this a contribution, or an exchange contract? (i.e.: is it a donation? Or is it earned?) There has been a lot written about this from the contribution perspective, but I don't actually see a lot of change here. It is when it comes to exchange transactions that things get complicated.

In order to be considered an exchange contract, each party must directly receive something of commensurate value. This is why government grants and contracts are now considered contributions. But if it is determined that each party directly receives something of commensurate value, the nonprofit needs to take (and document) the following steps:

Megan Genest Tarnow, The Mobius Group

- Identify the contract with the customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price. (How much is associated with each of the performance obligations? – in my mind, this is the tricky bit.)
- Recognize revenue when or as the entity satisfies a performance obligation.

Determining these performance obligations, accurately recognizing revenue, and documenting the thought process for the auditor feel like significant challenges facing us and our clients.

Meredith Smith, Streamlined Accounting Strategies, LLC

Why would my nonprofit client or organization need a financial statement audit or review?

An organization usually needs an audit or review because it required. Governments may ask for copies of audited financial statements.

- If you spend more than \$750,000 in federal funds per year, the federal government requires that you have special kind of audit called a Single Audit or Yellow Books Audit.
- There are state laws that require charitable organizations to send in copies of their audits when they register to fundraise in that state.

If your organization only raises funds in the state where it is incorporated, then it only needs to follow the charitable registration requirements in its home state. It is important to understand the rules in your state and in the states where you raise funds.

Each state has information on their charitable registration requirements. You can usually find this by googling the name of the state followed by the words "Charitable registration". You will come up with a lot of resources. The ads will be for business that help nonprofits submit initial registrations and renewals in multiple states. These are good resources if you are a national organization that does a lot of donor fundraising online or by mail. If you only fundraise in two or three states, you can look up the requirement in those states. This is also a good thing to discuss with your auditor the first time you meet with them. They might not know the rules for each state, but they can point you in the right direction.

Meredith Smith, Streamlined Accounting Strategies, LLC

How do I pick an auditor or audit firm?

Make sure you pick an auditor or firm that has experience working with nonprofits. They will be familiar with federal and state audit requirements.

Also make sure the firm you hire is comfortable auditing your cloud-based workflow. Can they dig the fact that you have established an awesome cloud-based workflow that relies on apps with awesome audit trails and that transactions are flowing into your accounting system using very little repetitive data entry?

Get references from your nonprofit colleagues and/or contact your state association of nonprofits to see who they recommend.

Talk to 2-3 audit firms. Make sure you are comfortable with them and that they are knowledgeable about nonprofits in general. Ask the audit firm for references too.

Don't just pick a firm based on price. Often quotes for audits are estimates. A more experienced firm, even if their quote is higher, will provide you with a better service and there will be fewer surprise extra fees if the audit is more complicated or takes more time.

Also talk to the firm about the combined price for the audit and preparing your 990. Even when you need an audit, you also must file a Form 990.

If you receive federal funds and spend more than \$750,000 in your fiscal year, then you are required to have a governmental/yellow book/single audit. The rules for these audits are different than a GAAP based financial statement audit. The auditing requirements are stricter. If you need to have an audit of your federally funded program - make sure you hire an auditor who trained and experienced with governmental audits.

My state requires and audit if our organizations gross annual revenue is more than \$500,000. What does gross annual revenue include.

Gross revenue for an audit is determined on a GAAP /accrual basis and includes revenue that is not reported on the 990 return such as:

- Donations of goods and services.
- GAAP requires that many donated goods and services be valued at fair market and recorded as revenue with a related expense on the Statement of Activities.

Some examples include:

- Donated professional services from lawyers, accountants, web designers, or other consultants that you would have to purchase services from if they won't donated.
- Food donated to food pantries or other food justice organizations
- Medical supplies donated for redistribution to aid organizations
- Rent, utilities or other in-kind contributions of facility related expenses.

It is important to establish a methodology for measuring and determining the fair value of donated goods and services. For professional services it is often easy to determine how much you would have to pay a professional for the equivalent amount of services.

Sometimes professionals will give you a bill that includes their time and usual rate for their services with a discount for the value of the services donated.

Meredith Smith, Streamlined Accounting Strategies, LLC

If you receive office space rent free, it is often simple to determine the fair value of the rent, utilities and other services you would have to pay for if office space wasn't donated.

Some donated goods are more difficult to value. Examples from my practice:

1. A nonprofit client runs a storefront that receives donated materials like buttons, boxes, fabric, tiles, rolls of paper, sheets of mylar – pretty much anything you can think of. Anyone can come in the store and fill a bag with stuff for a recommended donation of \$5. The organization also runs art workshops for teachers and members of the community. The donations of recycled materials is core to their mission. To determine the value of these donations, the organization researched business with similar models – both for-profit and nonprofit. Through their research they found a business in another state that collects recycled materials and sells them for \$.50 per pound. Based on that information they record an in-kind donation of \$.50 per pound for all donated materials. They have on staff person who is responsible for weighing and logging all the donations that come in. Keep in mind that the amount that they record as in-kind donations is different than what the donor might deduct on their taxes for their donation.
 2. Another client runs a food bank. They collect and redistribute discarded food and produce from local grocery chains. The food gets delivered to local agencies including homeless shelters, and other social service agencies that serve low-income clients. The food that they pick up from grocery stores is in standard-size produce boxes. For a period time they weighed each box they picked up and were able to determine the approximate weight of different types of food. A box of bananas might weigh 50 pounds, where a box of lettuce weighs 20 pounds. Now that they have this information, whenever volunteers pick up food, they only need to log how many boxes of each type of food. Based on that information, the organization calculates the weight and records in-kind donations based on a dollar value times the weight of the food donated.
- Unrealized investment gains and losses.
Unrealized gains and losses from investments are reported on GAAP based financial statements include net investment revenue, including unrealized investment gains and losses. These gains are not included when reporting revenue on the 990.
 - Investment expenses
For GAAP based financial statements, investment expenses are netted against investment income. Another factor to consider when calculating gross annual revenue.

How far in advance should I start to prepare for my year end audit?

Preparing for your year end audit is a year-round process! Every organization should have accounting policies and procedures in place (and an awesome cloud-based workflow) so when you get to the end of the year, there is nothing to do for the audit. All the important things the auditor wants to look at are an important part of your organization's accounting procedures. Some examples of the things you should be doing that an auditor wants to look at.

Meredith Smith, Streamlined Accounting Strategies, LLC

Bank Accounts

- Are reconciled
- You have digital copies of all the bank statements
- The reconciliation reports are in QuickBooks – stamped with the name of the person who performed the reconciliation. The reconciliation is pro-forma because the bookkeeper has already matched everything in QuickBooks to the bank feed.

Investment Accounts

- Are reconciled
- You have copies of all the investment statements
- The reconciliation reports
- Each month you have accounted for investment income including interest, dividends, realized gains/losses, unrealized gains/losses, and investment expenses in QuickBooks and you can easily generate an investment report showing an annual summary of investment transactions for each of your investment accounts.

Donations and Grants Receivable

- You have digital copies of all your donor pledges and grant awards.
- Each time you record a pledge or grant award, you attach a copy of the donor's correspondence to the transaction in QuickBooks
- You understand the revenue recognition rules so you can book gifts accurately
- When you run the end of the year receivables aging, you have digital copies of all the documents related to each balance.

Fixed Assets

- You understand your organizations asset capitalization policy
- Each time you purchase an asset, you record it as an addition to fixed assets and attach a copy of the vendor invoice to the transaction in QuickBooks.
- You keep a detailed listing of all the fixed assets, with the dates purchased/placed in service, and their value. You update the listing monthly.
- You record depreciation periodically (at least annually)

Revenue

- You have all the checks and letters from major donors attached to the transactions in QuickBooks
- You've run a summary report from QuickBooks that shows total donations for each donor, so you are good to go with 990 Schedule B information
- You have booked all your unconditional multi-year pledges and grants as revenue in the current year (and the related accounts receivable).
- You are syncing all the transactions over from your online donation and revenue platforms
- You maintain a monthly reconciliation between revenue in QuickBooks and revenue in your donor database (if you use one)

Payroll

- Your payroll system syncs with your QuickBooks GL

Meredith Smith, Streamlined Accounting Strategies, LLC

Payroll

- Your payroll system syncs with your QuickBooks GL
- You track paid time off in payroll, so it is easy to calculate any accrued vacation or other PTO at the end of the year.

Expenditures

- You use apps like Tallie and Bill.Com to capture expenses and pay bills.
- Each transaction has an audit trail and a digital copy of the bill or receipt.

What are auditors looking for?

Auditors want to see that you have solid accounting procedures and internal controls in place. They are not looking for fraud. Their assignment is to let your stakeholders and the public know if your financial statements can be relied on.

An auditor with nonprofit experience will understand your challenges and shortcomings and work with you to make the process bearable.

The first thing they will want to see is written documentation of your procedures. If you don't have any written accounting procedures, the auditors will still want you to walk them through your accounting process.

If you have good procedures in place, the auditor will test a few transactions, to make sure you are following your procedures. If you aren't following your procedures, or you don't really have any, then they will need to spend time looking at a lot of transactions.

If your procedures are solid and the auditor can see that you are following them, then they won't need to look at a lot of documents. Your audit will go smoothly and be less expensive!

After reviewing and testing your accounting procedures, the auditor will focus on high risk areas of your financial statements. They will give you a list of documents, policies, lists/schedules and reconciliations for you to provide them. I often support clients who are preparing for audits.

This is a list of items an auditor recently requested from one of my clients.

COPIES OF DOCUMENTS NEEDED FOR PERMANENT FILE - ONLY NEEDED IF CHANGES IN 2019
Articles of Organization and By-Laws
IRS Determination Letter - for tax exempt status
Accounting procedure manual, or summary of key controls and procedures
All lease agreements, capital and operating, equipment & facilities
Current loans, mortgages, or financing arrangements (including lines of credit not yet activated)
Contracts for services (expenses) -professional services, consultants, subcontracts
Personnel policies (if none, overview of employee benefits and key policies)
WISP (Written Information Security Plan) - required by MA Laws
Other key policies - document retention/destruction, conflict of interest, etc.

Meredith Smith, Streamlined Accounting Strategies, LLC

GENERAL INFORMATION - PLEASE SEND AT EARLIEST CONVENIENCE
Completed management questionnaires (see attached)
FY 2019 & FY 2020 budgets
Board of Director's List as of Sept 30, 2019, including transition dates for new directors and those who stepped down during FY 2019
All Board of Director's minutes from October 1, 2018 through today's date.
FINANCIAL INFORMATION
Cash
Copies of September and October 2019 bank statements for all cash accounts
Investments
Copies of September and October 2019 statements for all investment accounts
Investment Summary worksheets showing FY 2019 activity for each investment account
Receivables
Schedule of pledges receivable at 9/30/19 and award letter for any new pledges > \$10k
Prepays
Schedule of prepaid expenses along with copies of supporting documents (such as insurance renewals) for any prepaids > \$2,500
Fixed Assets
Updated fixed asset and depreciation schedule for 2019
Copies of invoices for any FY2019 fixed asset purchases > \$5k
A/P
Updated fixed asset and depreciation schedule for 2019
Copies of invoices for any FY2019 fixed asset purchases > \$5k
Updated fixed asset and depreciation schedule for 2019
Payroll
Copies of quarterly payroll tax returns - 941's and W-1's for 2019 (Q1-Q3)
SOC 1 report and bridge letter for Paychex covering FY19 period.
Schedule reconciling 2019 payroll expense to quarterly 941s
Schedule of payroll by person, allocated by function between program, admin and fundraising
Schedule supporting accrued payroll as of 9/30/2019
Copy of last payroll journal for Sept 2019
Copy of first payroll journal for Oct 2019
Schedule of accrued vacation time for employees at 9/30/2019
Revenue
Please provide copies of award letters for any grants or contributions > \$10k
Please provide correspondence related to any bequests received during 2019 (i.e., canceled checks, notification of gift from executor, correspondence detailing any future gifts not yet received by 9/30/2019)
Restricted income
Reconciliation of restricted net assets at beginning of year, plus new additions, and then the amounts released from restriction during the fiscal year
Tax/990/PC
of volunteers used in the fiscal year (if any)
Total FY2019 salary and benefits for 5 highest paid employees
Please review prior year Form PC (attached to this email) and mark up for any changes.
Please provide W-2's, 1099's, as well as form W-3 and 1096 for calendar year 2018.

Marilyn Sudbeck, CPA

What are the requirements for a person who does audits, reviews and compilations?

The person must have an active CPA license.

What is the difference between audits, reviews and compilations?

The difference relates to the reliance on management. In all three cases, the auditor begins with the account balances provided by management, but an audit requires a significant amount of corroboration of this information. A review requires some testing of the information, while a compilation almost entirely relies on the presented information.

Audits

An audit provides the highest level of assurance on an organization's financial statements. An audit provides assurance that an organization's financial statements are free of material misstatement and are fairly presented based upon the application of generally accepted accounting principles. An audit includes:

- Confirmation with outside parties
- Testing selected transactions by examining supporting documents
- Completing physical inspections and observations
- Considering and evaluating the internal control system of the organization

Reviews

A review provides limited assurance on an organization's financial statements. During a review, inquiries and analytical procedures present a reasonable basis for expressing limited assurance that no material modifications to the financial statements are necessary; they are in conformity with generally accepted accounting principles. This "does it make sense" analysis is useful when the organization needs some assurance about their financial statements, but not the higher level of assurance provided by an audit.

Compilations

A compilation provides no assurance on an organization's financial statements. The CPA takes financial data provided by the nonprofit and puts them in a financial statement format that complies with generally accepted accounting principles. There are no testing or analytical procedures performed during a compilation.

Which accounts do the auditors require to be reconciled in QuickBooks?

Usually all balance sheet accounts need to be reconciled before the auditors arrive. Be sure to check the box to include inactive accounts. This list below might not be all inclusive. There may be accounts not shown or accounts you don't use.

- Bank and Cash Accounts
- Petty Cash (this is very important because embezzlement often starts in petty cash)
- Fund balances (if you use fund accounting)
- Receivables expected from grants and donors
- Investment Accounts
- Fixed Assets & Other Current Assets
- Accounts Payable
- Accrued Liabilities—payroll, payroll taxes, credit card
- Notes Payable
- Equity Accounts

Marilyn Sudbeck, CPA

What about Fixed Assets? Use roll forward audit schedule

Example:

Asset	Cost 12/31/18*	Additions	Reclass	Retirements	Cost 12/31/19
Buildings	xxxxxx	xxxx	xxxx	xxx	xxxxxx
Equipment	xxxxxx	xxxx	xxxx	xxx	xxxxxx
Balance	xxxxxx	xxxx	xxxx	xxx	xxxxxx

*Get these amounts from previous year's audit report

Also, accumulated depreciation accounts need to have a roll forward audit schedule.

What about the Endowment account?

The In-Kind report includes the donated materials and services. Some organizations require this, some do not. The reason for this is "would the organization be able to pay for these if they had not been donated?"

In-Kind is designed to provide information regarding donations that the nonprofit would have to pay for if the services / materials had not been donated. This is usually tracked by creating a revenue account called "In-Kind revenue, In-Kind donations or something like that.

Then a detailed group of expenses needs to be created that lists the donated services. This amount needs to equal the related revenue account. Set up In-Kind as a parent account and give the detail in the subaccounts.

Supplemental Guide for QuickBooks Desktop Users

Since many non-profits still use QuickBooks Desktop, it is helpful to know certain best practices and ways to set up and use QBDT to help them be more successful. This section on non-profits will not cover the basics that are covered in most QuickBooks guide books for new beginners.

Topics covered here will be related to project tracking and fund tracking.

Project Tracking

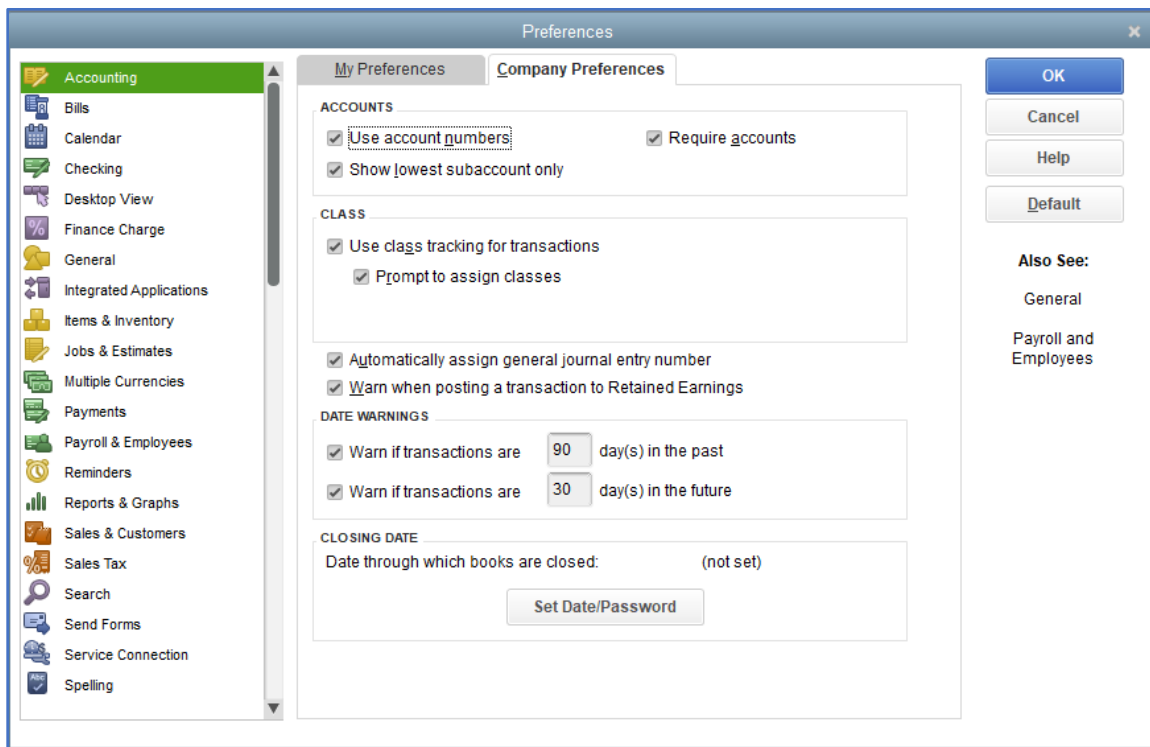
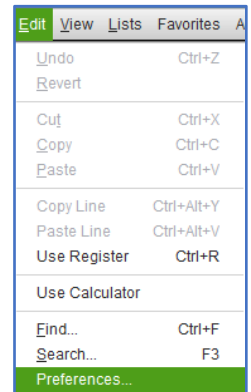
Project tracking should NEVER be done in the chart of accounts. It is too difficult to match up revenues with costs / expenses.

Projects should be tracked by using classes. To activate classes, go to the drop down menu.

Select Edit > Preferences > Accounting > Company Preferences.

Then select the radio button to "Use class tracking for transactions."

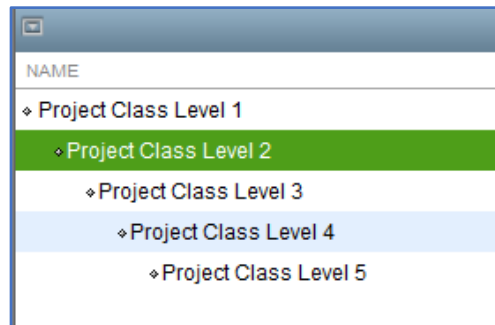
The "prompt to assign classes" is optional. It is recommended to check this button also so everyone is reminded to enter a class. This does not require that a class must be entered for every transaction; it's just a reminder.



Supplemental Guide for QuickBooks Desktop Users

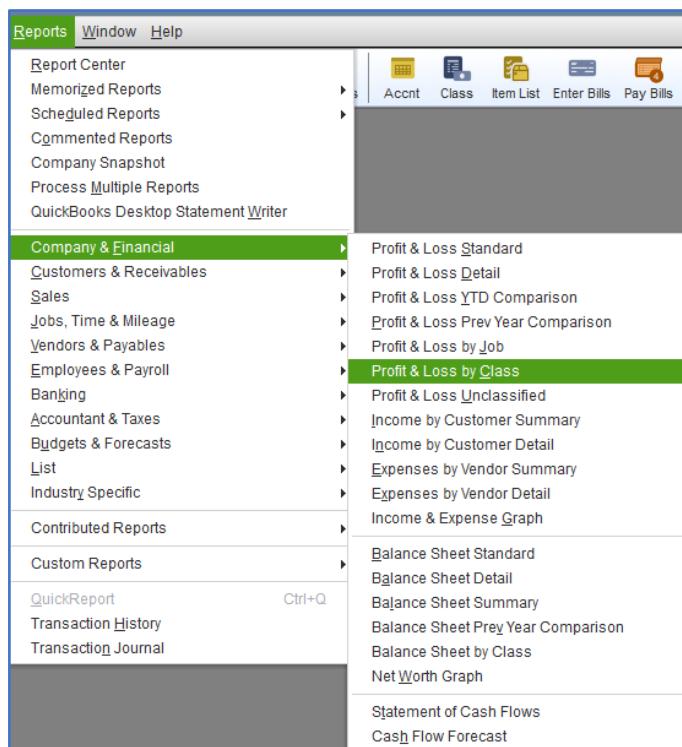
Both QuickBooks Pro and QuickBooks Premier have a maximum of 10,000 classes.

As shown in this illustration, there are five levels of classes. The first is the highest level and the following ones are all subclasses of the ones above.



In non-profit accounting classes and subclasses are used to track and report on projects. Class tracking works very well in accounts that are on the "Profit & Loss Statements." Class tracking on the balance sheet has proven to be more challenging. Using class tracking to track funds is not very efficient. See fund tracking in the next few pages.

QuickBooks profit & loss reports can be run by class. Reports > Company & Financial > Profit & Loss by Class. You can do reports on all classes down to just one class. You also could do a report on classes with a specific level.



Supplemental Guide for QuickBooks Desktop Users

The report will look like this:

Profit & Loss by Class

Customize Report | Comment on Report | Share Template | Memorize | Print | E-mail | Excel | Hide Header | Collapse | Refresh

Dates: This Fiscal Year-to-date | From: 01/01/2022 | To: 12/15/2022 | Show Columns: Class | Sort By: Default

Report Basis: ☒ Accrual ☐ Cash | Show Filters

We Care Community Foundation
Profit & Loss by Class
January 1 through December 15, 2022

Accrual Basis

	100 Research	211 Student Ed	Total 200 ED	221 Teacher Ed	511 Manage...	Total 500 M&G	521 Governance	531 Membersh...	600 S/E	Total 600 S/E
Ordinary Income/Expense										
Income										
4 - Contributed support										
4010 - Indiv/business contribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4110 - Donated pro services - GAAP	0.00	0.00	0.00	5,000.00	1,200.00	1,200.00	0.00	0.00	0.00	0.00
4120 - Donated other serv - non-GAAP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4130 - Donated use of facilities	0.00	0.00	0.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00
4140 - Gifts in kind - goods	0.00	0.00	0.00	15,000.00	0.00	0.00	0.00	0.00	0.00	0.00
4210 - Corporate/business grants	0.00	0.00	0.00	25,000.00	0.00	0.00	0.00	0.00	0.00	0.00
4230 - Foundation/trust grants	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4520 - Federal grants	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4540 - Local government grants	0.00	0.00	0.00	150,000.00	0.00	0.00	0.00	0.00	0.00	0.00
Total 4 - Contributed support	0.00	0.00	0.00	196,000.00	1,200.00	1,200.00	0.00	0.00	0.00	0.00
5 - Earned revenues										
5180 - Program service fees	0.00	20,000.00	20,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5210 - Membership dues - individuals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	96,250.00	0.00	0.00
5310 - Interest-savings/short-term inv	0.00	0.00	0.00	0.00	14,076.55	14,076.55	0.00	0.00	0.00	0.00
5440 - Gross sales - inventory	0.00	0.00	0.00	1,100.00	0.00	0.00	0.00	0.00	0.00	0.00
Total 5 - Earned revenues	0.00	20,000.00	20,000.00	1,100.00	14,076.55	14,076.55	0.00	96,250.00	0.00	0.00
5800 - Special events										
5810 - Special events - non-gift rev	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,500.00	4,500.00
5820 - Special events - gift revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total 5800 - Special events	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,500.00	4,500.00

This report can be customized to include specific projects or jobs if management or the board of directors requests.

Modify Report: Profit & Loss by Class

Display | Filters | Header/Footer | Fonts & Numbers

REPORT DATE RANGE

Dates: This Fiscal Year-to-date | From the first day of the current fiscal year through today

From: 01/01/2022 | To: 12/15/2022

REPORT BASIS

☒ Accrual ☐ Cash | This setting determines how this report calculates income and expenses.

COLUMNS

Display columns by: Class | across the top. | Sort by: Default

Sort in: ☒ Ascending order ☐ Descending order

Add subcolumns for

☐ Previous Period ☐ Previous Year ☐ Year-To-Date ☐ % of Row ☐ % of Column

☐ \$ Change ☐ \$ Change ☐ % of YTD ☐ % of Income ☐ % of Expense

☐ % Change ☐ % Change

Advanced... | Revert

OK | Cancel | Help

Supplemental Guide for QuickBooks Desktop Users

By clicking on “Advanced,” the following screen will open. By selecting “Non-Zero” only the rows and/or column with data will be in the report.

The image shows the 'Advanced Options' dialog box. It contains three main sections: 'DISPLAY ROWS', 'DISPLAY COLUMNS', and 'REPORTING CALENDAR'. Each section has three radio button options: 'Active', 'All', and 'Non-zero'. In the 'REPORTING CALENDAR' section, there are also three radio button options: 'Fiscal Year', 'Calendar Year', and 'Income Tax Year'. At the bottom of the dialog are three buttons: 'OK', 'Cancel', and 'Help'.

Fund Tracking

Non-profits often received funds that are temporarily or permanently restricted. There have been many ways suggested as to how to track these funds. A non-profit may have many funds to track and at times may seem overwhelming.

Many instructions for non-profit accounting suggest using classes to track the funds. This is not very efficient. Classes should be used for project tracking.

There is a much easier way. It is done through the checking account by using subaccounts.

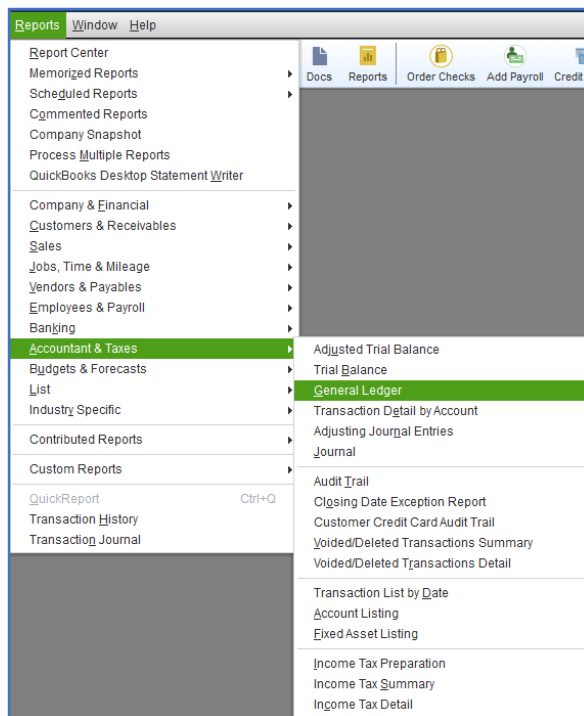
This example of a non-profit has an operation checking account with four subaccounts. When there are bank accounts that are subaccounts, the subaccount transactions also show up in the parent (operations checking) account.

In the chart of accounts it would look like this:

NAME	TYPE	BALANCE TOTAL
♦ Operations Checking	Bank	106,500.00
♦ Building Fund - Perm Restricted	Bank	40,000.00
♦ Education Fund	Bank	28,500.00
♦ Emergency Assistance Fund	Bank	30,000.00
♦ New Comp Sys Fund - Temp Restri	Bank	8,000.00

Supplemental Guide for QuickBooks Desktop Users

Run a general ledger report. Reports > Accountant & Taxes > General Ledger



The general ledger checking account with transactions looks like this. Each bank subaccount is listed separately, but the "Operations Checking" reflects the total of all the funds.

The screenshot shows the 'General Ledger' report in QuickBooks Desktop. The report is for the fiscal year 2018, from 01/01/2018 to 12/31/2018. The report basis is set to 'Accrual'. The report title is 'Non-Profit Fund Accounting General Ledger As of December 31, 2018'. The report shows a list of transactions with columns for Type, Date, Num, Adj, Name, Memo, Split, Debit, Credit, and Balance. The transactions are grouped by fund: Operations Checking, Building Fund - Perm Restricted, Education Fund, Emergency Assistance Fund, and New Comp Sys Fund - Temp Restr. The total balance for Operations Checking is 106,500.00.

Type	Date	Num	Adj	Name	Memo	Split	Debit	Credit	Balance
Operations Checking									
Building Fund - Perm Restricted									
Deposit	04/05/2018			Deposit	Corporate Co...		40,000.00		40,000.00
Total Building Fund - Perm Restricted							40,000.00	0.00	40,000.00
Education Fund									
Deposit	04/30/2018			Deposit	Individ, Busin...		50,000.00		50,000.00
Check	06/11/2018	1002		School Supply Com...	-SPLIT-			21,500.00	28,500.00
Total Education Fund							50,000.00	21,500.00	28,500.00
Emergency Assistance Fund									
Deposit	05/01/2018			Deposit	United Way, C...		30,000.00		30,000.00
Total Emergency Assistance Fund							30,000.00	0.00	30,000.00
New Comp Sys Fund - Temp Restr									
Deposit	05/16/2018			Deposit	Corporate Co...		15,000.00		15,000.00
Check	05/30/2018	1001		New Deal Compute...	Furniture and...			7,000.00	8,000.00
Total New Comp Sys Fund - Temp Restr							15,000.00	7,000.00	8,000.00
Operations Checking - Other									
Total Operations Checking - Other									0.00
Total Operations Checking							135,000.00	28,500.00	106,500.00

Supplemental Guide for QuickBooks Desktop Users

When reconciling the bank account, it can be done from the "Operations Checking" alone. To begin the reconciliation, select "Reconcile" on the Navigator screen or go to the word menu click on Banking > Reconcile.

Reconcile the "Operations Checking" account which is the parent account. The subaccounts will be listed under the parent account and will reconcile using this method. Do not reconcile the subaccounts separately. Enter the statement date and ending bank balance as shown on the bank statement. Then click on "Continue."

Begin Reconciliation

Select an account to reconcile, and then enter the ending balance from your account statement.

Account

Operations Checking

Statement Date

06/30/2018

Beginning Balance

0.00

What if my beginning balance doesn't match my statement?

Ending Balance

106,500.00

Enter any service charge or interest earned.

Service Charge

0.00

Date

05/31/2018

Account

Interest Earned

0.00

Date

05/31/2018

Account

Locate Discrepancies

Undo Last Reconciliation

Continue

Cancel

Help

The reconciliation shows the two checks and the four deposits that are also on the general ledger report.

[illegible]

Supplemental Guide for QuickBooks Desktop Users

Assume on the bank statement that all have cleared. "Mark All" makes the difference zero, so click on "Reconcile Now."

If there was an amount shown on the "Difference" line, the difference needs to be researched.

Modify

Service Charge	0.00
Interest Earned	0.00
Ending Balance	106,500.00
Cleared Balance	106,500.00
Difference	0.00

Reconcile Now

Leave

Board members frequently want to know lots of information including the status of funds. This is probably the easiest way to generate a report on fund balances.

The general ledger report as shown previously will show transactions and fund balances. Dates can be set for specific periods of time.