

# Preparing For Your Nonprofit Audit

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## Experience

- 17 years in public practice, most of which spent serving N&G clients
- Licensed in CA
- Bachelor's (Accounting) - University of San Diego
- Master's (Accounting) - University of San Diego
- Professional Lifeguard - LA County Fire Department, Lifeguard Division
- Board of Directors and Finance Committee - Serving Seniors
- Audit Committee - San Diego Center for Children, Balboa Park Online Collaborative

- What are not-for-profit (NFP) organizations, why are they important, and who uses NFP financial statements?
- What are the basic NFP financial statements?
- What is an “audit?”
- Steps of the audit process.
- Unique considerations for 2022.
- Client responsibilities vs. auditor responsibilities.

- The Financial Accounting Standards Board (FASB) define nonprofit organizations as entities that possess the following characteristics not typically found in business enterprises:

They receive contributions from significant resource providers who do not expect a commensurate or proportionate monetary return.

They operate for the purposes other than to make a profit.

There is an absence of ownership interest.

- Provide valuable programs to the community.
  - Protect, feed, heal, shelter, educate, and nurture bodies and spirits.
- Have positive economic impact within the community.
  - Currently more than 1.5M NFPs registered with the IRS.
    - More than 140K within California
  - Total revenues for NFPs exceeded \$1.7T in 2014, which has risen dramatically.
    - California was appx. \$300B of that total.
  - Contributions to NFPs exceeded \$358B in 2014.
  - Assets of NFPs in San Diego exceeded \$30B.
  - 25.3% of the US population volunteered at a NFP in 2014.
  - NFP sector employs more than 12.3M people

**+15,000 NFPs**  
in San Diego

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**\$18.3+ billion in  
revenue  
generated**  
by NFPs in San Diego\*

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San Diego NFPs  
employ  
**115,000  
people\***

- Donors and granting agencies
- Members of the NFP Organization
- Charity “Watchdog” Groups (e.g. American Institute of Philanthropy, Better Business Bureau, Guidestar, Charity Navigator, The Nonprofit Times, etc.)
- The media
- Financial institutions
- Oversight agencies

- NFP financial statements include the following:

**1**

**Statement of Financial Position (FP Equivalent = Balance Sheet)**

**2**

**Statement of Activities (Income Statement)**

**3**

**Statement of Functional Expenses (No FP Equivalent)**

**4**

**Statement of Cash Flows (Same as FP)**

- Most of the time, when people say “audit,” they are referring to an independent opinion based on applicable standards performed to gain a certain level of comfort.
- Could come in the form of:
  - Compilation
  - Review
  - Audit



- Regardless of where you are in the process, you should expect ongoing communication.
- Certain circumstances, events, or transactions may warrant a specific conversation, including:
  - Merger with, acquisition of, or obtaining control of another organization
  - Creating a new legal entity or controlled organization
  - Pending or threatened litigation
  - Actual or suspected fraud
  - Infrequent or unusual transactions
  - **Uncertainty about how to record a transaction**

- Audit will begin with a planning meeting to discuss items of audit significance, including timing of the audit.
- Items may include:
  - Starting, suspending, or closing a program or service
  - Gaining or losing control of a consolidated organization
  - Obtaining a significant new grant or contribution
  - Starting a new fundraising appeal
  - Obtaining new or additional federal funding
  - Entering into new debt or lease agreements
  - Changes in key personnel
  - Converting to new accounting, payroll, or billing software





- Expect to receive a list of items required
  - Will receive one for preliminary fieldwork and one for final fieldwork
- Audit will expect you to have all of the items on the list available by a certain date (2 weeks before “fieldwork”, 1<sup>st</sup> day of “fieldwork”, etc.)
  - These dates will be based on the discussions had in step 1 regarding timing
  - Discussions need to surround an agreement on which tasks or items you may need assistance with.
    - Keep in mind auditors **CANNOT** make management decisions or be a part of the internal control systems

- Auditor will focus on:
  - Obtaining an understanding of internal control
  - Performing walkthroughs of significant transaction cycles
  - Reviewing interim financial information
  - Conducting routine fraud inquiries
  - Obtaining significant policies and procedures, as well as grant, lease, and debt agreements
  - Obtaining audit confirmations
  - Developing an audit plan
- Expect the auditor to need to spend time with key personnel
- Be prepared to explain significant variances in assets, liabilities, revenue and expenses from year to year





- Determine how fieldwork will be conducted
- Expectation is that you will be fully prepared
- Books must be closed and all work papers are ready for review
- Auditors will request additional information during the audit
  - Auditors do their best to minimize interruptions knowing that you still have day-to-day responsibilities

- If all the above is met, expect the auditors will meet the agreed-upon dates for delivery
  - Expect financial statements
  - Adjusting journal entries
  - Areas for improvement or internal control deficiencies
- Most effective auditor-client relationships are built on mutual respect and collaboration through the process



- Operations in the current fiscal year versus disrupted operations in prior fiscal year
- Varying funding sources in the current year
- New federal awards in the current year, which may require a “Single Audit”
  - COVID related funds
  - PPP loan fund forgiveness
  - Employee Retention Tax Credits (ERTC)
  - Shuttered Venue Operators Grant (SVOG)
- Lease standard preparation
- Reporting changes to in-kind gifts

## Auditor Responsibilities

- **COMMUNICATION**
- **Ensure timelines are met**
- **Responsible for the report opinion**

## Client Responsibilities

- **COMMUNICATION**
- **Prioritize the audit as much as possible**
- **Responsible for the financial statements**



- What NFPs are, why they are important, and who the basic users of NFP financial statements are.
- The (3+1) basic NFP financial statements.
- The differences between a compilation, review and an audit.
- The steps of the audit process.
- Unique considerations for 2022.
- Client responsibilities vs. auditor responsibilities.