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NOT-FOR-PROFIT ADVISER

Helping Not-for-Profits

As pioneers in this rapidly-growing financial service area, our comprehensive approach to the Not-For-Profit sector is virtually unmatched. In addition to the traditional CPA services, we provide management consulting and strategic planning.

Audited Financial Statements

Making a Good First Impression

If you want to impress potential lenders and funders, you need to show them that you measure your organization's financial health with care and frequency. Presenting timely audited financial statements upfront can make the difference between being turned down for a loan and getting one.

Annual financial statements, particularly audited ones, present sound measurement of your not-for-profit's financial stability. Here are some tips for preparing them:

1. Understand your auditor's role. Your auditor is responsible for expressing an opinion on your financial statements. Beyond that, he or she is responsible for obtaining *reasonable* assurance that your financial statements are free of material misstatements — be it from error or fraud.

Management, on the other hand, is responsible for developing estimates, such as the allowance for bad debts, adopting sound accounting policies, and establishing, maintaining and monitoring internal controls, as outlined in the American Institute of Certified Public Accountants' standards. Although your auditor may make suggestions about these items, it isn't his or her responsibility to institute them or to ensure they're working properly.

What your auditor is required to do is evaluate whether internal controls, accounting policies, and estimates are adequate to prevent or detect errors or fraud that could result in material misstatements of the financial statements. But remember, all decision-making is strictly management's responsibility. If the audit is performed in accordance with Government Auditing Standards, the restrictions on what an auditor should do are even more stringent.

2. Understand the board's role. Sometimes the board of directors' role is overlooked in annual financial statement preparation, and that's a mistake. Keep in mind that the board generally has a strategic and oversight role in the process, which is part of its overall fiduciary duty. But the board isn't responsible for "completing the job." Board members can, however, be a good resource for certain technical matters, depending on their professional background.

3. Understand statement formats. Annual financial statements are designed to help you manage your organization. Financial statement items — such as debt ratios, program vs. administrative expense ratios and restricted vs. unrestricted resources — can indicate how a not-for-profit is doing. So when your organization's leadership team is preparing them, make sure the statements are as user-friendly as possible.

One of the best ways to see the big financial picture is to compare your budget, your year end internally generated financial statements, and the financial statements generated during the annual audit. This task can be completed more easily if the format of your annual audited statements is similar to that of your internal financial statements and budgets. Keep in mind that audited financial statements may be formatted differently than internally generated reports, so management may need to develop a bridge between the two reports, perhaps in the form of an internal memo.

When reviewing internal vs. audited statements, look for any large differences in individual accounts resulting from audit correcting adjustments — these are often an indication of an internal accounting deficiency. You'll also be able to spot any significant discrepancies between what was budgeted for the year and the actual outcome.

These variances will help you evaluate your not-for-profit's performance and plan for the coming year. Also, your financial statements should make it fairly easy to determine which resources are restricted for particular purposes or time periods.

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