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Vol. 4 August 2010

**Featured in this Edition of  
Nonprofits Count**

Audit Readiness and the "Audit  
Time" Myth

Upcoming FMA Institute Events

The Double Bottom Line

## Nonprofits Count!

A monthly update on the latest nonprofit news and FMA events.

***"An ounce of prevention is worth a pound of cure."***

- Ben Franklin

Though I am not sure our founding Father Ben envisioned nonprofits and the audit standards they must meet in 2010, his wise words still hold true for every nonprofit finance office throughout the country. When it comes to Audit Readiness, prevention definitely beats lousy audits and high fees!

**If you haven't guessed already, this issue of Nonprofits Count focuses on Audit Readiness.**

With the last days of summer fast approaching, FMA is already beginning to help many June 30 close nonprofits prepare for their auditors arrival.

Everyone likes to be ready for the auditors but sometimes, whether it be through turnover, vacations or a new standard, old and new clients ask us to help them out in preparing for their friendly auditor's arrival.

So, 'tis the season for our June 30 friends to prepare.

Andrea Mills, CPA, CCSA and FMA Director who oversees our outsourcing services shares some good insight with us on the importance of Audit Readiness that will hopefully help our readers think about things from a different perspective.

**We hope you enjoy the remaining days of summer, and, as always, if you need our help, whether it be for this year's audit or any other need, please feel free to give John Summers a call at 212.931.9133.**

Sincerely,

Stu Cohen  
Senior Manager  
Fiscal Management Associates, LLC

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## Feature Article

### Audit Readiness and the “Audit Time” Myth

By Andrea Mills, FMA Director

With the close of June 30th year ends, many nonprofit organizations are preparing for the season that they grudgingly call “Audit Time” – but, in reality, what does it mean to be ready for your audit? We here at FMA believe that “Audit Time” is year round, and recommend that you always be prepared for an audit, no matter what the season.

Audits are simply a tool to ensure that management is getting reliable, standardized information. Ideally, however, that information should be provided regularly, in the form of your monthly financials, so that management can monitor, gauge and make decisions throughout the year. If an organization is producing financial statements that do not include all receivables and payables, accurate prepaids, timely release of temporarily restricted net assets and other adjustments (such as in-kind services or depreciation), then the information that management is receiving is not painting an accurate picture. To always have financial reports that are as close to audit readiness as possible means that management will always be able to make good decisions.

*But the question remains...how do we get there?*



## BALANCE SHEET

### Analysis of the Balance Sheet

The first step is to review the accounts listed on the balance sheet on a monthly basis. Sometimes expenses get posted in asset accounts and need to be expensed over a period, or accounts receivables have not been picked up from those charged with development or vouchering for government contracts.

If we have any accounts that require analysis, such as prepaids, then these schedules should be updated monthly or quarterly (depending on volume). All accounts that are required to be reconciled, such as cash or investments, should also be done in a timely manner and fully reviewed.

If the organization started the year with a large temporarily restricted net asset balance, then this balance should be analyzed regularly for the release of restrictions. Adjustments should be made to remove any amounts from temporarily restricted net assets – based on a satisfaction of restriction account on the income statement.



## INCOME STATEMENT

### Analysis of the Income Statement

Next, management should be continually reviewing the status of the income statement – including all income! Some organizations depend heavily on in-kind contributions or have received services that should be noted on the financials. There is no reason why these amounts should not be recorded throughout the year instead of at year end.

Also, depreciation is an easy estimate to record monthly and can be set up as a straight-lined automatic adjustment to the financials, with a final adjustment at year end for any additions. If additions were significant during the year, though, it is recommended to adjust depreciation at the time they were made.

By monitoring these processes on a regular basis, the amount of work at year end should be minimal. Once an organization establishes the goal to produce accurate monthly information, then the year end audit can be treated like any other time of year, and not a reason to put the breaks on everything.

*For more information on how your organization may better prepare for its annual audit, contact Andrea Mills at [amills@fmaonline.net](mailto:amills@fmaonline.net).*

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## FMA Institute Upcoming Courses

Is your organization a member yet? Get complimentary access to nonprofit financial management courses with [FMA Institute membership](#) using your organization member code.

[Top 10 Strategies for Effective Fiscal Management](#) – Sept 16 - online

[Budgeting: A Strategic, Team-Based Approach](#) - Sept 21 - inperson (NYC training)

[Close the Books: How to Get Timely and Accurate Reports](#) - Sept 29 - online

[Controls, Efficiencies, and Transparency](#) - Oct 14 - online



## Double Bottom Line

Articles and news from FMA and the sector

### **149 Nonprofit Colleges Fail Education Department's Test of Financial Strength**

By Goldie Blumenstyk and Alex Richards

August 11, 2010

A total of 149 private nonprofit colleges failed the U.S. Department of Education's "financial-responsibility test" based on their condition in the 2009 fiscal year, data released on Thursday show. That's 23 more than the 126 that failed the test in the 2008 fiscal year, and an increase of about 70 percent over the number of degree-granting institutions that failed two years ago. Click [here](#) to read more.

Or copy and paste the following address in your web browser:  
<http://chronicle.com/article/150-Nonprofit-Colleges-Fail/123878/>

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### **Church Bonds: Winners or Sinners?**

By Victoria Finkle

August 16, 2010

For individual investors and congregation members—the primary clientele of church bonds—the often-overlooked debt segment can pay higher interest rates than corporate bonds and Treasuries because they aren't generally rated, aren't guaranteed by any government agency and are typically held to maturity. Defaults historically have been minimal, though rates have risen substantially with the recession. However, most bonds are backed by first mortgages on church property, offsetting some of the risk. Click [here](#) to read more.

Or copy and paste the following address in your web browser:  
[http://online.wsj.com/article\\_email/SB10001424052748703321004575427650759263276-1MyQjAxMTAwMDEwNTEwNDUyWj.html](http://online.wsj.com/article_email/SB10001424052748703321004575427650759263276-1MyQjAxMTAwMDEwNTEwNDUyWj.html)

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### **Plum Benefit to Cultural Post: Tax-Free Housing**

By Kevin Flynn and Stephanie Strom

August 9, 2010

The institutions say the exclusion — income that the tax code says does not have to be reported — holds even if the housing is off-site because the homes function as business premises used for meetings and schmoozing with donors...Many tax experts, though, regard such exclusions as risky calls, which is why, they say, they are seldom taken in the corporate world. Click [here](#) to read more.

Or copy and paste the following address in your web browser:  
[http://www.nytimes.com/2010/08/10/arts/design/10homes.html?\\_r=1&pagewanted=2](http://www.nytimes.com/2010/08/10/arts/design/10homes.html?_r=1&pagewanted=2)

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### **Health Care Reform**

Though it's been a few months since the Health Care Reform Act has been passed, you may want to print out this 7 page informational guide to keep handy as the changes are put into effect. Click [here](#) to download the guide.

Or copy and paste the following address in your web browser:  
[http://fmaonline.net/media/HealthCareReform\[1\].pdf](http://fmaonline.net/media/HealthCareReform[1].pdf)

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### **Federal Tax Day - Current, I.2 Notice of Disposition Under Code Sec. 7428 (Ann. 2010-46), (Jul. 16, 2010)**

The Tax Court on February 5, 2009, entered a stipulated decision that, effective December 20, 2000, the following organizations are not recognized as organizations described in Code Sec. 501(c)(3), they are not exempt from income

tax and are not eligible to receive deductible charitable contributions: Douglas and Valerie Wood Charitable Supporting Organization, of Latrobe, Pa.; DPA Alliance Corporation, of Provo, Utah; After Bankruptcy Foundation, Inc., of Fishers, Ind.; America's Faith Centered Education, Inc., of Sandy, Utah; Airport Working Group of Orange County, of Newport Beach, Calif; Bear Soldiers Industries, of Bismark, N.D.; Chadwell-Townsend Private Foundation, of Bellbrook, Ohio; Golden Age Benefits Society, of Westlake Village, Calif; Jordan Ministries, Inc., of Dover, Fla.; Newton Family Foundation, of West Jordan, Utah; and United American Housing & Education Foundation, of Houston, Tex. [Announcement 2010-46]

**News: Federal Tax Day - Current, L.20, Code Sec. 501: School Did Not Qualify for Exempt Status Due to Failure to Overcome Inference of Racial Discrimination (LTR 201033039), (Aug. 23, 2010)**

A private school did not qualify for exemption from federal income tax as a Code Sec. 501(c)(3) organization because it failed to demonstrate that it had taken sufficient steps to overcome an inference of racial discrimination in its operation. The school had been formed a month after a court had ordered school desegregation in the state, and it had operated for nearly 45 years but had only recently adopted a nondiscriminatory policy.

**News: Federal Tax Day - Current, L.21, Code Sec. 501: Debt Management Organization's Exempt Status Revoked (LTR 201033042), (Aug. 23, 2010)**

An organization's exempt status under Code Sec. 501(c)(3) was revoked. The organization was formed to help reduce the incidence of personal bankruptcy by educating the public about personal money management skills and assisting needy individuals and families with financial problems. However, the organization did not meet the operational test of Reg. §1.501(c)(3)-1(a)(1), because its operations were not educational, and its primary activity consisted of signing up individuals for debt.

**News: Federal Tax Day - Current, L.29, Code Sec. 6214: Equitable Recoupment Did Not Permit Collection of Gift Tax (CCA 201033030), (Aug. 23, 2010)**

A Chief Counsel memorandum concluded that the equitable recoupment doctrine did not permit the IRS to collect time-barred gift tax. The limitations period barred assessment of the gift tax that a decedent failed to report on a gift tax return. The IRS had concluded in FSA 200118002 that it could not use equitable recoupment because the Tax Court did not have the authority to apply that doctrine. This conclusion was not altered by the changes made by the Pension Protection Act of 2006.

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