

2007-2008

NOT-FOR-PROFIT
ORGANIZATION
AUDITS
with SINGLE AUDITS

WARREN RUPPEL

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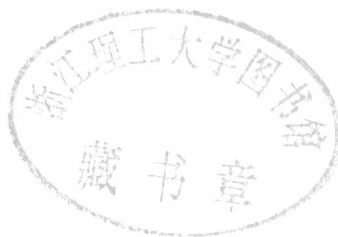
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Warren Ruppel, CPA



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Not-for-Profit Organization Audits with Single Audits

by Warren Ruppel, CPA

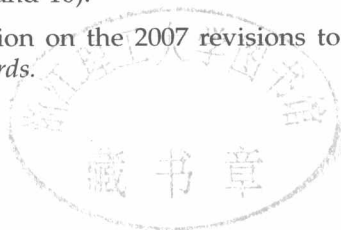
Highlights

CCH's *Not-for-Profit Organization Audits with Single Audits* combines, in one, easy-to-use volume, everything an auditor needs to perform audits of financial statements, audits in accordance with *Government Auditing Standards*, and single audits in accordance with OMB Circular A-133. Comprehensive coverage of the relevant technical literature is combined with user-friendly advice based on actual experience, resulting in a technically sound and extremely usable audit guide. Electronic versions of audit programs, workpapers, reports, correspondence, and a comprehensive disclosures checklist eliminate much of the time-consuming clerical work.

2007–2008 Edition

This edition of *Not-for-Profit Organization Audits with Single Audits* includes the following:

- Comprehensive coverage of the current authoritative literature from the American Institute of Certified Public Accountants (AICPA), the U.S. Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Financial Accounting Standards Board (FASB).
- Coverage of the latest Statements on Auditing Standards issued by the Auditing Standards Board of the AICPA—SAS-112 (Communicating Internal Control Related Matters Identified in an Audit) and SAS-113 (Omnibus Statement on Auditing Standards—2006). (Chapters 1, 9, and 10).
- Latest information on the 2007 revisions to *Government Auditing Standards*.



- Updated information on the OMB Compliance Supplement (Chapter 12).
- Coverage of the latest Statements of Financial Accounting Standards issued by the FASB—FAS-158 (Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans—An Amendment of FASB Statements Nos. 87, 88, 106 and 132(R)). (Chapters 2 and 6).

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About the Author

Warren Ruppel, CPA, is the Director of Government Services at Marks Paneth & Shron LLP, where he is a key member of the Nonprofit and Government Industries Services Group as well as the firm's quality assurance team. He was most recently the Assistant Comptroller for Accounting of the City of New York, where he was responsible for the city's accounting and financial reporting.

Mr. Ruppel began his career in 1979 with KPMG after graduating from St. John's University, New York. He served numerous audit clients, including many not-for-profit organizations and governments that received federal financial assistance. In 1989, he joined Deloitte & Touche to specialize in audits of not-for-profit organizations and governments. Mr. Ruppel has also served as the chief financial officer of a not-for-profit organization subject to the requirements of A-133 and as a partner in a small CPA firm. He has written and conducted numerous training courses and seminars over the course of his career and is widely published in the areas of not-for-profit and governmental accounting and auditing. In addition, he has taught for the New York State Society of CPAs and has been an Adjunct Lecturer of Accountancy at the Bernard M. Baruch College of the City University of New York.

Mr. Ruppel is a member of the American Institute of Certified Public Accountants and the New York State Society of CPAs, where he is the former chair of the Audit Committee and currently serves on the Not-for-Profit Accounting and Governmental Accounting and Auditing Technical Committees. He is a former president of the New York chapter of the Institute of Management Accountants. He is also a member of the Special Review Committee of the Government Finance Officers Association.

Our Peer Review Policy

Thank you for ordering the 2007–2008 *Not-for-Profit Organization Audits with Single Audits*. Each year we bring you the best accounting and auditing reference guides available with accompanying electronic workpapers and practice aids. To confirm the technical accuracy and quality control of our materials, CCH, a Wolters Kluwer business, voluntarily submitted to a peer review of our publishing system and our publications (see the Peer Review Letter on the following page).

In addition to peer review, our publications undergo strict technical and content reviews by qualified practitioners. This ensures that our books, workpapers, and practice aids meet “real-world” standards and applicability.

Our publications are reviewed every step of the way—from conception to production—to ensure that we bring you the finest guides on the market.

Updated annually, peer reviewed, technically accurate, convenient, and practical—the 2007–2008 *Not-for-Profit Organization Audits with Single Audits* shows our commitment to creating books and practice aids and workpapers you can trust.

Peer Review Letter



Caldwell, Becker, Dervin, Petrick & Co., L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

April 25, 2006

Executive Board
CCH, a Wolters Kluwer business

We have reviewed the system of quality control for the development and maintenance of Not-for-Profit Organization Audits with Single Audits (2006-2007 Edition), of CCH, a Wolters Kluwer business (the company), applicable to non-SEC issuers in effect for the year ended March 31, 2006, and the resultant materials in effect at March 31, 2006. The design of the system, and compliance with it, are the responsibilities of the company. Our responsibility is to express an opinion on the design of the system, and the company's compliance with that system based on our review.

Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Committee of the Center for Public Company Audit Firms of the American Institute of Certified Public Accountants. In performing our review, we have given consideration to the following general characteristics of a system of quality control. A company's system for the development and maintenance of quality control materials encompasses its organizational structure and the policies and procedures established to provide the users of its materials with reasonable assurance that the quality control materials are reliable aids to assist them in conforming with professional standards in conducting their accounting and auditing practices. The extent of a company's quality control policies and procedures for the development and maintenance of quality control materials and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the company and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

Our review and tests were limited to the system of quality control for the development and maintenance of the aforementioned quality control materials of CCH and to the materials themselves and did not extend to the application of these materials by users of the materials nor to the policies and procedures of individual users.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of CCH was suitably designed and was being complied with during the year ended March 31, 2006, to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards in the United States of America applicable to non-SEC issuers. Also, in our opinion, the quality control materials referred to above are reliable aids at March 31, 2006.

CALDWELL, BECKER, DERVIN, PETRICK & Co., L.L.P.
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Preface

The *2007–2008 Not-for-Profit Organization Audits with Single Audits* explains the special characteristics of not-for-profit organizations and the unique accounting conventions that they employ. It provides a comprehensive audit approach to performing audits of not-for-profit organizations, including additional specific guidance relating to audits of organizations that receive federal awards that require a single audit in accordance with OMB Circular A-133. *Not-for-Profit Organization Audits with Single Audits*, designed to be a complete reference, brings together in one place all the tools necessary to comply with generally accepted auditing standards and *Government Auditing Standards*, along with practice management information specific to audits of not-for-profit organizations, including suggestions on marketing and proposal development, staff administration and training considerations, risk assessment and client acceptance considerations, and techniques to improve the profitability of audits of not-for-profit organizations. The accompanying CD-ROM contains electronic versions of audit programs, Excel workpapers, reports, sample correspondence, a comprehensive disclosures checklist, and various government documents.

Analysis of current authoritative literature aids in the implementation of new pronouncements and the understanding of the unique characteristics of the relevant professional organizations. The audit approach presented is comprehensive, flexible, and can be easily modified to meet the auditor's specific requirements.

The book is divided into two parts—*Part I, Financial Statement Audits*, and *Part II, Single Audits Under OMB Circular A-133*. Part I covers the requirements for performing an audit of the financial statements of a not-for-profit organization. It incorporates essential guidance for implementing the numerous professional standards affecting not-for-profit organizations, including AICPA auditing standards, Statements of Position, and the AICPA *Audit and Accounting Guide* for not-for-profit organizations. New auditing standards are covered completely. Unique accounting requirements are also discussed. The 10 chapters in Part I follow the natural progression of a financial statement audit—from preplanning through conclusion and reporting. Part II covers the additional procedures that must be performed in conducting audits of not-for-profit organizations in accordance with *Government Auditing Standards* and OMB Circular A-133. The format of Part II, similar to that of Part I, enables the auditor to easily build

the additional requirements onto the requirements of a financial statement audit.

Throughout the book, “Observation” points provide additional insights into the technical material being covered, “Audit Cost-Savings Tips” provide practical suggestions for saving audit hours—resulting in lower costs for the not-for-profit organization and higher profit margins for the auditor—and “Practice Alerts” call attention to recent or anticipated pronouncements of the AICPA, GAO, OMB, and the FASB.

A pronouncement locator that cross-references original pronouncements and the chapters in which they appear, to quickly direct you to the information that you need, can be found in the back of the book.

Not-for-Profit Organization Audits with Single Audits is designed to make your audit engagements as efficient as possible. To that end, the Guide includes a CD-ROM that contains Excel workpapers, sample reports, sample letters, a comprehensive disclosures checklist, and model audit programs. It also includes a number of government documents for handy reference. The electronic versions of the practice aids found in the book can be printed and used as is or they can be customized by using a word processing or spreadsheet program for specific engagements and clients. A disc icon indicates that the item—workpaper, report, or other practice aid—is on the accompanying CD-ROM and can be customized and completed on a computer. Complete audit programs for both financial statement audits and single audits, though not reproduced in the book, are included on the CD-ROM. These programs, and the other workpapers, are designed to be flexible to meet your needs; they may be used as standalone materials or as supplements to your existing audit materials.

Acknowledgments

Dominic L. Daher, J.D., deserves thanks for his technical review of this book and his practical suggestions, which have been incorporated into this edition. Joy Evangeline Bramble of CCH provided thoughtful oversight of this project, which is instrumental in ensuring that the book lives up to the expectations of its readers.

On a personal level, my wife, Marie, and my sons, Christopher and Gregory, are a constant source of support and inspiration, and I dedicate this book to them.

Warren Ruppel
Woodcliff Lake, New Jersey

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CHAPTER 1

INTRODUCTION AND BACKGROUND

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DISTINGUISHING CHARACTERISTICS OF NOT-FOR-PROFIT ORGANIZATIONS

Not-for-profit organizations have many unique features, both financial and nonfinancial, that distinguish them from commercial enterprises. These distinguishing features include the following:

- Revenue sources and methodology in collecting and recognizing revenue
- Financial position and performance indicators
- Organizational structure and support
- Operating environment and public scrutiny

These features make the audit of the financial statements of a not-for-profit organization different from the audit of a typical commercial enterprise. The following discussion provides an overview of some of the differences (and in some cases similarities) of not-for-profit organizations when compared to commercial enterprises for each of these features.

Revenue Sources and Methodology in Collecting and Recognizing Revenue

As with many specialized industries, many of the differences among organizations in different industries relate to the organization's revenue streams (i.e., how it receives and/or earns its revenue). A hospital's revenues are earned in a much different way than a mutual fund's. A manufacturer's revenues are earned quite differently from

an insurance company's. Similarly, a not-for-profit "earns" much of its revenue in ways that are, for the most part, different from the ways that commercial enterprises earn their revenues.

Generally, a not-for-profit's revenues will fall into one or more of the following categories:

- Contributions from the general public, corporate donors, and foundations
- Fund-raising campaigns or annual events
- Grants and contracts with foundations, other not-for-profit organizations, or governmental entities
- Charges for specific services rendered
- Investment earnings

Contributions from the General Public, Corporate Donors, and Foundations

Not-for-profit organizations solicit general support contributions from a variety of different sources in a variety of different ways. These contributions can range from multimillion dollar contributions from large corporations, individuals, or foundations to the spare change collection canisters found near the cash registers in stores. In general, the larger the contribution, the more personal interaction there will be between a not-for-profit organization and the donor. For large contributions, the not-for-profit organization may agree to recognize the donor in some way, such as dedicating a room of an office to the donor or naming an award after the donor. Other large donors request that their contributions remain anonymous. Large donations often carry more restrictions in regard to how they may be spent. Temporary or permanent restrictions are important factors in determining the proper accounting treatment of contributions. An important trend observed in the not-for-profit environment is that donors are tying their contributions to specific performance indicators. In other words, what results were achieved by the not-for-profit organization with the resources provided by the donor?

Small cash contributions represent a different side of the general support contribution picture. Small contributions may be collected by volunteers or other intermediary organizations and then remitted to the not-for-profit organization. Obviously, the not-for-profit organization should take reasonable precautions over the handling of cash contributions. These types of contributions can be the most difficult to control since the dollar amounts collected most likely will not justify the cost of elaborate internal controls.

Within these two extremes of general support contributions is a wide variety of methods for soliciting contributions, including direct mail solicitations, telephone solicitations, affinity credit cards, and

radio, television, and print advertising. More recently, many not-for-profit organizations are using web-based solicitations. Each of these methods will result in contributions of various sizes. They also may result in contributions in the form of cash, checks, credit card charges, pledges to pay at a later date, formal bequests, or “in-kind” contributions of various types of goods or services.

Auditors must design their audit procedures to verify the various types of general support revenues that may be pledged or collected. The requirements of FASB Statement (FAS) No. 116 (Accounting for Contributions Received and Contributions Made) also must be considered to determine the proper accounting treatment of contributions received and pledged.

Fund-Raising Campaigns or Annual Events

Many not-for-profit organizations find that organizing their fund-raising appeals into a campaign or special event presents a better opportunity to focus attention on their fund-raising activities, thus increasing their chances of success.

A fund-raising campaign usually has a specific goal that is to be accomplished over a specified period of time. Often these campaigns are associated with capital projects. For example, a university may announce a capital campaign to raise \$50 million by the year 2010 to begin construction of a new library. The campaign may have “chairs,” individuals who have made significant contributions to encourage other individuals or companies to make contributions. In fact, many not-for-profit organizations make sure that they have commitments for a significant part of the campaign’s goal before they announce the campaign with any publicity. The commitments already obtained will encourage potential donors to contribute and will increase the likelihood that the campaign will be viewed as a success.

A not-for-profit organization may stage a special event to focus attention on its fund-raising efforts. These events can also serve as a forum to familiarize donors with the programs that the organization is providing. The types of special events can vary widely and may include annual awards dinners, exhibitions, concerts, outings, dinners with celebrities or dignitaries, and receptions. Often, not-for-profit organizations recruit “chairs” or “sponsors” to underwrite some or all of the event’s expenses. This greatly increases the event’s chances for financial success.

Because these special events may be infrequent, not-for-profit organizations may lack control over their financial aspects. The number of unexpected problems or costs associated with special events may be high. Therefore, in addition to auditing the revenue recognition issues, the auditor should review the reasonableness of any campaign start-up expenses. Not-for-profit organizations in the