

Year-end Closing of “Books” and Pre-audit Issues

Ways to a Successful Audit

Build Auditors' Confidence in Your Financial and Accounting Records

If the auditors' have a favorable assumption about the accuracy of the Organization's financial records, it makes the audit experience faster, easier, and enjoying.

How to Build Auditors' Confidence

Maintain and strengthen the internal control such as:

- Reconcile accounting records
- Attempt to prepare GAAP Financial Statements, including footnotes
- Review accounting records and show evidence of review.
- Having adequate supporting documentation for journal vouchers
- Understand the concepts of Due to/from, temporarily restricted net assets, agency accounts (trust accounts) and transfers and their effects on the financial statements.

Maintain and strengthen internal control

- Due to budgetary reasons, the Organization may not be able to segregate duties, however, the Organization can set up mitigating controls to strengthen the internal control.

Reconcile Accounting Records

- Bank accounts be reconciled regularly at least monthly,
- Petty cash be reconciled regularly
- Payroll accounts and taxes
- PPE and Subsidiary accounts
- Beginning net assets must always match the audited statements.
- Accounts receivable and subsidiary ledgers and related allowance for doubtful accounts.

Net Assets Reconciliation

- Always the beginning net assets **MUST** match the ending net assets of each fund in the **Prior-year Audited Financial Statements**.
- For example, you can run AASI net assets accounts for each fund and compare with the Prior year Audited Statements.
- See Sample of beginning net assets reconciliation, next slide.

Beginning Net Assets Reconciliation

Operating Fund

<u>Account#</u>	<u>Acct Name</u>	<u>Amount</u>
501100	Unallocated Net Assets	3,163,512.31
502100	Allocated Net Assets	1,673,014.42
505100	Temporary Restricted Net Assets	500,215.75
519100	TRNA - Prior Period Adjustment	<u>51,504.59</u>
Total Beginning (2012) Net Assets, Per G/L		<u>5,388,247.07</u>
2012 Net Assets, Per GCAS Audited Statement		<u>5,388,246.00</u>
Difference		1.07

Temporarily Restricted Net Assets: Releases

- You cannot Release more than the restricted income or net assets
- You cannot Release until either time or purpose restriction has been met.
- You cannot Release more than expenses relating to the restricted net assets
- For example, you have received a restricted income for evangelism of \$20,000. You spent only \$10,000 on evangelism. You can only release \$10,000.

Net Assets: “Release To and Release From”

- Releases are financial activity accounts that are used to move Temporarily Restricted Funds from restrictions to Unrestricted.
- **Release to and release from must always balance. Always make sure that the proper codes “7 or 2” are used when using AASI ledger.**

Bank Reconciliation and Review

- All Bank Accounts Must be Reconciled to the General Leger
- There should be evidence of review by someone other than the preparer.
- Evidence could be a reviewer's signature or initials as long as it is consistently applied.

Accounts Receivable and Allowance for Bad Debt

- Accounts receivables are recorded at Net Realizable Value
- You must make a provision for allowance based on risk of uncollectability.
- Your analysis for the allowance must be documented and reasonable.
- Allowance is always based on **management JUDGEMENT** and should be reasonable. For example, payment plan in place, statements are sent regularly, payment history, length of time of A/R outstanding, etc.

Accrued Payables

- Make Accruals for retirement for employees older than 56 years.
- Make Accruals for vacation time. Vacation carryover must be approved by ADCOM or governing body.
- Invoices received after year-end, usually 2 months after year-end should be reviewed for possible accruals.
- IBNR should be recorded only to the extent of the actual medical expense not recorded.

Long-term Payables: Leases

A lease is classified as a Capital (finance) lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an **operating lease** if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease is a financial activity that is expensed.

Long-term Payables :Capital Lease

- Capital Lease should be recorded as Asset and liability and should be depreciated over the useful life of the leased asset.
- **Criteria for capital lease**
 - (a) Transfer ownership
 - (b) Useful term is at least 75% of the useful life of leased asset
 - (c) Bargain of purchase
 - (d) Present value of the leased payments is at least 90% of the FMV of the asset.

Inter-fund Transfers

- **Transfers (In and Out)** are the flow of allocated resources from the operating fund to the plant fund.
- Transfers not revenue or expense. In addition, because these transactions reflect movement of resources within the organization, not inflows or outflows with third parties, they do not increase or decrease the total resources held by the organization as a whole.
- **the total transfers out of one fund must be equal to the total transfers into the other fund.** As a result, the final total of transfers for the whole entity will be reported as **zero**.

Due To/Due From

- **Due to/from:** Is one fund borrowing from another fund with the intention to pay back. It is asset and a liability depending on the Fund asset is borrowed. Due to/from is a balance sheet item which net to zero in the combined financial statements.

Chesapeake Conference PPE - Minutes Excerpts

12/31/13

<u>Date</u>	<u>Minutes Type</u>	<u>Actio n#</u>	<u>Entity Name</u>	<u>Description</u>	<u>Source of Funds</u>	<u>Amount</u>	<u>Comment</u>			
3/19/2013	Executive	N/A	Wilna Church	Kitchen Remodel	CURF Loan	20,000.00	Expensed; delayed maintenance			
5/21/2013	Executive	N/A	Linthicum Church	Replace Heating&AC	CURF Loan	6,500.00	Expensed; delayed maintenance			
5/21/2013	Executive	N/A	Crest Lane Sch	Repair Apartment	CURF Loan	15,000.00	Expensed; delayed maintenance			
5/21/2013	Executive	N/A	Dover Church	School Contruaction	CURF Loan	300,000.00	Construction started in 2014. See invoices from church treasurer.			
5/21/2013	Executive	N/A	Baltimore Spanish	Gymnasium Construction	CURF Loan	340,000.00	Per pastor Rosales on 4/8/14, the church has cancelled the project.			
5/21/2013	Executive	2013- 23	Washington Spencerville Korean Church	Replace Roof Gym	CURF Loan	30,000.00	Expensed; delayed maintenance			

Payroll Reconciliation

- Reconcile G/L Payroll accounts to the Subsidiary Ledger.
- Payroll W-3 must match 941s.
- Evidence of payroll tax payments should be kept.

Church and School Capital Projects

- Remember to record capital additions such as renovations, land improvements etc.
- Send quarterly emails to the local pastors, treasurers and business managers about capital projects.

Service Record

- Per NADWP E 70 20 Service record should be maintained and updated, and signed by February 28th of each year. This policy is applicable to all denominational entities.

Impairment Loss of Plant Assets

FASB Codification ASC 360-10

- An asset impairment arises when there is a sudden drop in the fair value of an asset below its recorded cost.
- The accounting for asset is to write off the difference between the fair value and the recorded cost.
- Impairment only occurs when the amount is not recoverable.

Evidence of Review

- Sign on the bank reconciliation statement: It could be just your initials or signature and date.
- Sign on all payroll and other reconciliations.
- Sign on all journal vouchers.

Attempt to prepare GAAP Financial Statements

- It is very useful to prepare your own GAAP financial statements before the audit. Some of the benefits of preparing the financial statements are
- (1) It gives you greater understanding and control of all the items in the financial statements.
- (2) It helps you to find errors and correct them before the audit to avoid material misstatements and auditors' write up.
- (3) It helps you to reclassify accounts appropriately and provide reasons for changes in significant accounts.
- (4) It gives you confidence and helps you to prepare for the audit.

Areas of Major Concern for Auditors

- Beginning net assets not matching the prior year's audited ending net assets.
- PPE G/L not matching the subsidiary ledger.
- Temporarily restricted income recording as agency funds.
- Payroll accounts not reconciled
- Over/under release of restricted income