







Key Concepts

- End User – The auditor is responsible to the end user, not to the “client”. End users may be banks, donors, grantors, members or the general public.
- Opinion – The auditor’s report may include an opinion, or may include a disclaimer of opinion or an adverse opinion as to whether the financial statements are presented fairly.

Key Concepts

- In Conformity – the financial statements must be in conformity with a recognized method of accounting; GAAP (generally accepted accounting principles), cash basis, modified cash basis or income tax basis.

Who Requires an Audit?

- Banks through loan covenants
- Grantors
- Banks for new financing
- ECFA or other membership
- Governmental Grants
- Bylaws requirement

ECFA Audit Requirements

- An audit is required only if annual revenues are above \$3,000,000 and must be in accordance with GAAP.

How to Know if you are Ready to be Audited?

- Have you established internal controls over your major functions?
- Are the controls written, documented and tested?
- Are the controls monitored to be sure the controls are actually being adhered to?
- Have you identified your greatest risks including financial, market and other risks?
- Have you performed a compensation study?
- Have you had on-going CPA support?

How to Know if you are Ready to be Audited?

- Have you identified conflicts of interest in accordance with your written policies?
- Are you in compliance with all laws and regulations?
- Are you able to document the use of restricted funds?
- Are your articles and bylaws up-to-date and are you adhering to them?
- Are your books and records maintained in accordance with generally accepted accounting principles?
- Have you evaluated the needs of the end users to ensure the audit will be an effective tool?

How to Know if you are Ready to be Audited?

- Does your staff and the board have the time and expertise to participate in an audit?
- Will the cost of an audit unduly affect your general and administrative cost percentage?
- Do you have members of the board who are willing and have the expertise to function as the audit committee?

The Audit Committee

- Functions independently between the board and the auditor
- Develops the criteria for the audit and the audit firm selection process
- Reviews the qualifications of the auditor
- Discusses concerns or areas the committee would like the auditor to give attention to
- Meets with the auditor prior to the audit and during the audit
- Reviews the reports and findings and presents results to the board
- **MUST UNDERSTAND ACCOUNTING AND FINANCIAL MATTERS!**

Benefits of an Audit

- Adds a layer of accountability to donors
- Forces the accounting to be done correctly and timely and not "later"
- May help you stay up-to-date on accounting and law changes; improved internal controls
- May detect fraud (or may not)
- May make it easier to obtain financing for building projects

Downsides to an Audit

- Cost in dollars – audits are expensive!
- Cost in staff time – audits are very intrusive
- Audit may not be that important to donors
- If you are not prepared for an audit, the auditor's report may be very detrimental
- May not provide the answer to “are we doing everything right?”

Cost of an Audit in Time and Dollars

- How much is a car? Used, new? Ferrari or Kia?
- Audit costs vary widely depending on the entity.
- Size is not a great indicator of cost – most procedures must be performed for all audits, even for small entities.
- Most audits require staff to prepare financial statements, policies and procedures, and gather documents in advance of auditor's visit.
- Field work is never less than two days and could be more. Much more time and cost in an initial audit.

Common Reasons Organizations Think They Need an Audit

- We want to make sure we are doing everything right!
- Our books are a mess and we want an audit to straighten them out.
- We think our bookkeeper is stealing.
- Our new treasurer is taking over and wants an audit.
- Our bylaws say we will have an audit.

Agreed Upon Procedures Engagement

- Has elements similar to audit – both are attestation functions.
- CPA and organization agree upon certain procedures to be done.
- Must be “testable” and not vague – cannot say “you are doing everything right”, but might say “of the 40 disbursements tested, two were not supported by a vendor invoice.”
- CPA performs the agree-upon procedures and reports back to the board.

Benefits/Downsides for Agreed- Upon Procedures Engagement

- Benefits
 - Cost is much lower than other engagements
 - Gets to the heart of what you want to know
 - Specific and understandable language
 - Can provide a roadmap for improvements if the CPA also issues a management letter of comments
 - Great “first step” for an audit in the future – may help you know what needs correction
 - Boards “get it”

Benefits/Downsides for Agreed- Upon Procedures Engagement

- Downsides
 - CPA must restrict report for internal use or only to named, specific parties who agree to the procedures (i.e. bank or Police Department)
 - Doesn't provide financial information in financial statement form – narrative only
 - May not answer all your questions – CPA only does the work agreed-upon
 - Generally won't help with bank financing, but may be a part of the process

What is a Review?

- A review is a prescribed process a Certified Public Accountant applies to your financial statements in order to provide the end user with limited assurance that there are no material modifications that should be made to the financial statements for them to be in conformity with one of the acceptable methods of accounting in the US.

Who Requires a Review?

- Banks and other lenders generally request reviews, rather than audits
- Donors
- Grantors
- ECFA allows for organizations with \$1 million to \$3 million in revenue

Benefits/Downsides of a Review

- Benefits
 - Much less costly than an audit
 - Financial statements look exactly the same as audited financial statements
 - Generally done in CPA office vs. your office
 - Less time required of staff

Benefits/Downsides of a Review

- Downsides
 - Limited assurance – lower level of assurance
 - No requirements to consider internal control
 - No management letter required, although you can request one as part of the engagement
 - May not detect fraud
 - Relies on analytical procedures and questions of client and does not consider source documentation

What is a Compilation?

- An compilation is a prescribed process a Certified Public Accountant applies to your financial statements in order to assist management in presenting financial information to the end user with no assurance that there are no material modifications that should be made to the financial statements to be in conformity with one of the acceptable methods of accounting in the US.

Who Requires a Compilation?

- Banks and other lenders generally request compilations or reviews
- Donors
- Grantors
- ECFA allows for organizations with less than \$1 million in revenue

Benefits/Downsides of a Compilation

- Benefits
 - Much less costly than an audit or review
 - Financial statements look exactly the same as audited or reviewed financial statements
 - Generally done in CPA office vs. your office
 - Less time required of staff

Benefits/Downsides of a Compilation

- Downsides
 - NO assurance
 - No requirement to consider internal control
 - No management letter required, although you can request one as part of the engagement
 - Likely will not detect fraud
 - Relies heavily on management's numbers – CPA is looking only for obvious error

Accounting Resources

- Evangelical Council for Financial Accountability
www.ecfa.org
- AICPA Not-for-Profit Audit Committee Toolkit
<http://www.aicpa.org/interestareas/businessindustryandgovernment/resources/notforprofitresourcecenter/pages/aicpanot-for-profitauditcommitteetoolkitdownloads.aspx>

Anytown Church
Balance Sheet - Accrual Basis
December 31, XXXX

			Dec 31, xxxx	
ASSETS				
Current Assets				
Checking/Savings				
	001-01 · Bank #1 checking	-3,000.00	negative; old items (erroneous) out standing	
	001-02 · Bank #1 Savings	-200.00	negative; old items (erroneous) out standing	
	004-01 · Bank #2 checking			
	004-02 · Loan Principle	2,000.00	not a cash account - loan payments	
	004-01 · Bank #2- Other	7,500.00	not a cash account - loan payments	
	Total 004-01 · Bank #2	9,500.00		
	2 · Bank #3 Checking	30,000.00	old items (erroneous) outstanding	
	3 · Bank #3 Savings	6,000.00		
	7777 · Bank #2 - Checking			
	7777-07 · Bank #2 - Money Market savings	-75.00	negative; not a proper sub account	
	7777 · Bank #2 - Checking - Other	102,996.00	old items (erroneous) outstanding	
	Total 7777 · Bank #2 - Checking	102,921.00		
	Total Checking/Savings	145,221.00		
Accounts Receivable				
	1200 · Accounts Receivable	400.00	not complete	
	Total Accounts Receivable	400.00		
Other Current Assets				
	1499 · Undeposited Funds	20,000.00	contains old erroneous items	
	Total Other Current Assets	20,000.00		
	Total Current Assets	165,621.00		
TOTAL ASSETS			165,621.00	
LIABILITIES & EQUITY				
Equity				
	3000 · Opening Bal Equity	0.00		
	3900 · Retained Earnings	145,000.00	How much of this is restricted by donors?	
	Net Income	20,621.00		
	Total Equity	165,621.00		
TOTAL LIABILITIES & EQUITY			165,621.00	
Where is the multi-million dollar campus cost?				
Where is the cost of all the church's equipment?				
Where is depreciation?				
Where is the multi-million dollar bank loan?				
Where are the bank loan financing costs?				
Where are all the bills owed by the church for accounts payable?				
Where are the accruals for prepaid expenses and accrued expenses?				

Anytown Church
Profit/Loss - Accrual Basis
Year Ended 12/31/XXXX

Ordinary Income/Expense		Jan - Dec XXXX	
Income			
100-00 · General Fund			
100-02 · Tithes	700,000.00		
100-03 · Salary	1,308.00	this is a payroll correction - should be expense	
100-05 · Interest earned from bank	5.00		
100-06 · Misc.	223.00	refund from a vendor, should offset expense	
101-01 · Petty Cash	-225.00	should be a cash account on the balance sheet	
100-00 · General Fund - Other	77,450.00	contains refunds, loan proceeds, sales proceeds, and expenses	
Total 100-00 · General Fund	778,761.00		
101-03 · Refund or credits	375.00	refund from a vendor, should offset expense	
150-00 · Vehicles	33.00	refund from a vendor, should offset expense	
200-00 · Building			
200-01 · Building Fund Loan	15,500.00	loan proceeds	
200-02 · Building Income	2,700.00		
200-03 · Facilities Use	41,000.00		
200-00 · Building - Other	260.00	refund from a vendor, should offset expense	
Total 200-00 · Building	59,460.00		
201-00 · Pledge Income	53,000.00		
300-00 · Benevolence			
300-04 · Benevolence program #1	1,100.00		
300-05 · Benevolence program #2	900.00		
300-00 · Benevolence - Other	1,400.00		
Total 300-00 · Benevolence	3,400.00		
420-01 · Coffee	1,000.00		
500-00 · Youth Ministry			
500-01 · Youth Offering	2,100.00		
500-02 · Youth Outreach/Missions	1,350.00		
500-04 · Youth Events	1,200.00		
500-06 · Camp	3,200.00		
500-07 · Snacks	2,500.00		
500-08 · Youth Merchandise	400.00		
500-00 · Youth Ministry - Other	520.00		
Total 500-00 · Youth Ministry	11,270.00		
500-20 · Program #4	850.00		
500-50 · Boy's program			
500-52 · Sales of merchandise	700.00		
500-53 · Boy's Program Fundraising	175.00		
500-54 · Donations & Offerings	6,900.00		
500-50 · Boy's Program - Other	0.00		
Total 500-50 · Boy's Program	7,775.00		
600-00 · Children's Ministries			
600-03 · Camp	1,200.00		
600-06 · Children program #1	350.00		
600-20 · Children program #2	275.00		
600-00 · Children's Ministries - Other	1,300.00		
Total 600-00 · Children's Ministries	3,125.00		
600-10 · Children's program #3	1,500.00		
600-30 · Infants			
600-31 · Infant program #1	35.00		
Total 600-30 · Infants	35.00		
610-00 · Girl's Ministry	275.00		
700-00 · Christian Education			
700-01 · Adult Christian Education	1,900.00		
700-00 · Christian Education - Other	250.00		
Total 700-00 · Christian Education	2,150.00		
700-10 · Grief Ministries	625.00		
700-20 · Marriage Ministries	1,000.00		
801-00 · College & Career	1,000.00		
802-00 · Guest Speakers	1,700.00		
803-00 · Men's Ministries	1,400.00		
806-00 · Women's Ministries			
806-01 · Women's Ministry #1	675.00		
806-00 · Women's Ministries - Other	4,850.00		
Total 806-00 · Women's Ministries	5,525.00		
807-00 · Worship	275.00		
808-00 · Worship program #1	3,000.00		
809-00 · Conference	1,200.00		
900-00 · Missions			
900-05 · Mexico	1,500.00		
900-00 · Missions - Other	33,000.00		
Total 900-00 · Missions	34,500.00		
Total Income	973,234.00		
Expense			

Anytown Church
Profit/Loss - Accrual Basis
Year Ended 12/31/XXXX

1100-00 · General Expense					
1100-01 · Miscellaneous Expenses					
1100-02 · Credit Card	5,300.00	credit card payments - expenses not allocated			
1100-04 · Ministry Supplies	2,500.00				
1100-05 · Returned Chk Charges	18.00				
1100-07 · Bank Charges	15,000.00	includes returned checks, loan fees should be on balance sheet			
1100-01 · Miscellaneous Expenses - Other	1,000.00				
Total 1100-01 · Miscellaneous Expenses	23,818.00				
1100-09 · Petty Cash Expense	1,900.00	should be allocated to proper expenses			
1100-12 · Staff Moving expense	7,600.00				
1100-13 · Scholarships	350.00				
1100-16 · Ministry Expenses	1,700.00				
1100-20 · Intern Expenses	50.00				
1100-21 · Church Events	600.00				
1102-00 · Liability Insurance Expense	12,000.00				
1102-01 · Workers Comp	2,200.00				
1105-00 · Advertising Expense	3,000.00				
1105-02 · Discrepancies	1,000.00				
1110-00 · Utilities Expense					
1110-01 · Telephone Expense	9,150.00				
1110-03 · Internet	2,600.00				
1110-12 · Electricity Expense	34,500.00				
1110-13 · Gas Expense	900.00				
1110-14 · Waste Expense	1,200.00				
1110-15 · Fire System Monitoring	6,000.00				
Total 1110-00 · Utilities Expense	54,350.00				
1200-00 · Denomination Expense	1,500.00				
1300-00 · Salary Expense					
1103-00 · Taxes Expense	42,300.00				
1300-01 · Pastors Salaries Expense	155,000.00				
1300-02 · Support Staff Salary Expense	36,000.00				
1301-00 · Housing Expense	11,000.00				
1302-00 · Retirement Expense	10,000.00				
1303-00 · Medical Insurance Expense	13,000.00				
1311-00 · Payroll Expenses	2,000.00				
1311-11 · Independent Contractor	3,000.00	contains loan fees that should be on balance sheet			
Total 1300-00 · Salary Expense	272,300.00				
1500-00 · Vehicle Maintenance Expense					
1500-01 · Vehicle Insurance Expense	2,000.00				
1500-02 · Vehicle Repair Expense	150.00				
1500-03 · Vehicle Parts Expense	50.00				
1500-04 · Vehicle Fuel Expense	2,900.00				
1500-00 · Vehicle Maintenance Expense - Other	3,550.00				
Total 1500-00 · Vehicle Maintenance Expense	8,650.00				
1600-00 · Property Maintenance Expense					
1600-01 · Exterior Buildings Expense	15,000.00				
1600-02 · Grounds Keeping Expense	3,500.00				
1600-03 · Pest Control Expense	2,500.00				
1600-04 · Interior Maintenance Expense	14,500.00				
1600-05 · Janitorial & Supplies Expense	5,000.00				
1600-00 · Property Maintenance Expense - Other	6,000.00				
Total 1600-00 · Property Maintenance Expense	46,500.00				
1700-00 · Kitchen Supplies Expense	3,000.00				
1800-00 · Office Administration Expenses					
1800-01 · Office Supplies Expense	3,650.00				
1800-02 · Copy Machine Lease Expense	8,000.00				
1800-03 · Postage Expense	575.00				
1800-04 · Facility Management	1,500.00				
1800-11 · Staff Social	3,500.00				
1800-12 · Background check	300.00				
1800-13 · Communion / dedication Supplies	625.00				
1800-14 · Staff Photo's	300.00				
1800-15 · Christmas Bonuses	5,500.00	cash bonuses not on payroll			
1800-00 · Office Administration Expenses - Other	13,500.00	most belongs elsewhere - \$5,000 to employee			
Total 1800-00 · Office Administration Expenses	37,450.00				
1900-00 · Equipment					
1900-01 · New Equipment	21,000.00	most belongs on balance sheet/needs depreciation			
1900-00 · Equipment - Other	100.00				
Total 1900-00 · Equipment	21,100.00				
1100-00 · General Expense - Other	4,300.00	most belongs elsewhere - lots of memos with ?????			
Total 1100-00 · General Expense	503,368.00				
1111-00 · Security	1,300.00				
2000-00 · Building Expense					
2000-01 · Building Fund Loan Payment	16,000.00	interest belongs here, but not principal - should be balance sheet			
2000-02 · Construction Supplies Expense	850.00	should be part of building costs			

Anytown Church
Profit/Loss - Accrual Basis
Year Ended 12/31/XXXX

	2000-04 · New Loan Payment	138,500.00	interest belongs here, but not principal - should be balance sheet
	2000-05 · Volunteer program	600.00	
	2000.06 · Church Decor	200.00	
	2000-00 · Building Expense - Other	7,000.00	should be part of building costs
	Total 2000-00 · Building Expense	163,150.00	
	2001-00 · Building expansion program #1		
	2001-03 · Project #1	1,250.00	should be part of building costs
	2001-04 · Project #2	24,300.00	should be part of building costs
	2001-05 · Other	17,100.00	should be part of building costs
	Total 2001-00 · Total Building expansion program #1	42,650.00	
	3000-00 · Benevolence Expense		
	3000-01 · Family Care	2,100.00	
	3000-03 · Bereavement Expense	600.00	
	3000-05 · Food	350.00	
	3000-00 · Benevolence Expense - Other	3,000.00	
	Total 3000-00 · Benevolence Expense	6,050.00	
	4000-00 · Outreach Expense		
	4000-04 · Event #1	175.00	
	4000-00 · Outreach Expense - Other	225.00	
	Total 4000-00 · Outreach Expense	400.00	
	4200-00 · Coffee	4,700.00	
	5000-00 · Youth Expenses		
	5000-01 · Youth General Expense	900.00	
	5000-02 · Youth Mission/Outreach Expense	1,200.00	
	5000-03 · Youth Guest Speakers Expense	150.00	
	5000-04 · Youth Event Expense	3,400.00	
	5000-06 · Camp Expense	2,800.00	
	5000-07 · Snack Shack Expense	1,250.00	
	5000-08 · Youth Merchandise Expense	900.00	
	5000-00 · Youth Expenses - Other	6,500.00	includes lots of equipment that should be on balance sheet
	Total 5000-00 · Youth Expenses	17,100.00	
	5000-20 · Program #4 Expense	200.00	
	5000-3 · Intern Expenses	225.00	
	5500-00 · Boy's Program Expense		
	5500-01 · Dues/memberships	1,700.00	
	5500-02 · Supplies	1,225.00	
	5500-00 · Boy's Program Expense - Other	7,300.00	
	Total 5500-00 · Boy's Program Expense	10,225.00	
	6000-00 · Children's Ministries Expense		
	6000-20 · Children's program #1 Expense	120.00	
	6003-00 · Camp Expense	300.00	
	6006-00 · children's program #2 expenses	1,800.00	
	6000-00 · Children's Ministries Expense - Other	8,100.00	
	Total 6000-00 · Children's Ministries Expense	10,320.00	
	6000-10 · Program #3	335.00	
	6000-30 · Girls Ministries Expense		
	6000-31 · Infants	875.00	
	6000-30 · Girls Ministries Expense - Other	110.00	
	Total 6000-30 · Girls Ministries Expense	985.00	
	6560 · Payroll Expenses	103,000.00	
	7000-00 · Christian Education Expenses		
	7000-02 · Program supply expense	165.00	
	7000-00 · Christian Education Expenses - Other	3,500.00	
	Total 7000-00 · Christian Education Expenses	3,665.00	
	7000-10 · Grief Ministries Expense	240.00	
	7000-20 · Marriage Ministries Expense	1,000.00	
	7000-30 · Global Expense	500.00	
	8000-00 · Denomination conference Expenses		
	8100-00 · Local Conference	10,000.00	
	8000-00 · Conference Expenses - Other	1,275.00	
	Total 8000-00 · Conference Expenses	12,000.00	
	8001-00 · College & Career Expense	1,000.00	
	8002-00 · Guest Speakers Expense	17,000.00	
	8003-00 · Men's Ministries Expense	700.00	
	8005-00 · Connections Team Expense	2,700.00	
	8006-00 · Women's Ministries Expense		
	8006-01 · Woman's program #1 Expense	350.00	
	8006-00 · Women's Ministries Expense - Other	7,300.00	
	Total 8006-00 · Women's Ministries Expense	7,650.00	
	8007-00 · Worship Team Expenses		
	8007-01 · Worship Center Media	4,500.00	
	8007-00 · Worship Team Expenses - Other	4,000.00	
	Total 8007-00 · Worship Team Expenses	8,500.00	
	8008-00 · BOOKSTORE EXPENSES	4,000.00	
	8009-00 · Group Expense	2,000.00	

Anytown Church
Profit/Loss - Accrual Basis
Year Ended 12/31/XXXX

	8010-00 · Prayer Room Expenses	75.00							
	8011-00 · Church Administration Expense	300.00							
	9000-00 · Missions Expense								
	9000-01 · Missionaries	27,000.00							
	9000-05 · Mexico Missions	5,300.00							
	9000-00 · Missions Expense - Other	17,500.00							
	Total 9000-00 · Missions Expense	49,800.00							
	9990-01 · Christmas Bonuses	1,500.00	cash bonuses not on payroll						
	Total Expense	976,638.00							
	Net Ordinary Income	-3,404.00							
	Other Income/Expense								
	Other Income								
	999-00 · Pre-school Income								
	999-01 · Preschool General Fund	25.00							
	999-00 · Pre-school Income - Other	160,000.00	needs further break out - fees vs. other types of revenue						
	Total 999-00 · Pre-school Income	160,025.00							
	Total Other Income	160,025.00							
	Other Expense								
	9990-00 · Pre-school expenses								
	9991-00 · PRE-SCHOOL SALARY EXPENSE	81,000.00	payroll not allocated properly between salaries and taxes						
	9992-00 · Pre-School Payroll Taxes	30,000.00	payroll not allocated properly between salaries and taxes						
	9990-00 · Pre-school expenses - Other	25,000.00	too large - should have more accounts to capture costs						
	Total 9990-00 · Pre-school expenses	136,000.00							
	Total Other Expense	136,000.00							
	Net Other Income	24,025.00							
		20,621.00							