

The C&P Advisors companies are happy to bring our latest newsletter to you. If you have questions on any of these topics, contact your C&P Advisor or the individuals listed.

December 2010

## Not-for-Profit News

### “Seriously, it’s that time again?” by Kevin Hagen, CPA

Well, another year has passed and as sure as the snow falls in Cleveland each winter, your organization probably has a financial statement audit coming up in the next year. Do you look forward to the process? Does it seem like a necessary evil that disrupts your organization’s regular process?

There are certain things you can do to help ensure an audit process that is efficient and provides tangible benefits to your organization. First, set up a time to have a pre-audit planning meeting with your audit firm. The purpose of this meeting is to establish clear expectations for the upcoming audit. Some topics to consider for discussion include:

- An update on the organization’s current activities including any significant changes in the organization’s policies, procedures, programs, or resources.
- New accounting guidance and the expected impact on the organization.
- The terms of the engagement.

The items above are a required part of the audit process. Establishing a time to review the items in advance will allow you to focus more attention on significant audit issues during audit fieldwork.

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### Changes Coming in 2012: 1099 reporting

The current 1099 information reporting requirements state that all vendors, except for corporations, should be issued a 1099 for payments of \$600 or more. As a result of the recent health care reform, organizations will now be required to issue 1099s to all vendors, including corporations (still excluding organizations exempt under 501(a)), for payments starting after December 31, 2011. Many lobbying groups are making a consistent push to bring to light the burden this will place on all organizations. We will continue to keep you updated on the progress of this legislation and any other changes related to health care reform.

## “Seriously, it’s that time again?” *continued*

Second, audit firms generally provide a documentation request list in advance of the audit fieldwork for items that will be required. Review this list carefully to ensure you understand exactly what the audit firm expects to receive for each item. Organizations generate reports and statements every period for management to review. A proactive discussion with the audit firm regarding the requested documents may identify periodic reports that management already generates that would satisfy the auditor’s requests. Additionally, some of the requests may pertain to documents that will not affect the financial close process, such as organizational documents (e.g., policies, procedures, or board minutes). These items could be provided prior to audit fieldwork to permit you and your staff to focus on the financial close process leading up to the date of audit fieldwork.

The audit firm will be required to increase its documentation regarding the nature and cause of the error. After that is completed, it must assess whether incremental audit testing is required to be performed to achieve the desired level of audit assurance.

Establishing a realistic time line will also permit the audit firm to schedule their staffing resources appropriately. A change in the time line could cause a change in the staffing resources on an engagement as the original staff may be assigned to work on another client during the revised time frame. Depending on the extent of the change in the staffing resources, this change may affect the audit firm’s ability to leverage knowledge obtained in previous audits. This could lead to an increase in the number of questions or documentation requests the organization’s staff receives during audit fieldwork.

*By setting achievable milestones, you will help ensure any organizational reporting deadlines are met.*

Finally, establish a realistic time line for the audit process including delivery dates for items on the documentation request list, the timing of audit fieldwork, and expected audit completion date. By setting achievable milestones, you will help ensure any organizational reporting deadlines are met. Deviations from the original time frame can cause delays in the completion of the audit and thus, could jeopardize the organization’s ability to meet reporting requirements. A failure to meet these requirements could endanger the organization’s ability to receive funds in future periods from a resource provider or result in the organization paying a fee to modify a covenant or requirement in an agreement. The organization’s staff may also feel an increase in pressure to complete remaining tasks more quickly, which increases the chance of errors in those items. Although it is difficult to quantify the exact impact of individual errors noted during the audit, there is a known impact to errors identified during audit testing.

Although an audit may be required as a condition of a funding source or a debt agreement, an organization should still expect to receive benefits from this required annual expense similar to other expenses. These may take the form of audit adjustments to present a more complete and thorough financial picture or recommendations that will strengthen the internal controls and operational processes. The best way for an organization to maximize the potential benefits from an annual audit is to take an active interest in the process from the start.



Melissa Marvin, CPA  
Manager

## Streamline the 990 Process by Melissa Marvin, CPA

### Overview

The Form 990 received a major facelift starting with the 2008 tax year, and the changes are being phased in through the 2010 filing. As a way to effectively and efficiently communicate the information needed to prepare your organization's Form 990, we developed a detailed tax information checklist with which many of you are already very familiar. On a good note, the 2009 and 2010 Form 990s have few changes. For those organizations that may not have gone through this process yet, please be advised to respond promptly to our request for information. If your organization filed a Form 990-EZ for 2008 or 2009, be aware that you may now have reached a level where the Form 990-EZ won't be appropriate. Below is a table that shows the phase-in of the Form 990.

### Form 990 Filing Amounts for 2008-2010

Form 990-EZ not available	Gross receipts are > or =	Total assets are > or =
2008	\$1,000,000	\$2,500,000
2009	\$500,000	\$1,250,000
2010 and later	\$200,000	\$500,000

**Both** thresholds must be met before your organization is required to file the Form 990.

In addition to the above thresholds, small tax-exempt organizations whose annual gross receipts are normally \$25,000 or less (\$50,000 for tax years ending on or after December 31, 2010) may be required to electronically submit Form 990-N.

### Getting Ready

1. Review all items on your most recent 990 filing. Have any of the processes changed? Do you need to update any of the descriptions? This can be done before you have received our current tax information checklist.
2. Complete your tax information checklist promptly.
3. If you have any questions regarding the items listed, please take the time to go through the entire checklist to verify you have a complete list of questions before contacting our office. This will make the process more efficient and ultimately will provide a cost savings to you.
4. Please make us aware of your board meeting schedule so that a draft of the Form 990 can be available for board or committee review.
5. Review the draft Form 990 in its entirety upon completion by our office before filing it. Remember this is a public document and should be viewed as a marketing tool. We want to make sure this is a correct representation of your organization.

## End of Year Preparation

Here is a reminder regarding some items to look at before the end of the year to avoid any problems with your year-end audits:

**Review monies spent under the American Recovery and Reinvestment Act of 2009 (Recovery Act).** Expenditures of Recovery Act funds have to be reported separately and must include the prefix “ARRA” in identifying the name of the federal program on the schedule of expenditures of federal awards.

Due to the significant amount of Recovery Act funds and the inherent risk associated with heightened transparency and accountability requirements, all programs with expenditures of Recovery Act funds are to be considered “higher risk” in accordance with Sections 525(c)(2) and 525(d) of OMB Circular A-133 and have **significant implications for single audits.**

## Audit Checklist Summary

Here is a quick list of things to keep in mind as you prepare for your audit:

- Hold a pre-audit meeting with the audit firm to establish audit expectations (attendees, at a minimum, should include the audit partner and/or manager, Executive Director, Director of Finance, and representatives from the board committee charged with oversight of the audit process)
- Clarify any items on the audit firm’s documentation request list
- Create a realistic audit time line that sets achievable milestones for all parties involved

Things that can aid in the process:

- Establish good monthly closing procedures
- Have an accounting system/structure that supports your financial statements and other reporting requirements

These last items will be covered in a future newsletter. Contact your Ciuni & Panichi, Inc. professional at 216-831-7171 or email [cpainfo@cp-advisors.com](mailto:cpainfo@cp-advisors.com) for more information.