


**FUNd and Accrual Accounting
in CAAs**


National Strength.
SOUTHERN ROOTS.



About your presenters...

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- Audit and assurance partner with CRI
- Based in CRI's Enterprise, AL office
- 20+ years serving nonprofits and governments
- Assurance and consulting services
- Government focus at the federal, state and local level
- Nonprofit focus on CAAs and Head Start
- Fiscal Consultant with Head Start's National Center for Program Management and Fiscal Operations (PMFO)
- Speaker and training services at the national, regional, state and local level
- Married and we have 2 four-legged children



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3,400 sq ft

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Housekeeping

- Creating an effective learning environment
- Be involved – ask questions, share stories
- Cellphones
- Evaluations
- Drawing
- Visit the CRI Booth

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Agenda

Overview	Fund Accounting	Areas of Focus
<ul style="list-style-type: none">• Why this topic?• The importance of this subject matter and the impact it can have on your operations and future funding opportunities	<ul style="list-style-type: none">• What is fund accounting• Basis of accounting, cash vs. accrual• Understanding the closeout process	<ul style="list-style-type: none">• Developing a process• Payables/expenses• Payroll and related liabilities• Revenue/accounts receivable/deferred revenue• Other areas

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Overview

Why this topic?

- General need based on calls from industry leaders
- Finance professionals entering field from business world
- Source of a significant number of audit findings
- Lack of access to training in this area
- Need to break the thought process of “just let the auditor fix it”

W H Y ?

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Impact on Operations and Future Funding

So, what's wrong with "letting the auditor fix it"?

- A material adjustment discovered by the auditor is a **material weakness** and will result in a **financial statement finding**
- Funding sources do not like material weakness findings
- 2 CFR §200.205 Federal awarding agency review of risk posed by applicant

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Financial Leadership
in Iowa Community
Action Agencies

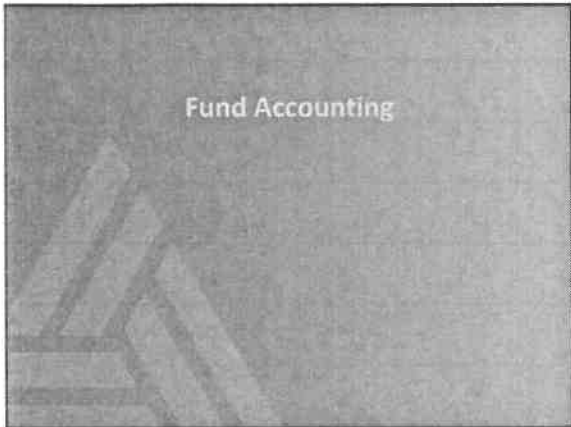
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Unique Challenges of CAA Accounting

1. Restricted Funding
2. Significant Regulations
3. The Price Doesn't Always Cover the Costs
4. Investment in Capacity Building is Difficult
5. Limitations on Overhead and Fundraising
6. Board Oversight Capacity
7. Complexity and Size of Funding Sources
- 8. Lack of Fund Accounting Education and Training**

**Financial Leadership in Iowa Community Action Agencies - Iowa Community Action Association (published February 2019)*

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What is fund accounting

- Fund accounting is an **accounting system** for recording resources whose use has been limited by the donor, grantor, governing agency, or other individuals, or organizations or by law.
- It emphasizes **accountability** rather than **profitability**, and is used by nonprofit organizations and by governments.

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What is fund accounting

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What is fund accounting

- A fund consists of a **self-balancing set of accounts** and each reported as either *unrestricted, temporarily restricted or permanently restricted based on the provider-imposed restrictions (pre-ASU 2016-14) or net assets without donor restrictions and net assets with donor restrictions (post-ASU 2016-14)*.

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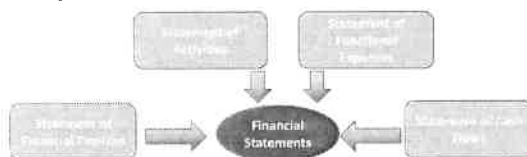
What is fund accounting

- Can have **more than 1 general ledger** (fund) depending on your financial reporting requirements, but there is no limit
- Provides an **audit trail** showing that all moneys have been spent for their intended purpose
- While **GAAP** does not preclude the use of fund accounting for external reporting, it **does not provide guidance** for organizations that choose to use it.
- **FASB vs GASB** and fund accounting

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What is fund accounting

- **Fund types** – nonprofits (FASB) vs. governments (GASB)
- Financial statements are typically **consolidated** regardless of the number of funds you have



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Basis of accounting

What is meant by basis of accounting?

A **basis of accounting** is the time various financial transactions are recorded.

3 primary methods of tracking income and expense

- Cash basis
- Accrual basis
- Modified-accrual basis (governments and SEFA)

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Basis of accounting

3 primary methods of tracking income and expense

Non-GAAP	• Cash basis
GAAP	• Accrual basis • Modified accrual basis

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Basis of accounting - cash basis

Cash basis method recognizes revenues and expenses at the time **cash is received or paid out**.

- Affects an organizations books upon exchange of consideration, therefore, **less accurate** than accrual accounting in the short term.
- Pros – simpler and less expensive than accrual accounting
- Cons – inaccurate picture of an organization's financial health

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Basis of accounting – accrual basis

Accrual basis method recognizes revenues when they are earned (rather than when cash is received) and expenses when incurred, rather than at the time when the expense is paid.

✓ **Matching** revenues and expenses on the income statement

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Basis of accounting – accrual basis

- In addition to impact of revenue on income statement, balance sheet is also affected
 - increase to cash (if service or sale is for cash)
 - increase to accounts (grants) receivable (if performed on a reimbursement basis)
 - increase in unearned revenue (if revenue received in advance of providing service)
- In addition to impact of expense on income statement, balance sheet is also affected
 - Decrease in cash (when paid)
 - increase in accounts payable (if expense paid in future)
 - increase in prepaid expenses (if expense was paid in advance)

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Basis of accounting - OCBOA

- Other comprehensive basis of accounting (OCBOA), this is non-GAAP basis
 - Statutory basis of accounting (e.g. a basis of accounting insurance companies use under the rules of a state insurance commission).
 - Income-tax-basis financial statements
 - Cash basis and modified-cash basis
 - Financial statements prepared using definitive criteria having substantial support in accounting literature that the preparer applies to all items appearing in the statements (such as the price level basis of accounting).

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Understanding the closing process

- **Soft close (monthly)**
 - Issue financial statements quickly
 - Accuracy of financial statements is reduced
 - Periods can be reopened
- **Hard close (can be monthly or annual)**
 - Reconciling balance sheet accounts
 - Revenue/expense cutoff to the income statement
 - Prior months books remain open to true-up end of period
 - Annual close after any audit adjustments are posted

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Best practices for a successful close

- A strong **internal control** environment will improve month-end and annual accuracy and remove barriers to timely completion.
- Whether **automated or manual**, each key process should be protected by one or more of the following internal control types:
 - Preventive control – prevents an occurrence or introduction of an error
 - Detective control – detects the presence of an error
 - Corrective control – detects and corrects an error in a process

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Best practices for a successful close

- Design your closing process to meet the needs of users
- Publish a financial close calendar
- Provide instructions and training
- Require a month-end/annual journal entry checklist
- Closing Checklist
- Create and maintain standard operating procedures (SOP)
- Develop contingency plans (risk assessment)
- Maintain risk and control matrices
- Debrief

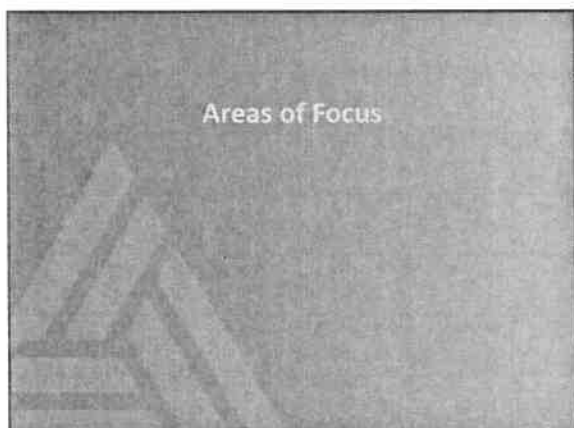
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Sample Closing Checklist

Task	Responsible Party	Due Date	Status
Cash Receipts			
1.1 Print cash receipts summary reports after final day, to ensure all receipts are recorded	Staff		
1.2 Review cash receipts and post to General Ledger (GL)	Senior Staff	1.1	
1.3 Complete bank reconciliations for each cash account	Staff	1.2	
Review and approve bank reconciliations, ensure all recording items have been researched and properly recorded	Senior Staff	1.3	
Accounts Payable			
1.1 Prepare vouchers or invoices based on personnel and OTR expenses allocated to government grants/contracts or restricted funds	Staff		
2.1 Generate A/R aging report	Staff		
Review A/R aging report and determine strategy for collection or write off of aging A/R	Senior Staff	1.1	
Post charges receivable to GL and reconcile	Staff		
2.2 File balances for governmental department	Staff		
Reconcile to revenue reports from the department and update GL	Senior Staff	1.2	
Other Closing			
1.1 Finalize prepaid expenses (e.g., insurance, interest expense, etc.)	Senior Staff		
2.1 Review the expense accounts month	Senior Staff		

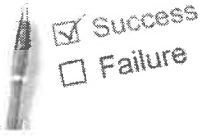
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- ### The Closing Process – Final Thoughts
- We are focusing on annual close
 - Be organized, have a process and a plan
 - Use checklist, flowcharts, etc.
 - Assign responsibilities to preparers and reviewers
 - Set manageable timelines for task completion
 - Retain documentation to support year end adjustments (journal entries)
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Our objectives


- An accrual basis trial balance that is **materially correct**
- A closed trial balance that is **timely**
- A closed trial balance that is adequately **supported by documentation**



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Some things to consider


- **Unique** nature of grant accounting
- Revenues are expense driven, but there are exceptions
- Approach this on a **fund by fund** basis
- In most cases, **revenue = expenses**
- **Profiting** from federal grants is rare
- **Spend-down** process



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Fund balance / equity


- Make sure your fund balance roll-forward is correct and agrees to the audited fund balance. Example:
 - ✓ Audited closed fund balance at 6/30/18 is \$1,500,000
 - ✓ Audit adjustments posted as of 6/30/18 and internal books closed should agree to the audited fund balance, if not, you have a problem!
 - Audit adjustments not posted properly or not at all (
 - Activity posted to the general ledger after trial balance was given to the auditor
 - Exceptions – need a reconciliation



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Cash

- Bank accounts reconciled timely
 - Capture any unrecorded payments or receipts (EFT, ACH, P-cards, etc.)
 - Examine outstanding items over a certain time period and address



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Inventory, Prepaid Expenses and Other Assets

- Inventory adjusted as of the end of the FY
 - Supported by a detailed listing with correct pricing
 - Valid inventory count at or near year-end
 - Coordinate the inventory count with external auditors
 - Obsolete inventory, write offs
- Prepaid Expenses and Other Assets
 - Adjust accordingly
 - You should have a schedule supporting these items that will support your final balance. Be prepared to provide source documentation

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Capital Assets

- Update depreciation schedule for additions and disposals
- Review useful life of assets for reasonableness
- Calculate and adjust depreciation
- Review capital assets for impairment
- Compare capital asset schedule at FY year-end to trial balance and explain any difference



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Interfund Activity

- Due to other funds/Due from other funds
- Used when moving activity between funds (e.g. loans, expenses, etc.)
- Payables and receivables must net to zero

The diagram illustrates the interfund activity between CACFP and Head Start. On the left, a box labeled 'CACFP' contains the text 'CACFP owes Head Start' and 'Due to Head Start (500) (liability account)'. On the right, a box labeled 'Head Start' contains the text 'Head Start is due funds from CACFP' and 'Due from CACFP 500 (asset account)'. A double-headed arrow connects the two boxes, indicating the reciprocal nature of the transaction. The logo 'SARD, BIGGS & INGRAM, LLC' is visible at the bottom right of the slide.

Interfund Activity

- If you are using a **checklist**, make sure this is included
- **Reconcile** interfund activity **monthly** – **Highly Recommended**
- **Dangers** of interfund activity that is not balanced
 - Incorrect expenses
 - Failure to be reimbursement properly
 - Revenue not recorded properly
 - Amount of time spend reconciling this at year end!

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Accounts Payable / Expenses

Accounts payable includes costs and expenses that are customarily billed through a third-party invoice.

- accruing expenses as of the last day of the fiscal year
- cutoff is the last day of the fiscal year
- match expenses with the proper period
- normally recorded at the invoice amount
- the amount should be reported net of vendor discounts if organization normally takes cash discounts and is financially capable of continuing to take the discounts.

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Accounts Payable / Expenses

Do

- Identify all expenses allocable to the FY end and accrue (software limitations)
- Examine subsequent disbursements for a given period of time to identify accruals
- Identify open purchase orders at year-end
- Consider recurring items

Don't

- Back date checks
- Don't shift expenses between periods due to budget issues (directional risk)

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Accrued Liabilities

Accrued liabilities are estimates of the obligations for expenses that have been incurred but for which no billing has been received. Some areas typically evaluated to determine the need for an accrued liability are as follows:

- Vacation pay (PTO) (software or journal entry)
- Postemployment benefits – may require actuary (journal entry)
- Compensation (software or journal entry)
- Payroll taxes (software or journal entry)
- Retirement plans (software or journal entry – may require actuary)
- Environmental remediation liabilities
- Self-insurance (IBNR)
- Litigation
- Disallowed costs (maybe)

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Accrued Liabilities

GAAP requires an accrual when **both** of the following conditions as the statement of financial position date:

- a. It is **probable** that a liability has been incurred.
- b. The amount can be reasonably **estimated**.

When the estimate is a range rather than a specified amount, GAAP provides following guidance:

- a. If one amount within the range is considered to be the best estimate, it should be used as the accrual.
- b. If no amount within the range is considered to be the best estimate, the lowest amount in the range should be used as the accrual.

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Accrued Liabilities

Accrued vacation pay – accrue a liability for employees' compensation for future absences if all of the following are met:

- a. employer's obligation relating to employees' right to receive compensation for future absences is attributable to employees' services already rendered.
- b. The obligation relates to rights that vest or accumulate.
 - (1) Vested rights are those that the employer has an obligation to pay even if the employee terminates.
 - (2) "Accumulate" means that the employee may carry unused vacation forward to subsequent periods, even though there may be a limit to the amount that can be carried forward.
- c. Payment of the compensation is probable.
- d. The amount can be reasonably estimated.

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Revenues, Receivables, Deferred Revenue

- All other accruals and expenses should be recorded at this point
- Adjust revenue accordingly, in most cases revenue should equal expenses, **no profit no loss**, can be exceptions
- Consider reimbursement grants vs. fee for service or fee per unit grants

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Revenues, Receivables, Deferred Revenue

- Tracking receipts to minimize risk of improper revenue recognition
- Use third-party resources to verify your revenue
- Consider cash basis vs. accrual basis revenue when tying in booked revenue – see example on following slide

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Revenues, Receivables, Deferred Revenue

Cash payments received
 Less: prior year AR
 Add: current year AR
 Add: prior year deferred revenue
 Less: current year deferred revenue
 = Accrual basis revenue

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Revenues, Receivables, Deferred Revenue

Amount of Reimbursement	Period of Reimbursement	Settlement Date
12,028	Apr-17	5/19/2017
12,142	May-17	6/16/2017
1,934	Aug-17	9/29/2017
13,357	Sep-17	10/20/2017
14,920	Oct-17	12/5/2017
12,650	Nov-17	12/22/2017
10,592	Dec-17	1/31/2018
9,368	Jan-18	2/16/2018
13,086	Feb-18	3/16/2018
12,670	Mar-18	4/20/2018
14,985	Apr-18	5/18/2018
	AR @ 4/30/18	

114,173	Total cash received
(12,028)	Less: prior year AR
14,939	Add: current year AR (Account 203-133)
(19,981)	Overpayment returned to USDA
97,097	Auditor calculated revenue @ 4/30/18
26,946	USDA Revenue @ 4/30/18 - accrual basis per account 20
151	Variance

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Revenues, Receivables, Deferred Revenue

- Understand relationship between revenue, AR and deferred revenue
- If revenues booked > expenses, it's likely that you need to reclassify excess revenue to deferred revenue
- If revenues booked < expenses you will likely need to recorded a receivable or reclassify deferred revenue (if available)


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Other Items

- You've **overspent** your grant! What do you do?
- Allocation of shared or indirect costs, what to do if **admin costs** are in excess of the grant allowance
- ASU No. 2016-14 Not-for-Profit Financial Statements

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Questions?



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TODAY'S PRESENTERS

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