

NON-PROFIT

POSSIBILITIES



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As the nation faces a downturn in the economy, both businesses and individuals are facing difficult decisions. Many non-profit organizations are feeling an even greater crunch. As disposable income decreases, charitable giving may be one of the first items reduced in the budget. *Possibilities* recently sat down with Jim McCorkell, Chief Executive Officer at Minnesota-based Admission Possible, to learn its strategies for weathering the economic conditions.

POSSIBILITIES: *How have the changes in the economy affected your organization?*

Mr. McCorkell: In our case, it has driven up the need for our services to low-income students. Unemployment trends reveal people will need to be highly skilled in order to compete in the job market. Therefore, the work we do has become more and more vital. In a way, the economy has helped us—has reinforced the need for our services. Of course, the economy has also made it a challenge to find revenue. As we're based mostly on charitable contributions, when the economy is not good, it's harder to get contributions. When organizations have less money, they're less likely to give. The non-profit community faces fundraising

About Admission Possible

Admission Possible is a non-profit organization founded in Minnesota and dedicated to helping promising, low-income students obtain admission to college. These students benefit from services in four areas: ACT and SAT test preparation, college admission guidance, assistance obtaining financial aid and support in transition to college.

Currently, Admission Possible serves more than 1,300 juniors and seniors in 17 schools across five school districts in the Greater Twin Cities and has nearly 1,750 program alum. To learn more about Admission Possible, please visit its website at www.AdmissionPossible.org.

challenges—we're pushed harder to demonstrate how we're making a difference and further sharpen our message to the community.

POSSIBILITIES: *What changes have you made to retain revenue from prior years?*

Mr. McCorkell: We're always careful with expenses because we exist in a relatively challenging environment. We've also worked hard to build an operating reserve to ensure that programming will be there for any student who starts our two-year program. Our reserve also helps us manage risk and makes us confident we can withstand a tough economy.

POSSIBILITIES: *Have you changed your member programs or services to adjust to the economy?*

Mr. McCorkell: No, our services have not changed. In fact, we are continuing to grow and expand programs. The economy makes us nervous, but we're scaling up, not down. More and more organizations are providing services to low-income families. The irony is, the demand for services goes up when the economy goes down. The demand cycles are "out of whack" in the non-profit community, but wise non-profits prepare for these cycles, and for us that's an operating reserve.

POSSIBILITIES: *What, if anything, are you doing differently in marketing and development?*

Mr. McCorkell: We aren't doing anything too differently. We continue to focus on the fact that we create value, both for students and the economy. We focus on our results, and our outcomes continue to demonstrate the need for our services. We exist in a more competitive environment, so we need to demonstrate that we're producing results that matter. These results attract donations. We are able to stay on peoples' giving lists by continuing to focus on our message and demonstrating meaningful results.

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Governance and Audit Committees for Non-Profits

OVERVIEW

Over the last several years, more and more non-profit organizations have considered the need for and benefits of an audit committee. As the sector continues to emphasize strong governance practices, it is anticipated that the number of non-profit organizations instituting an audit committee as a standing committee of the board will increase.



The audit committee is responsible for promoting ethical behavior, accurate financial reporting and compliance with independence standards.

What does an audit committee do? Isn't it enough for a non-profit—especially a smaller one—to have a finance committee if that committee has been performing its duties at a high level? The answer will vary depending upon the organization's needs, size and resources, but in general, it is in a non-profit's best interest to have an audit committee.

While the finance committee oversees some of the day-to-day financial activities of a non-profit, such as the budgeting process and monitoring financial transactions, the audit committee should operate at a higher level. The audit committee's oversight responsibilities can be categorized into three major areas:

- **Financial Statements and Other Financial Information Provided to Stakeholders** – The audit committee ensures that financial reports are received, monitored and disseminated appropriately.
- **Internal Control Systems** – The audit committee ensures compliance with policies, procedures and risk management; it also ensures that appropriate controls are in place and functioning as intended.
- **Annual Audit Process** – At the highest level, the audit committee ensures appropriate oversight by the independent auditors. The committee is also responsible for engaging the auditors and receiving all reports from the auditors.

Working with the Independent Auditor

If your organization elects to forego having an audit committee, the communication referred to in this section must be provided by and to those charged with governance of the organization. The independent auditors will work with and communicate to those individuals. Those charged with governance could include the board of directors, a management committee, supervisory board or a subgroup of the board. For simplicity purposes, we will use the term “audit committee” but recognize that it refers to whichever group has ultimate responsibility for governance. The audit committee is responsible for promoting ethical behavior, accurate financial reporting

and compliance with independence standards. Some of this responsibility can be accomplished through interactions with the independent auditors before, during and after the annual financial audit. The balance occurs throughout the year as the audit committee promotes these ideals with the board, management and employees.

A representative from the audit committee should be involved with management and the auditors during the audit pre-planning process, which typically takes place several months prior to the audit. During audit pre-planning, the groups should discuss changes that have occurred in the organization since the last audit, any planned changes for the upcoming year, the potential impact of new audit pronouncements or standards, potential risk areas and any other areas of concern. This same representative from the audit committee should be available for questions during audit fieldwork, should there be a need.

Although involvement from the audit committee is desired, both before and during the audit, the committee's involvement is essential after the audit, when results of the recently-completed audit are communicated. There are numerous required communications between the auditor and the audit committee upon completion of the financial audit. This next section will discuss just four such communications that are part of The Auditor's Communication with Those Charged with Governance (SAS114).

Auditor's Responsibility Under Generally Accepted Auditing Standards

Audit committees need to understand what items are and are not covered in a financial audit; it is the auditor's responsibility to ensure this information is communicated in a clear, concise manner. It is also the auditor's responsibility to ensure the “audit committee understands the level of responsibility that the auditor assumes for the system of internal control and the financial statements under generally accepted auditing standards (GAAS). It is important that the auditor make sure the audit committee understands that an audit is designed to obtain reasonable, rather than absolute, assurance about the financial statements” (source: American

Institute of Certified Public Accountants Audit Toolbox).

Significant Accounting Policies

It is the auditor's responsibility to communicate information about significant accounting policies and changes to management and the Board. This includes the following:

- All significant accounting policies, including those that have been applied for the first time, and how the policies have been or will be applied in the non-profit.
- Methodologies used to account for significant unusual transactions.
- The effect of significant accounting policies in new or controversial areas, especially those for which there is lack of significant guidance (i.e., alternative investments).

Management Judgments and Accounting Estimates

Management prepares the financial statements using a series of accounting estimates. These estimates are based on management's knowledge, experience and expectations regarding future events and activities. In working with the audit committee, the auditor should address management's process in developing specific sensitive estimates and the basis for the auditor's conclusion about the reasonableness of those estimates.

Audit Adjustments

It is the auditor's responsibility to notify the audit committee of any audit adjustments which could have a significant impact on the non-profit's financial reporting. When such adjustments are deemed necessary, the following items should be communicated to the audit committee:

- Adjustments which individually or collectively could have a significant impact on the organization's financial reporting process.
- A determination of whether the adjustments were recorded.

- A determination of whether the organization's internal control procedures could have, should have or did detect the need for adjustment.
- An explanation of any uncorrected misstatements pertaining to the most recent financial statements that were determined by management to be immaterial to the financial statements, whether individually or collectively.

Once the audit committee has been notified of the audit adjustments, the auditor should provide the adjustments to management for discussion. Management will determine whether the proposed adjustment should be booked to the proposed account balances; if management does not record the adjustments deemed necessary to record by the auditor, the auditor may issue a qualified audit report.

As evidenced by this partial list of responsibilities, the task of an audit committee member is an important one which helps preserve the integrity of financial reporting systems. Such integrity is critical to the on-going relationships with donors, the community and other key stakeholders. It is incumbent upon all participants in the audit process—members of the audit committee, management and the auditor—to ensure that these duties are handled effectively. ■

RESOURCES

American Institute of Certified Public Accountants Audit Toolkit

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Business Strategies—from page 1

POSSIBILITIES: *Do you have specific strategies in place to retain revenues?*

Mr. McCorkell: We are very detailed in our strategic revenue planning and just completed an analysis of the public, corporate and foundation market potential for giving to Admission Possible in the coming year. While this is an estimate, the planning exercise helps us know our potential. We know individual giving is important for us to grow, especially in an economic downturn. Continuing to add individual donors at all levels to keep a diverse portfolio of support is important. As a non-profit that intends to grow through an economic downturn, having an operating reserve is crucial to ensuring success.

POSSIBILITIES: *How has the economy's decline affected your employees?*

Mr. McCorkell: The economy causes anxiety, but people here are excited by our continued growth. When we have an open position, we see many applicants. The economy and job market, as well as the work our organization does to serve students, leads a lot of people to our organization. We are able to be selective.

POSSIBILITIES: *How have you communicated changes to your employees?*

Mr. McCorkell: Our organizational culture dictates that we place a high premium on

employee communication. Our senior leadership team works to be very transparent, involving our full team in growth planning and organizational updates, through staff meetings, one-on-one supervisor-supervisee meetings and internal news e-blasts. Fortunately, the news we have continued to communicate is about growing, and that news is received positively.

POSSIBILITIES: *How have your donors, clients and students been affected?*

Mr. McCorkell: Donors have been affected more than our clients and students. When the economy is down, their revenue and ability to give goes down with it. We've had to increase our number of donors, as well as the diversity of our donors. To diversify our funding stream, we rely on many types of donors—individuals, corporate foundations, family foundations, the government, earned revenue, etc. The ability to give can vary significantly from one source to another. Donor diversity is vital so we're less dependent on any one source. ■

A special "Thank You" to Jim McCorkell for taking time to speak with *Possibilities* and sharing his organization's strategies for weathering these challenging economic conditions.