ASSURANCE INSIGHTS

Nonprofit Audit Readiness Guide

A focused framework for contributions, grants, functional expenses, governance and year-end reporting

NONPROFIT READINESS IS MORE THAN A BALANCED TRIAL BALANCE

The audit file must connect donor and grant terms to revenue recognition, net-asset classification, allowable costs, functional reporting, governance approvals and complete financial statement disclosures.

CONTRIBUTIONS · GRANTS · NET ASSETS · GOVERNANCE

Includes a nonprofit risk map, readiness checklist, fillable close memorandum and accountable action plan.

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NONPROFIT OPERATING MODEL

Organize the close around the funding terms

Start with the agreements that created the accounting. Build schedules that preserve conditions, restrictions, releases, grant compliance and functional classification from transaction through financial statement presentation.

01

Close the ledger and subledgers

Reconcile cash, receivables, payables, payroll, fixed assets, debt and investment activity.

02

Analyze contributions and grants

Separate exchange transactions, conditional contributions and donor restrictions using the complete agreement terms.

03

Reconcile net assets

Roll forward balances with and without donor restrictions by purpose, time, endowment and release.

04

Validate functional expenses

Document the methodology and evidence for program, management and general, and fundraising classifications.

05

Complete governance and reporting

Update minutes, conflicts, related parties, commitments, contingencies, subsequent events and required disclosures.

Use separate schedules for conditions and restrictions

A donor condition affects whether revenue is recognized. A donor restriction affects net-asset classification after an unconditional contribution is recognized.

NONPROFIT RISK MAP

Connect each reporting area to the underlying evidence

Tailor the file to the organization's programs, funding mix, reporting framework and compliance requirements.

Area	Management analysis	Core support	Common breakdown
Contributions	Contribution vs. exchange; conditionality; donor restrictions; collectibility.	Executed agreements, appeals, correspondence, pledge detail, receipts and classification memo.	Restriction language summarized without reviewing return rights or barriers.
Government awards	Revenue model, award period, allowable costs, match, indirect cost and reporting terms.	Award and amendments, budgets, expenditure detail, reports and compliance correspondence.	Award numbers or assistance listings are missing from the ledger and SEFA process.
Net assets	Beginning balance, additions, releases, investment return and endowment activity.	Detailed rollforward tied to agreements, spending policy and financial statements.	Releases are recorded from budgets rather than eligible expenditures or time passage.
Functional expenses	Direct identification and allocation method by natural and functional class.	Payroll/time evidence, occupancy drivers, allocation methodology and management review.	Unsupported percentages are carried forward without reevaluation.
Governance / related parties	Approvals, conflicts, board designations and transactions with insiders.	Minutes, policies, questionnaires, agreements and disclosure analysis.	Minutes are incomplete or accounting does not receive governance decisions.
Financial statements / Form 990	Consistent reporting and explanations for legitimate differences.	Draft statements, disclosure checklist, Form 990 workpapers and reconciliation.	Material differences are discovered late and are not documented.

Contributions, restrictions and grant accounting

A complete agreement inventory is the control point for correct revenue timing and net-asset classification.

Agreement inventory

List the provider, period, amount, payment terms, barriers, return/release rights, restrictions, reporting dates and responsible program owner.

Conditional awards

Track barriers and cash received in advance separately. Do not recognize revenue merely because costs were budgeted or cash was received.

Donor restrictions

Maintain purpose and time restrictions by agreement; release only when the stipulated purpose is fulfilled or time elapses.

Government funding

Document whether the agency receives commensurate value and separately evaluate award compliance, allowable costs and reporting obligations.

Use the classification guide for judgmental agreements

Material, unusual or unclear agreements should have a retained accounting memorandum based on the complete terms—not a code selected from the deposit description.

Primary accounting basis: FASB ASC 958; ASU 2016-14 and ASU 2018-08.

Functional expenses and governance evidence

Functional reporting should reflect how resources were actually used and be supported by a methodology that management understands and reviews.

Direct identification first

Charge costs directly to programs, management and general, or fundraising when the underlying activity can be identified.

Reasonable allocation

For shared costs, use drivers such as time, headcount, square footage or usage that reflect the activity and can be supported.

Joint activities

Apply the relevant accounting criteria before allocating costs that include fundraising appeals and program or management content.

Governance evidence

Retain minutes, conflict disclosures, approvals, whistleblower matters, legal communications and related-party analysis through the report date.

Reevaluate allocation methods

A methodology can be consistently applied and still be unreasonable. Update drivers when programs, staffing, facilities or fundraising methods change.

Relevant accounting and reporting guidance includes FASB ASC 958-205 and 958-720.

FILLABLE READINESS CHECK

Nonprofit audit readiness check

Use this cross-functional check with finance, development, grants, programs and governance.

- [ ] All material contributions and grants are included in a complete agreement inventory. **OWNER / TARGET DATE** ____
- [ ] Conditional awards and refundable advances are reconciled by agreement. **OWNER / TARGET DATE** ____
- [ ] Net assets with donor restrictions roll forward by purpose, time and endowment category. **OWNER / TARGET DATE** ____
- [ ] Restriction releases tie to eligible expenditures, in-service dates or elapsed time. **OWNER / TARGET DATE** ____
- [ ] Functional expenses are supported by direct coding and documented allocation drivers. **OWNER / TARGET DATE** ____
- [ ] Board minutes, conflict forms, legal matters and related-party activity are current. **OWNER / TARGET DATE** ____
- [ ] Form 990 information and audited financial statement amounts have been reconciled or explained. **OWNER / TARGET DATE** ____
- [ ] Draft financial statements include current accounting policies and required disclosures. **OWNER / TARGET DATE** ____

Check an item only when the underlying support has been reviewed, not merely requested.

FILLABLE PLANNING MEMORANDUM

Nonprofit close assessment

Document the year-end conclusion for the organization's most judgmental funding and reporting areas.

MATERIAL NEW OR AMENDED FUNDING ARRANGEMENTS

CONDITIONAL AWARDS AND REFUNDABLE ADVANCES

DONOR RESTRICTIONS AND RELEASE JUDGMENTS

FUNCTIONAL-EXPENSE METHODOLOGY AND CHANGES

GOVERNANCE, RELATED-PARTY AND LEGAL MATTERS

OPEN REPORTING MATTERS AND ASSIGNED OWNERS

Completion standard

Retain the evidence supporting each conclusion and document review of unresolved or judgmental items.

90-DAY ACTION PLAN

Turn findings into an accountable plan

Prioritize issues that affect revenue recognition, net assets, grant compliance, functional expenses or governance disclosures.

Priority action	Owner	Due	Evidence / status

Prioritization lens

Assign finance and program owners together where the accounting conclusion depends on service delivery, eligible costs or donor/grant milestones.

AUTHORITATIVE FOUNDATION

Sources and technical guidance

The guide combines nonprofit financial-reporting guidance with current U.S. auditing standards.

FASB ASU 2016-14 - Not-for-Profit Financial Statements

Authoritative amendments addressing net-asset classes, liquidity and availability, expense reporting and related disclosures.

storage.fasb.org/ASU_2016-14.pdf

AICPA Professional Standards - currently effective SASs

Current auditing standards used for financial statement audits of nonissuers.

www.aicpa-cima.com/resources/download/aicpa-statements-on-auditing-standards-...

Use of this publication

This guide provides general information, not a substitute for the applicable standards, laws, contracts, plan documents or professional judgment. Evaluate the complete facts and current requirements for each engagement.