

# A Summary of Our Audit of



For the year ended December 31, 2023

*Heveron & Company CPAs*



## The Audit is Valuable to Your Organization Because it...

- ✚ Is an expectation of many funders and donors
- ✚ Provides information about how to:
  - **reduce your risk** of financial loss or misuse of your resources
  - **reduce your risk** of embarrassment that such losses and misuse cause
  - **avoid sanctions, penalties, noncompliance, inadequate documentation**, and
  - **improve** efficiency
- ✚ Helps you to be Proactive vs. Reactive:
  - audits are much **more effective at identifying proper procedures than they are at detecting errors or irregularities**
  - proper procedures **proactively reduce errors and irregularities**
- ✚ Identifies many risks you face, including:
  - **potential loss** of cash or other monetary assets
  - **loss of confidential** employee, donor or client **information**
  - outside **cyber-attacks** and **careless** insider activities
- ✚ Identifies best practices so that you are able to:
  - **improve** your efficiency
  - **pursue** your mission
  - **provide** your intended services and
  - **accomplish** your objectives with your available resources
  - **evaluate** how you compare to your peers, using our comparisons
- ✚ Is used as an opportunity to keep you informed about:
  - **tax and accounting** changes
  - new **legislative** and other **changes** that will have an impact on your organization
- ✚ Gives you access to some great resources for nonprofits that we have included in this report

## Audit Results

- ✚ Our audit opinion is “clean”. This means that we believe **your financial statements are fairly stated**.
  - Entries include adjustments for recording prior year entries, adjusting what was recorded for activity of the perpetual trust, recording accounts receivable for quarterly payout that was resent, and adjusting the accrued payroll.
  
- ✚ Our audit includes a review of your controls and procedures, and the security of your information technology. *We have identified some areas where you could make improvements.*

## Our Recommendations for Your Organization

- ✚ We are required to communicate any material weaknesses, *which are serious control deficiencies that could result in materially inaccurate financial statements*, and also significant deficiencies, *which are less serious but still important to you*.
  - We have identified those items below.
  - Our other required communications are summarized on page 5.
  
- ✚ The combination of the following control deficiencies may allow misstatement and/or fraud to go undetected. Because of the magnitude of potential misstatements, these are considered a significant deficiency and material weaknesses.

### Significant Deficiency:

### Necessary Adjustments:

- The beginning balances in your current financial reports did not match the prior year's final financial statements. There were some prior year audit adjustments that were not recorded within your financial records. ***You should compare your internal financial records to the audited financial statements*** each year when the audit is complete to ensure internal records have been updated and that they support your final financial statements and annual filings. No activity should be recorded in the prior fiscal years once final financial statements are complete. ***It was also noted that the trust activity was not recorded correctly.*** If there are questions on how to record these items, please reach out to us for assistance.

## Material Weaknesses:

### Payroll:

- ***Someone independent of payroll preparation should review direct deposits and individual earnings reports to verify that pay rates and hours worked are proper.*** Questionable items should be investigated. Payroll is your largest cost and this is an important control to help assure that rates and hours you are paying for are proper. We understand that the board sees the total payroll paid out, however, this doesn't deter incorrect pay rates or hours.

### Cash Disbursements:

- The Library Director mails out checks after they have been signed. These could be altered before being sent out and QuickBooks could state different information. If a bill is sent again, the Library Director is the first one to receive them. Our audit confirmed there is no independent review of check images/bank statement activity and reconciliations. ***It is extremely important that someone who is knowledgeable about your Organization's finances, receive, or have electronic access to monthly bank statements and that they review returned checks, transfers, electronic payments and other activity to be sure that they are proper.*** Any questionable items noted should be investigated. This will help catch possible bank errors or your errors, or misuse of funds.
- ✚ We also submitted a letter to management that included our recommendations about internal controls that are not considered material, compliance, recordkeeping, computer security and policies and documentation. These recommendations are intended to help you secure your assets, be sure that your resources are being used according to your mission, and to improve efficiency.

## Update on Prior Recommendations

The organization implemented improvements in these areas last year:

- The conflict of interest policy was reviewed and signed in 2024 - *it needs to be reviewed and signed by all board members annually*
- You put policies into place for board designations and credit card usage.

We continue to recommend:

Control Deficiency:

- *You should separate the duties for receiving contributions and sending out thank you letters.* When the same person performs both of these duties, it provides the potential for a missing cash receipt to go unidentified. If separation of duties is not feasible, we suggest publishing a list of donors annually as a control over receipt of donations. This is a way of making sure all receipts are properly recognized. Donors who do not appear on the list would likely report the discrepancy. Such discrepancies should then be investigated by someone independent of the receipt and accounting process.

Compliance:

- *Employee contributions to the IRA should be made as timely as possible.* The Department of Labor aggressively imposes penalties when amounts withheld for retirement plans are not deposited "as soon as administratively possible". This is generally interpreted to mean within a few days of being withheld from payroll, and in no event later than the 15th day of the month following the month when amounts were withheld. We understand that the timeliness has improved, however, this should be done as soon as possible after every payroll period.

Recordkeeping:

- There are a few old outstanding checks and deposits from your checking account that should be resolved. Some or all of the outstanding checks may be required to be remitted to New York State under the unclaimed funds law. *You should review all older reconciling items on your bank reconciliation to determine if corrections need to be made, if checks should be re-issued to the payees, or amounts should be remitted to New York State.*

Policies and Documentation:

- We encourage you to put policies in place with respect to the following:
  - ✓ IT security procedures
  - ✓ General accounting procedures
  - ✓ Disaster recovery plans – we understand that this was started, and not completed

### Information Technology:

- You should test QuickBooks backups on a periodic basis to make sure that if you need to restore a file, the process will work. You should have a schedule for regularly verifying backups.

### Current Recommendation

A new recommendation this year includes:

- A knowledgeable person, other than the bookkeeper, should review the monthly journal entries and associated documentation to be sure that it is proper. Any questionable entries should be investigated. *This is an inherently risky area since incorrect activity could be posted and it might not be identified.*

### Required Communications

<b>Accounting Policies, Estimates and Disclosures</b>	<i>Appropriate for your circumstances; New credit losses standard was adopted in 2023 (no impact to the organization)</i>
<b>Necessary Accounting Adjustments</b>	<i>All were recorded</i>
<b>Internal Controls</b>	<i>Deficiencies identified – refer to recommendations</i>
<b>Disagreements with Management - about access to information, conclusions, amounts or disclosures</b>	<i>There were none</i>
<b>Fraud or Illegal Acts</b>	<i>We did not observe any</i>
<b>Unusual Transactions or Adjustments</b>	<i>We did not observe any</i>
<b>Management Representations</b>	<i>We will request certain representations from management prior to issuance of final reports</i>

## Important Financial Results/Trends

Major items that impacted your financial results this year include:

- Due to the market conditions in 2023, the trust had net gains totaling \$82,000. Contributions of \$6,275 from the trust are included in contributions receivables at year-end. This was received in January 2024.
- Overall salaries and benefits increased \$22,000. There were raises for all employees during 2023 as well as some mid-year adjustments based on job duties.

Key financial results as of and for the year ended December 31, 2023 include:

<b>Total Assets</b>	\$ 1,244,421	<i>\$438,605 is cash and cash equivalents; \$799,541 represents your interest in the perpetual trust</i>
<b>Total Liabilities</b>	\$ 39,592	<i>Account payables and accrued expenses, accrued payroll and vacation</i>
<b>Net Assets</b>	\$ 1,204,829	<i>\$823,552 is restricted by donors; \$21,554 is board designated</i>
<b>Total Support and Revenue</b>	\$ 682,610	<i>Up from \$658,272 last year</i>
<b>Total Expenses</b>	\$ 684,046	<i>Up from \$612,292 last year</i>
<b>Change in Net Assets</b>	\$ 80,954	<i>After net increases of \$82,390 from the perpetual trust</i>
<b>Cash from Operations</b>	\$ 4,584	<i>Investment gains do not produce cash</i>

## Benchmarks

Nonprofit leadership organizations like *BBB Wise Giving Alliance*, *GuideStar*, and *Charity Navigator* say, rather than focus on your percentage of program or general and administrative, your focus should be on transparency, governance, leadership, and results. They recommend the following best practices.

- ✓ Demonstrate ethical practice and share data about your performance - Why should donors trust you?
- ✓ Manage towards results and understand your true costs - understand the costs of achieving your mission.
- ✓ Help educate funders on the real cost of results - do not contribute to the "overhead myth".

Further, the *National Council on Nonprofits* says:

“Your nonprofit’s mission matters. And it costs something to deliver it! Enlightened donors and grantmakers recognize that administrative costs are essential in order for charitable nonprofits to be financially sustainable, but for too long, “overhead” has gotten a bad rap and been inappropriately used as a measure of a nonprofit’s effectiveness. The assumption that overhead is “bad” reflects a mis-appreciation of the reality of what it costs to deliver a nonprofit’s mission.”

Your results as of December 31, 2023 and 2022:

	<i>Results</i>		<i>General benchmarks &amp; industry averages</i>
	<i>Current</i>	<i>Prior</i>	
<b>Program Expenses/Total Expenses</b>	80.6%	79.3%	<i>At least 65-75%; Industry 82%*</i>
<b>Management &amp; General/Total Expenses</b>	19.4%	20.7%	<i>25% or less; Industry 18%*</i>
<b>Current Ratio (Current Assets/Current Liabilities)</b>	11 to 1	16 to 1	<i>At least 1 to 1</i>
<b>Salaries and Benefits As a % of Total Expenses</b>	75.0%	75.3%	<i>Within historical</i>
<b>Payroll Overhead As a % of Salaries</b>	18.3%	18.1%	<i>Within historical</i>

\* The industry used is “*Libraries*”.

### **Other Financial Statement Highlights**

The footnotes to your financial statements include some very useful information. They facilitate your understanding of the statements and of the organization itself. Here are some of the highlights:

- There is a new adoption disclosure this year as a result of one recent accounting pronouncement.
  - *The standard on credit losses (allowances for bad debts) replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss. See note 1.*
- Cash and cash equivalents are summarized in note 1. At year-end, almost \$260,000 was held in savings accounts and \$178,000 in checking accounts.



- Net assets with donor restrictions are summarized in note 5. \$24,011 was restricted for genealogy. The trust (\$799,500) is to be held in perpetuity with the income benefiting operations of the library.
- Details about your interest in the perpetual trust are disclosed in note 6. The balance at year-end was approximately \$799,500. Over 75% consisted of equity investments.
- Your board-designated net assets are disclosed in note 7. Funds are designated for your technology fund and building fund.
- Note 8 shows that the town funding equates to about 90% of the organization's total revenue. While this funding should stay steady, it would also be detrimental to the organization if there was a large loss of funding from the town.

### **On the Horizon for Nonprofits**

#### **Upcoming Accounting/Auditing Standards:**

- No applicable new accounting/auditing standards for 2024

### **Contact Information**

Partner and senior staff involved with the audit included:

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Please contact us if you have questions or need additional information.

## Resources for Nonprofits

We have developed and uncovered numerous resources for nonprofits. If you have a question about a nonprofit matter, always contact us.

Examples of some resources we have developed and others we have discovered are below.

### Heveron & Company CPA developed articles:

- ✓ Procedures for monitoring your policies and controls
- ✓ Guidance for nonprofit startups
- ✓ Internal control basics for nonprofits
- ✓ Purchasing policies
- ✓ Sub-recipient monitoring
- ✓ Charitable gaming
- ✓ Accounting policies manual
- ✓ Records retention guidelines

### Useful Links for Nonprofits

- ✓ [www.nfpnet.org](http://www.nfpnet.org) - *Our nonprofit website with related newsletters and links for nonprofits*
- ✓ [www.irs.gov/pub/irs-pdf/p1771.pdf](http://www.irs.gov/pub/irs-pdf/p1771.pdf) - *Language for acknowledging contributions*
- ✓ [www.techsoup.org](http://www.techsoup.org) - *Technology guidance and free/reduced cost software for nonprofits*
- ✓ [www.nonprofitaccountingbasics.org](http://www.nonprofitaccountingbasics.org) - *Guidance about accounting for nonprofits*
- ✓ [www.Causewave.org](http://www.Causewave.org) - *Causewave Community Partners - help with improving your image, messaging and marketing*
- ✓ [www.afpgv.org](http://www.afpgv.org) - *Association of Fundraising Professionals of the Genesee Valley - an association of fundraising professionals with resources like fundraising training*
- ✓ [www.boardsource.org](http://www.boardsource.org) - *Sample policies for download and other board resources*
- ✓ [www.independentsector.org](http://www.independentsector.org) - *Tracks and advocates for legislation benefiting the nonprofit sector*
- ✓ [www.blueavocado.org/category/topic/board-cafe](http://www.blueavocado.org/category/topic/board-cafe) - *Short articles on numerous topics for board members*
- ✓ [www.nonprofitmailers.org](http://www.nonprofitmailers.org) - *Guidelines for reduced rate charitable mailings*

- ✓ <https://www.sjf.edu/centers/center-for-nonprofit-leadership/> - *St. John Fisher University's Center for Nonprofit Leadership – Board leadership seminars, nonprofit workshops.*
- ✓ [www.candid.org](http://www.candid.org) – *A collaboration between Foundation Center and GuideStar that mission is to “get you the information you need to do good”*
- ✓ [www.nonprofitrisk.org](http://www.nonprofitrisk.org) - *Publications and tools to manage risk from the Nonprofit Risk Management Center*
- ✓ [https://www.coso.org/\\_files/ugd/3059fc\\_1df7d5dd38074006bce8fdf621a942cf.pdf](https://www.coso.org/_files/ugd/3059fc_1df7d5dd38074006bce8fdf621a942cf.pdf)- *A summary of COSO’s internal control framework*
- ✓ <https://future.aicpa.org/topic/not-for-profit> - *Resources related to financial reporting, assurance, tax compliance, and governance topics*

The American Institute of CPAs recommends that you monitor use of your name and your reputation. Start with an online search of your organization's name and look at the top 10 to 25 items. Investigate any that seem inappropriate. Also, look at how you are presented by third-party websites like the Better Business Bureau Wise Giving Alliance and GuideStar.