

Preparing for the Audit

What you need and why

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Why is an annual audit necessary

- ▶ As a recognized not-for-profit, the Internal Revenue Service requires an annual audit to maintain your tax-exempt status;
- ▶ The bylaws of the association, in compliance with both state and national affiliation, require an annual audit;
- ▶ The annual audit provides the necessary information for the members of the association to determine that the funds of the association are being handled in a business-like manner, according to the adopted procedures of the PTA.
- ▶ The PTA may choose to use an outside auditor who is knowledgeable about state and federal requirements. Should your PTA make this choice, be sure to account for it in the PTA budget.

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When is the annual audit conducted

- ▶ The annual audit should be conducted after the close of the current fiscal year, or when there is a change in signatory on the PTA accounts.
- ▶ The annual audit should be conducted upon receipt and reconciliation of the final bank statement of the fiscal year.
- ▶ The annual audit is conducted by a committee, as prescribed in the bylaws, or by an outside professional should the PTA elect to do so.
- ▶ During the period of the audit, funds may be deposited into the PTA account but no funds may be disbursed.
- ▶ The audit committee should be created in accordance with the bylaws of the PTA, and elect its own chairman.

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What do you need to complete the Audit?

- ▶ The prior fiscal year adopted audit report;
- ▶ The current fiscal year adopted budget;
- ▶ The monthly treasurer's reports;
- ▶ The current fiscal year ledger;
- ▶ The current fiscal year check register;
- ▶ The current fiscal year bank statements; and
- ▶ An annual financial report.

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Prior Fiscal Year Audit Report

- ▶ This report provides:
 - ▶ The actual ending balance of the PTA account;
 - ▶ Any outstanding checks from the prior fiscal year;
 - ▶ Any deposits in transit from the prior fiscal year; and
 - ▶ The certification of committee's findings.

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SAMPLE OF AN ADOPTED AUDIT REPORT

ANYTOWN PTA AUDIT REPORT	
7/01/19 THROUGH 6/30/20	
Opening Balance, per audit report of 6/30/2019	\$ 6,099.91
Adjustment, old check #892	22.02
Adjusted Opening Balance 7/01/19	\$ 6,114.91
Receipts, July 1, 2019 through June 30, 2020	\$ 7,772.13
Expenditures, July 1, 2019 through June 30, 2020	<u>\$ 8,304.55</u>
BALANCE AS OF JUNE 30, 2020	<u>\$ 5,582.49</u>
Bank Reconciliation	\$ 6,480.15
Outstanding Checks:	
#857 \$ 167.00	
#858 \$ 30.66	207.66
Balance as of 6/30/20	<u>\$ 5,582.49</u>

We have audited the financial records of the Anytown PTA and find them to be:

Correct
 Substantially correct, with the following adjustments
 Incorrect, as reported
 Incomplete

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Adopted budget for the current fiscal year

- ▶ The adopted budget, including any amendments, provides:
 - ▶ Anticipated income by activity, category, event
 - ▶ Anticipated disbursements by activity, category, event
 - ▶ Identifies line items within the budget, which allows the audit committee to determine if income and disbursements have been allocated to the appropriate line items

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SAMPLE OF AN ADOPTED BUDGET

Income		Notes
Opening Balance, per audit		5,582.49
Projected Income		
Donations	100	
Family Fun Nights	500	
Membership	225	825 150 @ 1.50 Local unit portion only
Total Projected Income		6,407.49
Projected Expenditures		
Administrative		
Bank Fees	50	
Insurance	450	
Filing Fees	100	
Supplies	200	
	800	
Cooperating Expenditures		
Illinois PTA	200	Virtual Convention
N W Cook Region	100	Miscellaneous virtual annual mtg
STC	200	Dues/Miscellaneous

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The monthly treasurer's reports

- ▶ These reports provide:
 - ▶ The actual income and disbursements for each calendar month of the fiscal year;
 - ▶ The budgeted line items to which income and disbursements are attributed;
 - ▶ The reports are based on a calendar month;
 - ▶ The reports align with the reconciled monthly bank statements;
 - ▶ The reports require no action at the meeting when presented, as in total they are adopted/approved as a result of the audit report.

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The Check Register

- ▶ The check register is still used by some PTAs who still maintain a physical checkbook.
 - ▶ The check register is a date order, numerical listing of income and disbursements;
 - ▶ The check register is a quick, easy way to track deposits and disbursements;
 - ▶ The check register may also include budgeted line items;
 - ▶ The check register provides dates deposits were made; and
 - ▶ The check register provides check numbers, dates written, and payee for all checks written.

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The Bank Statements

- ▶ The bank statements for the current fiscal year provide:
 - ▶ The financial information for the twelve month current fiscal year;
 - ▶ Information of account fees, which might include maintenance fees, returned check fees, new checks, electronic banking fees etc;
 - ▶ Information on funds deposited, which should be checked to agree with ledger and/or check register;
 - ▶ Information on disbursements, which should be checked to agree with ledger and/or check register;
 - ▶ Reconciliation of information on monthly deposits in transit and outstanding checks.

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The Annual Report

- ▶ The annual report is a compilation of all the line items of the adopted budget which shows:
 - ▶ Each line item's income, disbursements and net profit or loss;
 - ▶ Information necessary for the included schedules, if the PTA is required to file either a 990EZ or 990 with the Internal Revenue Service;
 - ▶ Information on the actual gross receipts of the PTA--which do not include the following items: state and national portion of dues; redeposits of the PTA's funds used for cash banks at events, and redeposits of funds from returned checks.

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Sample of an Annual Report

LINE ITEM	INCOME	EXPENDITURES	NET
Donations	75		75
Family Fun Nights	222		222
Interest Income	0.6		0.6
Membership	375	-265.5	109.5
Bank Fees		-3	
Insurance		-430	
Filing Fees		-10	
N W Cook Region		-25	
STC		-175	
Student Folders		-654	
Literacy Project		-75	
Recognition		-25	
Staff Appreciation		-1,201.45	
Opening Balance			-2568.45
			5,582.49
Ending Balance			3,421.14

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- ### Findings of the Audit Committee
- ▶ The purpose of the audit is to certify the accuracy of the financial records of the PTA for the fiscal year.
 - ▶ The report of the committee is presented to the General Membership of the PTA, not just the executive committee or board.
 - ▶ The report of the committee provides the general membership with assurance that the funds of the PTA are being raised and disbursed in accordance with a budget that they have adopted.
 - ▶ The report of the committee provides the general membership with a sound foundation for the next fiscal year's activities.

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Sample Audit Report Form

Income PTA
Audit Report July 1, 2020 to June 30, 2021

▶ Opening Balance, per 6/30/2020 adopted audit report	\$ 5,582.49
▶ Income July 1, 2020 through June 30, 2021	\$ 672.60 (*)
▶ Expenditures July 1, 2020 through June 30, 2021	\$2,833.95 (-)
▶ Ending Cash Balance June 30, 2021	\$3,421.14 (A)

▶ Bank Reconciliation 6/30/21	
▶ Bank Balance	\$ 3,551.14
▶ Outstanding Checks	(129.00)
▶ Ending Balance	\$ 3,421.14 (A)

We have examined the financial records of the Aptoswa PTA, and find them to be:

Correct

Substantially correct, with the following adjustments

Incorrect

Incomplete

▶ (Add signatures of the committee members)

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Reporting the findings of the Audit Committee

- ▶ The report certifies that the financial records are:
 - ▶ Correct: all items are completely in balance;
 - ▶ Substantially Correct: there are some adjustments to be made such as incorrect recording of check amount, bank cashes a check for a different amount than written; (often these are transpositions);
 - ▶ Incomplete: lack of information makes it impossible to complete an audit which could include missing statements, receipts, deposit or expense vouchers; or
 - ▶ Incorrect: cannot certify actual income and disbursements, reports are not in alignment, or cannot determine if funds are missing.*

*This could be the result of inaccurate record keeping, failure to properly document income or disbursements, not paying for all PTA expenditures with a PTA check. It is not to be assumed that funds are missing. If, however, it is determined that funds are missing it should be reported to local authorities for further investigation.

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What happens to the Audit Report

- ▶ The audit report is signed by all members of the audit committee;
- ▶ The audit report is presented to the executive board as a courtesy;
- ▶ The audit report is presented as the first order of business at the first general membership meeting of the year for adoption.
- ▶ The ending balance as certified in the audit report is the opening balance for the next fiscal year as it includes all activities that have taken place in the current fiscal year.

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