



This article presents general guidelines for Georgia nonprofit organizations as of 8/12/2010 and should not be construed as legal advice. Always consult an attorney to address your particular situation.

AUDIT REQUIREMENTS FOR NONPROFIT ORGANIZATIONS

Does your organization need an audit or review? Georgia law, federal grants, and private sources of funding require certain nonprofit organizations to be audited. However, audits are expensive and not always necessary. This article explains what an audit is, the alternatives to an audit, and which organizations may be required to have an audit.

Definitions

An **audit** is an independent review of an organization's operations and financial activities. During the audit, a certified public accountant (CPA) external to the organization makes inquiries to the management and staff and conducts analytical and test procedures. The CPA uses these procedures to evaluate the organization's internal controls and financial records. Upon successful completion of an audit, the CPA issues an independent, professional opinion and certifies the financial statements. An audit opinion is the highest level of assurance a CPA can provide regarding the fairness and accuracy of the financial statements. However, such an opinion does not guarantee that the financial statements are free of any and all mistakes. Rather, the CPA is certifying that the financial statements are free from errors significant enough to mislead interested parties. Unfortunately, audits are expensive and can cost \$10,000 or more.

A **review** is less comprehensive than an audit and generally costs about half as much. During a review, a CPA makes inquiries of the organization's management and staff and performs limited document review and analytical procedures. The CPA does not perform testing or issue an audit opinion. Instead, if appropriate, the CPA attests that he or she is not aware of any material modifications necessary for the financial statements to be in accordance with professional accounting standards. This attestation provides a lower level of assurance of the accuracy and completeness of the financial statements than an audit opinion.

A **compilation** is even more limited and less expensive than a review. It is the lowest level of service a CPA provides regarding financial statements. During a compilation, an independent CPA creates the organization's financial statements from information provided by the organization's management. The CPA may assist the organization with other accounting services such as creating the general ledger and assisting with adjusting entries. The CPA is required to read over the statements to look for any obvious material errors. However, the CPA is not obligated to perform any procedures to verify the information and therefore provides no assurance regarding the reliability of the financial statements. A compilation is typically appropriate for small, private organizations because an external reader would only place minimal reliance on the financial statements.

Audit Requirements

Federal and state regulations as well as private funders require certain nonprofits to have an audit or a review. If your organization spends \$500,000 or more in federal grant money in a

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fiscal year, the Office of Management and Budget (OMB) requires your organization to have an audit.

Even if your organization does not receive federal grant money, state law may require your organization to have an audit. The Georgia Charitable Solicitations Act requires organizations soliciting donations from the public to submit certain financial statements along with the Form 990 depending on the amount of charitable contributions the organization received in charitable contributions in either of the last two fiscal years, as follows:

- **\$1 million or more:** financial statements must be audited and certified by an independent CPA.
- **Less than \$1 million and greater than \$500,000:** financial statements must be reviewed by an independent CPA.
- **Less than \$500,000:** financial statements do not have to be reviewed or audited and can be prepared internally.

For more information regarding Georgia requirements, please see our article, Charitable Registration in Georgia:

http://www.pbpatl.org/index.php?option=com_content&view=article&id=149&Itemid=75

Your organization may need to consider additional state laws if it solicits charitable contributions in other states. There are currently 25 states that require organizations with certain levels of annual revenue to submit audited financial statements if the organization solicits funds within those states, regardless of where the organization is located. These states vary for the revenue levels at which they require an audit. For example, if your organization received more than \$500,000 in revenue (excluding government grants and donations from other 501(c)(3) organizations), you would have to submit audited financial statements to apply for charitable registration in Tennessee. For more information on specific state requirements, please see our Charitable Solicitations Webinar:

http://www.pbpatl.org/index.php?option=com_content&view=article&id=96&Itemid=75

Your organization may still need to have an audit even if it is not required to by law. Certain private sources of funding require audits as well. For example, the Robert W. Woodruff Foundation requires organizations to submit audited financial statements to apply for grant money. Therefore, before you decide not to have an audit, find out if any of your current or potential sources of funding require it.

Finally, besides being just a requirement, an audit or a review can provide benefits to your organization, such as increased donor and community confidence. These services can also provide protection against fraud or material mistakes within the financial records.

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