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Tax-exempt status for nonprofit organizations allows them to devote their resources to pursuing their missions. To maintain that status, however, nonprofits must demonstrate that they are following various tax regulations and accounting rules. Failure to maintain accurate books could also result in lost eligibility for grants or other benefits. It could even result in an IRS audit. A financial review by an independent accounting or other financial professional can provide varying degrees of assurance that a nonprofit is following generally accepted accounting principles (GAAP) and keeping accurate records that are free from errors or fraud. This article describes several levels of financial review and provides tips for when nonprofits might need each type of review.

What Are Financial Reviews?

The term "financial review" can refer to several types of reviews. These are not official investigations, such as when the IRS audits a nonprofit organization. An independent financial professional like a certified public accountant (CPA) performs the review at the nonprofit's request. They might be known as an "auditor" even if they are not conducting a full audit. Three common types of financial reviews are compilations, reviews and audits.

What Is a Compilation?

A compilation is the least formal type of review. The auditor's role is limited to compiling the organization's financial statements into a GAAP-compliant format. There are no verifications or assurances that the information contained in the financial statements is accurate. The auditor does not offer any opinions about the reasonableness of the information. Their only certification is that the financial statements meet GAAP format requirements.

What Is a Review?

A review is much more in-depth than a compilation, but not as extensive as an audit. The auditor examines the organization's financial statements and offers limited assurance about their reasonableness and accuracy. An auditor conducting a review does not necessarily have to independently verify the organization's financial information, although they will often involve an organization's management in the process. The auditor's assurance essentially states that the financial documents are free of obvious errors and material misstatements.

What Is an Audit?

An audit is the most comprehensive form of financial review. An auditor will conduct a careful review of an organization's financial statements and its internal control mechanisms. They will independently verify the accuracy of the information in the financial statements. Their final report will provide assurance that the financial statements fairly and accurately represent the organization.

When Does a Nonprofit Need a Financial Review?

Some form of financial review is advisable for most nonprofit organizations at least once a year. The scope of the review, ranging from a compilation to an audit, will depend on factors like the size of the organization, the complexity of its operations and the expectations of its stakeholders. Since nonprofits bear the expense of a financial review, cost will also be a consideration.

When Does a Nonprofit Need a Compilation?

A compilation is the simplest type of financial review described here. As a result, it also tends to be the least expensive. It can be a useful tool for nonprofits that want to review their compliance with GAAP and other standards on a periodic basis. It can also provide a helpful financial snapshot of the organization for a bank, donor or other interested party.

When Does a Nonprofit Need a Review?

A review is useful when organizations need to confirm or demonstrate that their books are in order. Nonprofits may want to do this periodically as a way to check up on their financial condition, not unlike an annual physical with one's doctor. The larger or more complex the organization, the more important it can be to conduct this kind of review.

An organization might need to conduct a review as a condition of receiving a grant. It might be necessary to comply with local or state government regulations. It can also help to assuage concerns from donors, regulatory agencies or the public in various situations.

When Does a Nonprofit Need an Audit?

Since an audit is the most extensive type of financial review, it also has the highest cost. This probably makes it the rarest of the three types discussed here. A nonprofit might need to conduct an audit to obtain funding from some sources. Many banks and foundations will accept a review, but some require full audit reports. An organization might choose to conduct an audit in the spirit of transparency. They may also do it to improve their ratings from charity watchdog groups.

Learn More About Financial Reviews for Nonprofits

Nonprofit organizations must keep detailed records of their activities to preserve their tax-exempt status and meet other requirements. Financial reviews can help them maintain organized records, comply with the law and provide transparency for donors. This can be a cumbersome process, but nonprofit organizations do not have to shoulder the burden on their own. An experienced financial professional can ease nonprofits through financial reviews and leave them free to focus on their missions.

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If you have any questions or would like additional information, please contact [NAME] in our [DEPARTMENT] at [NUMBER] or [EMAIL].

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