

SAMPLE AUDITOR'S OPINION LETTER

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
XYZ Organization
Washington, D.C.

We have audited the accompanying statement of financial position of XYZ Organization as of December 31, 20XX, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of XYZ Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Organization as of December 31, 20XX, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



March 8, 20XX

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Companies Practice Section

**XYZ ORGANIZATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 20XX**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,789,563
Accounts receivable	52,885
Grants receivable	300,000
Prepaid expenses	60,065
Inventory	<u>96,969</u>
Total current assets	<u>2,299,482</u>

INVESTMENTS (Note 3)	<u>86,710</u>
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PROPERTY AND EQUIPMENT

Property and equipment, net of accumulated depreciation and amortization of \$434,289 (Note 2)	<u>99,604</u>
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LONG-TERM ASSETS

Grants receivable	300,000
Deposits	<u>9,391</u>
Total long-term assets	<u>309,391</u>

TOTAL ASSETS	<u><u>\$2,795,187</u></u>
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See accompanying notes to financial statements

(cont.)

**XYZ ORGANIZATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 20XX**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Gift annuity liability	\$ 8,306
Accounts payable and accrued expenses	<u>433,628</u>
Total current liabilities	<u>441,934</u>

LONG-TERM LIABILITIES

Gift annuity liability, net of current portion	<u>20,191</u>
Total liabilities	<u>462,125</u>

NET ASSETS

Unrestricted:	
Undesignated	523,821
Board designated	<u>1,100,000</u>
Total unrestricted	<u>1,623,821</u>
Temporarily restricted (Note 5)	708,241
Permanently restricted	1,000
Total net assets	<u>2,333,062</u>

TOTAL LIABILITIES AND NET ASSETS \$2,795,187

See accompanying notes to financial statements

XYZ ORGANIZATION
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 20XX

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Contributions	\$2,616,423	\$-	\$-	\$2,616,423
Membership	1,306,065	-	-	1,306,065
Grants	186,593	1,230,050	-	1,416,643
Other income	96,156	-	-	96,156
Investment income	51,548	-	-	51,548
Net assets released from restrictions — satisfaction of donor restrictions (Note 6)	888,371	(888,371)	-	-
				
Total revenue and other support	<u>5,145,156</u>	<u>341,679</u>	<u>-</u>	<u>5,486,835</u>
EXPENSES				
Program services:				
Program A	1,506,917	-	-	1,506,917
Program B	869,511	-	-	869,511
Program C	533,352	-	-	533,352
Program D	706,509	-	-	706,509
Program E	566,249	-	-	566,249
Total program services	<u>4,182,538</u>	<u>-</u>	<u>-</u>	<u>4,182,538</u>
Supporting services:				
General and Administrative	520,267	-	-	520,267
Fundraising	389,546	-	-	389,546
Total supporting services	<u>909,813</u>	<u>-</u>	<u>-</u>	<u>909,813</u>
Total expenses	<u>5,092,351</u>	<u>-</u>	<u>-</u>	<u>5,092,351</u>
Change in net assets	52,805	341,679	-	394,484
Net assets, beginning of year	<u>1,571,016</u>	<u>366,562</u>	<u>1,000</u>	<u>1,938,578</u>
NET ASSETS, END OF YEAR	<u>\$1,623,821</u>	<u>\$708,241</u>	<u>\$1,000</u>	<u>\$2,333,062</u>

See accompanying notes to financial statements

**XYZ ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 20XX**

	Program Services					Supporting Services			Total	
	Program A	Program B	Program C	Program D	Program E	Total Program Services	Fundraising	General and Administrative		
Salary and benefits	\$ 459,997	\$ 318,262	\$ 219,184	\$ 380,462	\$ 170,428	\$ 1,548,333	\$ 131,946	\$ 267,415	\$ 399,361	\$ 1,947,694
Occupancy	88,218	47,480	27,859	49,718	18,577	231,852	17,197	123,775	140,972	372,824
Printing	226,935	90,928	51,516	91,209	75,182	535,770	42,864	515	43,379	579,149
Postage	158,734	45,804	29,461	44,640	52,391	331,030	20,353	4,435	24,788	355,818
Telephone	30,286	4,680	3,951	15,026	28,484	82,427	6,084	9,352	15,436	97,863
Mechanical services	240,699	10,528	28,274	55,840	139,740	475,081	50,319	30,146	80,465	555,546
Professional services	241,310	31,746	36,302	26,181	59,833	395,372	79,624	144,824	224,448	619,820
Supplies and miscellaneous	35,827	18,706	50,514	12,083	10,460	127,590	2,143	4,839	6,982	134,572
Travel and representation	24,911	76,752	38,583	31,350	11,154	182,750	39,016	6,239	45,255	228,005
Chapter grants and rebates	-	-	6,660	-	6,660	-	-	-	-	6,660
Indirect costs	-	30,225	41,048	-	-	71,273	-	(71,273)	(71,273)	-
Subtotal	1,506,917	675,111	533,352	706,509	566,249	3,988,138	389,546	520,267	909,813	4,897,951
In-kind contributions	-	194,400	-	-	-	194,400	-	-	-	194,400
Total expenses	\$1,506,917	\$869,511	\$533,352	\$706,509	\$566,249	\$4,182,538	\$389,546	\$520,267	\$909,813	\$5,092,351

See accompanying notes to financial statements

**XYZ ORGANIZATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 20XX**

Cash Flows from Operating Activities

Change in net assets	\$ 394,484
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	72,723
Unrealized loss on investments	16,369
Donated investments	(9,592)
(Increase)/decrease in:	
Accounts receivable	(15,661)
Grants receivable	(500,000)
Prepaid expenses	12,503
Inventory	(55,689)
Increase/(decrease) in:	
Accounts payable and accrued expenses	(102,053)
Deferred membership dues	<u>(83,032)</u>
Net cash used by operating activities	<u>(269,948)</u>

Cash Flows from Investing Activities

Purchases of investments	(9,845)
Proceeds on sales of investments	19,713
Purchases of property and equipment	<u>(18,555)</u>
Net cash used by investing activities	<u>(8,687)</u>

Cash Flows from Financing Activities

Payments on annuity obligations	<u>(7,835)</u>
Net cash used by financing activities	<u>(7,835)</u>

Net decrease in cash and cash equivalents (286,470)



Cash and cash equivalents, beginning of year 2,076,033

Cash and cash equivalents, end of year \$1,789,563

See accompanying notes to financial statements

**XYZ ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
GENERAL INFORMATION**

Organization –

XYZ Organization is a not-for-profit corporation engaged in promoting the social welfare by educating opinion leaders and the general public about population and growth issues, as well as promoting adoption of public policies which will bring human population and activities into balance with Earth's environmental and natural resource base.

The financial statements include the activities of the national office and the affiliated chapters. At December 31, 20XX, there were thirteen active chapters.

The following program and supporting services are included in the accompanying financial statements:

Program A —

Description.

Program B —

Description.

Program C —

Description.

Program D —

Description.

Program E —

Description

General and Administrative —

This supporting service category includes the functions necessary to secure proper administrative functioning of XYZ Organization's governing board, maintain an adequate working environment, and manage financial responsibilities of XYZ Organization.

Fundraising —

This supporting service category includes expenditures which provide the structure necessary to encourage and secure private financial support.

Basis of presentation —

The financial statements are prepared on the accrual basis of accounting and in accordance with Statements of Financial Accounting Standard No. 117, "Financial Statements of Not-for-Profit Organizations."

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**XYZ ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
GENERAL INFORMATION (Continued)**

Cash and cash equivalents —

Cash and cash equivalents include operating cash accounts and highly liquid, short-term instruments with original maturities of three months or less.

Pledges/grants receivable —

Pledges, which include unconditional promises to give, are recognized as revenues in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realized value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contributions revenue in the accompanying Statement of Activities and Change in Net Assets. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year-end.

Inventory —

Inventory consists of books, videos, t-shirts, and various other items. Inventory is stated at the lower of cost or market and is valued using the first-in, first-out method of inventory valuation.

Property and equipment —

Property and equipment are recorded at cost or, if donated, such assets are capitalized at the estimated fair value at the date of receipt. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, ranging from three to five years, or, for leasehold improvements, the lesser of the life of the lease or the service life of the improvements. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation or amortization are removed from the accounts and any remaining gain or loss is included in operations. Repairs and maintenance are expensed when incurred.

Investments —

Investments consist of mutual funds and are carried at fair market value. Realized and unrealized gains and losses are included in investment income in the accompanying Statement of Activities and Change in Net Assets. The investments represent the amounts received under the gift annuities.

Gift annuity liability —

XYZ Organization entered into charitable Gift Annuity Agreements in which the donor receives payment for a specified period of time with any remainder at the end of the period reverting to XYZ Organization. The liability is determined based on actuarial assumptions and is included in the liability section of the accompanying financial statements. The amount of the contribution recorded by XYZ Organization is the fair value of the assets less the present value of the estimated annuity payments.

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**XYZ ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
GENERAL INFORMATION (Continued)**

Net asset classification —

The net assets are reported in three self-balancing groups as follows:

Unrestricted net assets include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organization and include both internally designated and undesignated resources.

Temporarily restricted net assets include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Permanently restricted net assets represent funds restricted by the donor to be maintained in-perpetuity by the Organization.

Functional allocation of expenses —

The costs of various programs and supporting activities have been summarized on a functional basis in the Statements of Activities and Change in Net Assets. Accordingly, certain indirect costs have been allocated among the programs and supporting services benefited.

Donated service —

XYZ Organization recognizes revenue and expenses from donated services received for Program B. The amounts reported are based on the estimated fair value of professional services rendered. The amount of donated services recorded as contributions and expense was \$194,400 for the year ended December 31, 20XX.

Contributions and grants —

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates —

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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**XYZ ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
GENERAL INFORMATION (Continued)**

Income taxes —

XYZ Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and has been determined by the Internal Revenue Service not to be a private foundation. XYZ Organization is required to report unrelated business income to the Internal Revenue Service and the District of Columbia taxing authorities. There was no liability for unrelated business income tax as of December 31, 20XX.

Concentration of credit risk —

 At times during the year, XYZ Organization maintains cash balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes the risk in these situations to be minimal.

2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 20XX consisted of the following:

Furniture and equipment	\$ 386,937
Software	111,404
Leasehold improvements	<u>35,552</u>
	533,893
Less: Accumulated depreciation and amortization	<u>(434,289)</u>
	<u>\$ 99,604</u>

3. INVESTMENTS

Investments at December 31, 20XX were comprised of the following:

Mutual Funds	<u>\$ 86,710</u>
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4. COMMITMENTS

Leases —

XYZ Organization leases office space under a non-cancelable operating lease agreement expiring in 2006. Monthly rental payments are subject to increases throughout the term of the agreement for operating expenses and costs and Consumer Price Index escalation for 2002, and by a fixed three percent over the previous year's annual base rental effective January 1, 2003 and each January 1 thereafter. For the year ended December 31, 20XX, rent expense totaled \$284,161.

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**XYZ ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX**

4. COMMITMENTS (Continued)

Leases (continued) —

Minimum future rental payments required under the above lease for the year ended December 31, 20XX are as follows:

<u>Year Ended December 31</u>	
2002	\$ 354,712
2003	365,354
2004	376,314
2005	387,604
2006	<u>133,077</u>
	<u>\$1,617,061</u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 20XX consisted of the following:

Program A	\$ 13,241
Program C	90,000
Program D	5,000
General Support — Time Restricted	<u>600,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 708,241</u>

6. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released included donations which were released from donor imposed restrictions by incurring expenses which satisfied the restricted purposes specified by the donors. At December 31, 20XX, net assets released from restrictions consisted of the following:

Program A	\$ 136,759
Program B	205,000
Program C	242,242
General Support — Time Restricted	<u>304,370</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 888,371</u>

7. DEFINED CONTRIBUTION PLAN

Effective January 30, 1999, XYZ Organization established a 401(k) retirement plan for all employees, which was implemented in August 1999. XYZ Organization will contribute 2.5% on the first 5% of salary earned. There is a three-year graduated vesting schedule for employer contributions to the plan. XYZ Organization contributed \$128,816 to the plan during the year ended December 31, 20XX.

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**XYZ ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX**

8. JOINT COST ACTIVITIES

For the year ended December 31, 20XX, XYZ Organization incurred joint costs of \$698,515 for informational materials and activities that included direct mail fundraising appeals which were allocated as follows:

Program A	\$ 492,300
Program D	206,215
Fundraising	<u>123,267</u>
	<u>\$ 821,782</u>

9. LINE OF CREDIT

 During fiscal year December 31, 20XX, XYZ Organization had available a \$100,000 revolving line of credit with a local bank, interest at prime plus 1% (prime rate at December 31, 20XX was 4.75%). There were no borrowings on this line of credit at December 31, 20XX.

10. UNRESTRICTED NET ASSETS

Unrestricted net assets consist of undesignated and designated net assets. Undesignated net assets are funds which are currently available to support XYZ Organization's daily operations. Designated net assets consist of unrestricted funds designated by the Board of Directors. The Board of Directors designated \$1,100,000 for 20XX as an operating reserve threshold to be utilized for operating expenditures approved by the Executive Committee.

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of XYZ Organization. The restrictions stipulate that resources be maintained permanently but permits XYZ Organization to expend the income generated in accordance with the provisions of the agreement. The permanently restricted net assets represent the ABC Fund established in 1988. The income earned on the investment of the original contributions is to be used to provide an annual award for the member who has made outstanding contributions in the field of XX.