Question: *Am I required to have a professional, expensive, annual audit as a non-profit?*

Answer: (posted January 24, 2020) Marcy Dwyer, MBA, CAE, CMP

*The answer depends on your state law; your bylaws and articles of incorporation; if any funds are received from the federal government; and if you are receiving any funds from grants or foundations.*

The National Council for Non-Profits website provides relevant information on this topic. They cover:

- What is an independent audit?
- What is a review or compilation?
- Does your non-profit need to have an independent audit?
- State law non-profit audit requirements.
- Federal law audit requirements.
- Why a non-profit might conduct an audit even when the law doesn't require it.
- Myths: Audits uncover fraud.
- FAQs

https://www.councilofnonprofits.org/nonprofit-audit-guide/need-independent-audit

There are two cheaper alternatives to a full-blown independent audit. The first is called a **review**, which is like a mini audit. A CPA examines your financial records, but much less thoroughly than in a full-blown audit. Unlike an audit, the CPA does not express an opinion as to whether your financial statements are in accordance with GAAP (**General Accepted Accounting Principles**). Instead, the accountant merely states whether he or she is aware of any material modifications that should be made to the financial statements for them to be in conformity with GAAP. A review costs about half as much as an audit. Many contributors will accept a review instead of an audit, but a review is not an audit and it may not be referred to as such.

The cheapest alternative to an audit is a **compilation**. In a compilation, an accountant assembles your financial statements from the information you provide. The accountant does not subject your financial records to any audit or review and thus can express no opinion at all as to whether they comply with GAAP.
To view a State Law Nonprofit Audit Requirements: 50-State Chart, visit https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#MI

For my own home state of Michigan, the answer is:

**Michigan**
Audit Required: Yes

A charitable organization with annual contributions of $500,000 or more must file an audited financial statement prepared by an independent CPA. A charitable organization with annual contributions less than $500,000 and at least $250,000 must file a financial statement that is either reviewed or audited by an independent CPA.

Source: [https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#MI](https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#MI)

For the state my family calls home, Texas:

**Texas**
Audit Required: No state law requirement.

A charitable organization with annual contributions over $10,000 must have current and accurate financial records in accordance with GAAP. Based on these records, the board should prepare or approve a financial report that conforms to AICPA standards. The financial report must be made available to the public (§ 22.353(b)). Exemptions (§ 22.355).

Source: [https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#TX](https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#TX)
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