

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.
- Managing an audit: a step-by-step approach.
- 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](https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#MI), 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

Statute and Description: [Mich. Comp. Laws § 400.273 Sec 3\(2\)\(j\)](#) |

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>

For the state my family calls home, Texas:

Texas

Audit Required: No state law requirement.

Statute and Description: [Tex. Bus. & Org. Code § 22.352](#) |

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>

Important - Always verify with your own state's laws and regulations. State law and regulations can change, and it is important to make sure you have the most current and accurate information. This information is intended to be used and must be used for informational purposes only. This article is not a substitute for professional financial advice.