

Choosing the Right Level of Assurance:

A Guide for Nonprofits

Nonprofit organizations often reach out to our team requesting an audit, only to discover that a full audit may not be necessary. Through discussions about their operations and funding sources, we frequently find that another level of assurance – often more cost-effective – meets their needs. This guide will help you determine when an audit is essential and when a different alternative might be the better choice.



UNDERSTANDING ASSURANCE ENGAGEMENTS

As you explore the different levels of assurance engagements, it's important to be familiar with the key terms used to describe these engagements. Below, we define the terms audit, review, compilation, agreed-upon procedures, and single audit, which will help you understand the varying levels of assurance and their respective purposes.

Audit

An audit is the most comprehensive level of assurance. It involves the examination of a nonprofit's financial statements by a Certified Public Accountant (CPA) to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles (GAAP). Audits require the auditor to obtain sufficient evidence through testing and evaluation of the organization's internal controls, transactions, and records. The CPA must be independent under American Institute of Certified Public Accountants (AICPA) standards, ensuring that there are no conflicts of interest that could affect the auditor's objectivity.

Review

A review provides limited assurance that the financial statements are free from major inaccuracies. It involves inquiries and analytical procedures to evaluate the reasonableness of the financial statements, but does not include the same level of detailed testing and analysis as an audit. As a result, a financial statement review can often be completed more quickly and for a fraction of the cost of an audit. The independent CPA does not express an opinion but concludes whether anything has come to their attention that would suggest the financial statements are not in accordance with GAAP.

Compilation

A compilation is the lowest level of assurance. In a compilation, the CPA assists in presenting financial statements based on the information provided by the nonprofit. The CPA does not provide any assurance on the accuracy or completeness of the financial statements and does not perform any procedures to verify the information provided. However, a compilation includes a report confirming that the engagement has been performed. Unlike reviews and audits, it does not require the preparer to be independent under AICPA standards. A compilation may be used for internal purposes or when a nonprofit needs basic financial reporting without any formal assurance.

Agreed-Upon Procedures

An agreed-upon procedures engagement is when a CPA performs specific procedures that are agreed upon by the nonprofit and any relevant parties (such as a board or donor). The CPA does not provide an opinion or assurance but reports the findings based on the procedures performed. This type of engagement is typically used when the nonprofit has specific financial concerns or needs, such as verifying compliance with internal controls or examining a particular area of financial operations.

Single Audit

A single audit involves additional testing of compliance with federal grant requirements and an evaluation of an organization's internal controls over federal compliance. It also includes specific federal reporting requirements, which extend beyond the scope of a standard financial statement audit and are not covered in this article.

STATE-IMPOSED CHARITABLE REGISTRATION REQUIREMENTS

The most common audit requirement stems from a nonprofit's registration with states when soliciting donations. While each state has slightly different requirements, as a general rule of thumb, a nonprofit should be registered with the charitable division of any state in which they will be soliciting donations. Additionally, the higher the level of annual charitable contributions, the higher the level of assurance generally required.

Maryland

In the state of Maryland, a nonprofit with a minimum of \$750,000 in annual charitable contributions is required to have a financial statement audit performed by an independent CPA. Charitable contributions include, but are not limited to, donations from individuals, foundations, and governments, as well as certain grants, money raised through fundraisers, gaming activities, and membership dues, as disclosed on the organization's federal Form 990. A financial statement review is required by an independent CPA for annual charitable contributions between \$300,000 and \$750,000. There is no assurance requirement below \$300,000.

Pennsylvania

In the state of Pennsylvania, a financial statement audit is required by an independent CPA when a nonprofit's annual charitable contributions equal or exceed \$750,000. A review is required by an independent CPA when annual charitable contributions equal or exceed \$250,000. A compilation is required when annual charitable contributions equal or exceed \$100,000.

West Virginia

In the state of West Virginia, a nonprofit that receives more than \$500,000 from all sources except for government grants and private foundation grants is required to have an audit conducted by an independent CPA. Nonprofits receiving more than \$200,000 but less than \$500,000 must have a financial statement review performed by an independent CPA. There is no assurance requirement below \$200,000.

Other States

The states discussed in this article reflect those within SEK's geographical footprint. If your organization is registered in a different state, be sure to review those specific regulations to ensure compliance.

Federal Funds

Regardless of which state(s) an organization must register in as a charitable entity, any nonprofit that spends \$1 million or more in **federal** funds during a fiscal year is required to undergo an additional single audit on top of the financial statement audit. This threshold increased to \$1 million for federal grant awards originating on or after October 1, 2024. Prior to this date, the threshold was \$750,000.

ADDITIONAL CONSIDERATIONS

Grant and Lender Requirements

In some cases, a nonprofit may be required to undergo an audit, review, or other assurance services due to conditions set by grantors or lenders, even if the nonprofit does not meet the state-required audit threshold. Grant agreements — whether with federal, state, local governments, or private foundations — may specify a requirement for an annual audit or review as part of the funding agreement. Similarly, banks or other lenders may require an audit or review before extending credit or loans to a nonprofit. The agreement should clarify the timing and the basis of accounting (typically either accrual basis under U.S. generally accepted accounting principles or another basis such as cash basis, modified cash basis, or income tax basis).

Internal Governance or Organizational Concerns

In some cases, a nonprofit may seek an audit or review due to internal concerns raised by the board or leadership, even if there is no formal requirement. This could stem from the organization's bylaws or other governing documents that specify certain financial reporting standards, or it may arise from informal concerns about financial mismanagement or weak internal controls. Since fraud detection is not an objective of a financial statement audit, an agreed-upon procedures engagement would be a more targeted solution to address those concerns directly.

Public Perception and Transparency

Nonprofits that rely heavily on public support may choose to undergo an audit or review to build trust and demonstrate transparency. Being able to provide donors, stakeholders, and the general public with verified, accurate financial statements can enhance credibility. Regular audits or reviews signal a commitment to high standards of accountability, which is critical for organizations that depend on donor confidence.

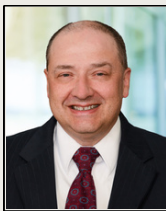
Legal or Regulatory Obligations

Certain nonprofit sectors, such as healthcare or education, may be subject to additional regulatory or legal requirements that influence the need for assurance services. These regulations might dictate specific reporting practices or necessitate higher levels of financial oversight. It's important for nonprofits in these sectors to be aware of any sector-specific requirements that may affect their financial statement reporting and assurance needs.

Assessing Your Nonprofit's Needs

Determining the right level of assurance for your nonprofit can be complex, and the need for an audit is not always immediately clear. If your organization is unsure about its assurance requirements or needs guidance in navigating state and federal regulations, our team is here to help.

Learn more [on our website](#) or contact one of our nonprofit team leaders below to discuss your specific needs today. We are here to provide expert guidance and tailored solutions for your nonprofit's unique situation, ensuring compliance and maximizing your resources.



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