Letter to Auditors-EXAMPLE

Regarding Sherwood Trust Guidelines for Financial Statements

NOTE: The following letter is an example of wording that can be used to inform your auditors about the new financial statement requirements for grant proposals to the Sherwood Trust. Your auditors should be informed about these requirements as soon as possible. This document can be obtained in a Word file by going to http://people.wallawalla.edu/~bruce.toews/Sherwood%20Trust/Letter to Auditors.doc

Fall 2008

To our auditors,

In an effort to make financial reporting more transparent and understandable, the Sherwood Trust has worked closely with representatives from the nonprofit and accounting communities to develop new financial statement guidelines for applicants. Because of our ongoing relationship with the Sherwood Trust, we intend to implement these guidelines for this next fiscal year. We are therefore requesting that your firm assist us in implementing the guidelines in conjunction with the next financial statement audit.

The guidelines are effective for fiscal years beginning on or after January 1, 2009. Although the guidelines do not have to be implemented for fiscal years ending prior to December 31, 2009, this would be helpful for comparability purposes. Applicants seeking grants of $25,000 or less do not have to comply with these guidelines.

The guidelines are consistent with GAAP but do require certain formats and additional disclosures in a few instances, which are summarized below. (See a copy of the guidelines for more details.) Some of the additional disclosures do not necessarily have to be part of the formal audited financial statements but can be prepared by us (i.e. nonprofit organization) in the form of schedules or other supplementary material to be submitted separately to the Sherwood Trust.

Statement of Financial Position

1. Cash and cash equivalents available for use in current operations should be shown on a separate line. Cash & cash equivalents that are externally-restricted and/or board-designated and therefore not available for operating use should be shown separately.
2. Unrestricted net assets should be further segregated among amounts:
   (a) available for current operations
   (b) designated for certain purposes by the board (e.g. building reserve, quasi-endowment), and
   (c) invested in land, building and equipment (net of related debt) and invested in inventory/supplies, if significant (net of related liabilities).
Statement of Activities

3. Changes in unrestricted net assets should be broken down into the following sections:
   a. Operating activities
      i. External Support (see #4 below)
      ii. Revenue (fees, memberships, sales, etc.)
      iii. Expenses (see #5 below)
   b. Non-operating activities (see #6 below)

4. External support for operating activities from contributions and grants should be further broken down by major source, such as type of donor (e.g. individuals, foundations, corporations, government) and/or major fundraising program or event (e.g. gala, memorials).

5. Expenses should be divided into major natural categories, similar to the ones shown below. This can be done on the Statement of Activities or the Statement of Functional Expenses (see #6 below). Depreciation expense should be shown on a separate line.
   a. Personnel (salaries, wages, benefits, payroll taxes, independent contractors, etc.)
   b. Occupancy (rent, utilities, maintenance, insurance, interest, etc.)
   c. General & Administrative (telephone, office supplies, dues, conferences, travel, postage, etc.)
   d. Marketing & Promotion (printing, advertising etc.)
   e. Program Materials & Other Costs (e.g. direct program expenses not already included in another category)
   f. Depreciation

6. A Statement of Functional Expenses should be prepared for each year presented. Such a statement provides valuable information about service efforts and how expenses are connected with accomplishments. It should show naturally-classified expenses allocated among programs and support services. Only programs that are significant or easily separable need to be specifically identified. Support services should further be allocated between fund-raising and general/administrative expenses. Expenses should be allocated where reasonable estimations can be made in a practical manner.

7. Non-operating activities should be shown separately and include those transactions that are unusual, non-recurring, extraordinary, incidental, or peripheral to normal operations. Examples may include restricted funds released for capital purposes, unrealized gains/losses on unrestricted investments, realized gains/losses on disposal of assets, and endowment return in excess of spending policy.

8. A note to the financial statements should breakdown support between unrestricted and temporarily restricted amounts by purpose (operating vs. capital) and by source (such as type of donor) or by major fund-raising program or event.

9. In order to allow for trend analysis, a separate schedule should be prepared showing operating activities (external support, revenues, and expenses) for the past five fiscal years or the number of years with comparable data, whichever is less.
Notes to the Financial Statements

10. Note disclosures required by GAAP will generally be sufficient. However, information that should be disclosed includes the form of nonprofit organization, when the organization was formed, where it is located, what its purpose is, who it serves, tax status, IRS classification, and any related party transactions.

11. For endowment funds, disclosure should be made of the types of investments, the nature of restrictions/designations, current value vs. original principal, and a summary of any spending policy and external management costs.

For additional guidance in implementing the Sherwood Trust requirements, general and procedural questions can be addressed to Jock Edwards (509-529-3362, agrace@charter.net). Questions of a technical nature can be addressed to Bruce Toews (509-527-2376, bruce.toews@wallawalla.edu).

Thank you,
Nonprofit Organization