

From: Eliot Rich, VP Finance

To: SDS Policy Council

Date: March 16, 2023

Subj: Budget change to perform a required compliance audit

Motion: On behalf of the Finance Committee, I move to adjust the 2023 Operating Budget to include an additional \$10,000 to pay for a retrospective audit of FY 2021.

Background: SDS is incorporated in Massachusetts and subject to annual financial reporting requirements to preserve our not-for-profit status. The specific requirement is to submit our financial statements along with an external CPA review (when total revenue is \$500,000 or less) or a full CPA audit (when total revenue exceeds that amount).

In 2021 we contracted with our then-CPA to perform a financial review based on our expectation that we would be under the audit threshold. Our then-CPA advised us to submit the review rather than re-examine the books, indicating that we would likely obtain a waiver of the audit requirement on request. This decision did save us about \$5,000 that year. When the audit was completed and various adjustments applied, our income was \$551,895, marginally over the threshold.

Earlier this month, we received notice from the Massachusetts Attorney General that we must submit an audit for 2021. We were not eligible for a waiver, as we had been given one in 2015. As of April 3, we are out of compliance with the Mass AG's office.

There is no suspicion of malfeasance. We need to provide evidence of a full audit to Massachusetts, rather than the CPA review that was completed on time. While there is no immediate risk or fine, delaying a resolution will likely affect our credit rating and accountability with charity rating organizations.

I note that our ex-CPA was also the reviewer in 2015 and knew of the earlier waiver. We were ill-advised.

Resolution of issue: Our new CPA will perform a retrospective audit for no more than \$6,000, a heavily discounted amount, as they already have staff working on 2022's audit. We will also have some yet-to-be-settled expenses with our accounting team.

The motion will permit the engagement of the audit team and any extra hours needed by our outside accountants.

In the existing budget, we anticipated that we would need a full audit for 2022, and budgeted \$22,000 for a full CPA audit and \$22,100 for ongoing accounting services. This motion is a supplement to cover the retrospective work. These figures are part of Professional Fees.

The approved budget may be found at

<https://proceedings.systemdynamics.org/PolicyCouncil/2022/papers/P1035.pdf>