

REPORT OF THE AUDIT COMMITTEE  
SILVER STAR FAMILIES OF AMERICA  
FOR THE YEAR ENDING DECEMBER 31<sup>ST</sup> 2006

As with many small non profit organizations, the Silver Star Families of America was not willing to spend 6 to 10 thousand dollars on a professional audit. The board determined that these funds would be better spent on our mission and instead an internal audit was recommended using the Virginia Society of Certified Public Accounts guidelines.

These guidelines were designed to assist an NPO board of directors control financial activities until they reach the stage when a professional audit is possible and desirable.

The audit committee was selected from the board of directors and membership and was tasked with the following:

- Determine the adequacy of internal control (a system in which the operating or recording function can be broken down into elements that are performed by different people, each checking the work of the others)
- the accuracy of the records and the reports to the governing body (usually the board of directors)
- the proper authorization of activities and expenditures
- the determination of the physical existence of assets
- a review of the tax-exempt status and identification of any activities that may endanger it
- Ascertaining that licenses and corporate reports are properly filed in a timely manner.

In developing the audit program, the adequacy of the internal accounting controls is an influencing factor. Confirmation of balances with creditors also would identify unrecorded liabilities. Tests of bank reconciliations, reviews of minutes, comparisons of current and previous financial reports and of the period's transactions with the budget are examples of substantive procedures that can prove evidence of the completeness of financial statement account balances.

The adequacy of internal controls will be of primary concern to the audit committee. Volunteers often are so dedicated to the mission of the NPO that they feel that running the organization in a businesslike fashion may not be compatible with this mission.

The budget and the board of directors' minutes are the usual source of verification of NPOs' activities in a broad sense. Additionally, the corporate charter and bylaws should be reviewed to determine that all activities comply and that the designated individuals are performing their proper functions. A review or test of specific transactions should be included in the audit program;

Verification of bank balances, an actual count of securities owned and a count of merchandise are some of these procedures.

An NPO has the same obligation to file tax returns and corporate reports as a for-profit organization. Failure to comply with these requirements will expose the NPO to possible fines or penalties. At its planning meeting the audit committee should prepare a list of these taxes and reports. This might include the following:

- licenses
- Form 990, Return of Organization Exempt From Income Tax, if gross receipts each year are normally more than \$25,000
- annual corporate report to be filed with the state.

## The audit committee found the following:

- Checks are pre numbered, used in sequence with adequate controls over supplies of blank checks.
- Checks are prepared by persons other than those who approve invoices.
- Checks are prepared from original vendor invoices with attached copies of purchase orders, invoices and receiving reports and presented for signature with these attached.
- Checks are entered in the disbursement journal exactly as they have been prepared.
- The governing board authorized all check signers.
- Signing of blank checks should IS NOT permitted.
- The President receives the unopened bank statement before turning it over to a person, other than one who handles the receipt and disbursement of cash, for reconciliation. This officer should review the bank reconciliation, then date and initial it.
- The NPO board authorizes bank accounts and the signers of checks annually.

The committee also found that the Board of Directors had reviewed the charter and by laws of the Silver Star Families of America and have found that we are complying with our mission.

That the Board has also reviewed tax form 990 for the year ending December 31 2006 and have found it acceptable meeting our mission statement and following Generally Accepted Accounting Procedures.

They also reviewed the tax exempt status and found that the SSFOA is not performing any activities that might endanger it.

They also reauthorized the founder and co founder to continue signing checks.

The committee, in conjunction with the Internal Revenue Service also applied the expense test to lobbying activities and found that the SSFOA does not engage in substantial activities that may endanger the tax exempt status of our organization.

Using the Internal Revenue UBI test it was determined that the SSFOA does not have unrelated business income under IRS code section 513.

The SSFOA has no paid employees and the Board of Directors is not compensated.

The committee review disclosed no reportable instances of noncompliance and that the financial statements were presented fairly and in accordance with GAAP.

The committee also commends the Board of Directors for keeping the Administrative costs down to 2.40 percent.

Signed this date

---

Janie Orman

Audit Committee Chair