

[Date]

To the Board of Directors and Management

[Organization Name]

[Organization Address]

RE: Management Letter - Grant Compliance and Net Asset Classification Findings

Dear [Name],

In planning and performing our audit of the financial statements of [Organization Name] for the year ended [Date], we considered the organization's internal control over financial reporting and compliance with grant requirements. During our audit, we noted certain matters involving net asset classification and grant compliance that are summarized below.

1. Grant Compliance and Expenditure Tracking

Observation: During our testing of [Specific Grant Name], we identified costs totaling \$[Amount] that lacked sufficient supporting documentation to satisfy donor requirements. Additionally, certain expenses were allocated to the grant that did not strictly align with the approved budget categories.

Risk: Failure to comply with specific grant terms may result in questioned costs, required refunds to the grantor, or loss of future funding opportunities.

Recommendation: We recommend that management implement a robust secondary review process for all grant-funded expenditures. This should include a formal reconciliation between the general ledger and grant budget reports on a monthly basis.

2. Classification of Net Assets

Observation: We noted instances where net assets with donor restrictions were incorrectly classified as net assets without donor restrictions. Specifically, [Description of Error, e.g., time-restricted pledges were recognized as unrestricted].

Risk: Inaccurate classification leads to material misstatements in the Statement of Financial Position and the Statement of Activities, potentially misleading stakeholders regarding the liquidity and availability of resources.

Recommendation: We recommend that the organization maintain a "Restricted Asset Matrix" to track each gift's specific restrictions (purpose or time). This matrix should be reviewed quarterly to ensure that releases from restriction are recorded only when requirements have been met.

3. Management Response

[Space for Management to provide their corrective action plan and timeline for implementation.]

This communication is intended solely for the information and use of management and the Board of Directors and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

[Partner Name/Signature]
[Audit Firm Name]