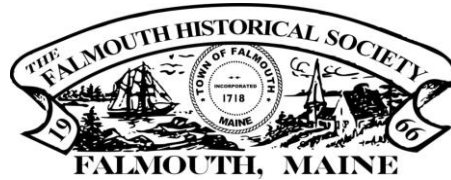


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AUDIT COMMITTEE REPORT

September 5, 2023

The Audit Committee convened at the Falmouth Heritage Museum on August 14th to conduct an internal financial review of the Society's finances for the fiscal years ending on June 30th, 2022 and 2023.

The Committee found that the Society's financial statements and governmental filings are complete and accurate. With specific exceptions, the Society's financial administration appears to be compliant with Generally Accepted Accounting Principles. Deviations and recommendations are noted below.

Methodology. The Committee followed a guide for small nonprofits conducting an internal financial review. The guide was published by Renosi, a company providing administrative services for nonprofits.

Committee members were provided with an overview of the Society's finances and access to the financial statements well in advance of the review. We were also given detailed reports for a month allowing transactions to be tracked through the system.

The review began with a tour of the Society's financial administration. This covered:

1. Accounts with financial institutions
2. Online systems used for Society bookkeeping
3. Workflows for financial administration

We then reviewed:

1. Financial documents
2. Income from all sources
3. Disbursements
4. Governmental filings
5. Financial controls
6. Financial reporting

Deviations and Recommendations.

Minor Issues. While reviewing documents prior to the meeting, the Committee observed inconsistencies between financial statements and budget documents: annual expenses used to

create the budget did not match those in the statement of activity. The tables in the budget package should have been marked as worksheets. Budgets are usually prepared before the books are reconciled for the previous fiscal year. Moreover, unusual one-time expenses are removed as not relevant in a zero-based budget formulation. There were also slight differences between the sales report and the statement of activity due to filters used to generate the sales report. In both cases, the statement of activity (upon which governmental filings are based) was authoritative and correct.

Internal Controls. GAAP calls for the segregation of duties in financial administration. The Society is noncompliant. All financial responsibilities (except for approval of the budget or major unplanned expenses) are now assigned to the treasurer due to a shortage of volunteers with the necessary skills. The Committee recommends the recruitment of additional volunteers to divide financial responsibilities between at least two people.

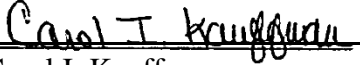
Nonprofit Reports. GAAP calls for nonprofits to generate four unique financial statements:

- Statement of Position
- Statement of Activities
- Statement of Cash Flows
- Income Statement

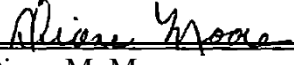
The Society is partially compliant. Only the statement of position is in the correct format. The problem is that QuickBooks does not generate financial reports formatted for nonprofits. The “small business” reports are sufficient to meet the Society’s needs for financial governance. A customized statement containing information of interest to potential donors is included in the treasurer’s annual report. The Committee does not recommend action.

Conclusions. Adoption of online banking and bookkeeping has improved the efficiency and accuracy of Society finances. QuickBooks, the Society’s bookkeeping application, is designed to enforce compliance with Generally Accepted Accounting Principles (GAAP) for small businesses. Administrative procedures for cross-account reconciliation ensure proper recording of non-cash transactions. Consequently, the Society’s books are complete and accurate.

Compliance with governmental requirements and GAAP for nonprofits has increased the complexity of Society finances. The Society’s books contain the detailed information required for governmental compliance. With the exceptions noted, the Society’s financial administration meets or exceeds the practices expected of small non-profits.



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