

Annual Audit Requirements: Improve Equity for Smallest Charitable Organizations While Maintaining Accountability SUPPORT

SUMMARY:

HB 1197 and SB 72 relieve disproportionate administrative and cost burdens on smallest nonprofit organizations in Illinois by conforming audit and financial reporting requirements to national best practices and norms. Requires a full annual audit for nonprofit organizations that raise \$500,000 or more in charitable contributions¹ (currently, an audit is required for \$300,000 or more); Requires “financial review” for nonprofit organizations that raise between \$300,000 - \$500,000 instead of a full audit and defines financial review;² 5-year sunset applied to these changes

EQUITY NOTE:

- Regressive audit fees cost \$6-12,000 regardless of budget; crippling for smallest nonprofits
- 2022 survey: Cost of audit 3x higher as % of revenue for smallest vs. largest nonprofits
- Smallest nonprofits more likely to be led by Persons of Color according to multiple surveys

RATIONALE:

- [Illinois has the most burdensome requirement in the US](#)
- 18 states and the District of Columbia do not have an audit requirement at all (AL, AZ, CO, DE, ID, IA, KY, MO, NE, ND, OK, OR, SC, SD, TX, UT, VT, WY)
- 30 states require financial reviews or audits beginning at \$500,000 and on up to \$2 million, and/or only for those receiving state funds, and/or a *bi-annual* audit
- BBB Wise Giving Alliance recommends audit when [annual giving exceeds \\$1,000,000](#)
- The [federal government](#) requires a “[single audit](#)” for grantees when expend >\$750,000
- Illinois’ own state agencies are only audited every two years

BACKGROUND: Over 35,000 charitable nonprofits in IL employ almost 600,000 people, comprise 11%+ of the economy, build well-being for all communities, and ensure everyone can reach their full potential. Nonprofits are subject to annual registration and reporting requirements by state and federal governments, accountable to community boards, and compliant with reporting requirements for publicly funded grants - even while those grants often exclude the use of funds for audits. In IL, the Attorney General’s (AG) [Charitable Trust Bureau](#), which enforces compliance with the [Solicitation for Charity Act](#) (225 ILCS 460) (SFCA), conducted 204 nonprofit investigations in 2021, which is [less than 1%](#) of the sector. Of those 204, only 43 resulted in lawsuits and 25% were below the current audit threshold. Raising the threshold will not compromise the public interest; rather it will allow more nonprofit time and resources to benefit communities across Illinois instead of being wasted on bureaucracy.

¹ “Contributions” is defined in IL law to include “the promise or grant of any money or property of any kind, including the promise to pay (i.e., pledges),” while excluding the sale of tickets by music and dramatic arts organizations for live public performances of musical or theatrical works, union dues, and donated services.

² i.e., Examination of financial statements in accordance with generally accepted accounting principles

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2022 Forefront Survey: % of Orgs (y) Reporting Cost of Annual Audit (x)
Shows Audit Requirement Amounts to Regressive Tax;
Smallest Nonprofits (blue) Often Paying Similar High Fees As Largest
Nonprofits (purple)

