SB172: Reduced Administrative and Cost Burden for the Smallest Charitable Organizations

SUMMARY
Relieves administrative and cost burden on the smallest nonprofit organizations in Illinois by conforming reporting requirements to national best practices and norms. See full text and status.

PROPOSED CHANGES TO CURRENT LAW
SB172 amends the Solicitation for Charity Act by raising the threshold at which nonprofit organizations must submit a full audit to the Attorney General on an annual basis. Under the proposed change, the full audit would be required when an organization receives more than $500,000 in annual contributions; currently, it is required above $300,000. The bill defines “financial review” as an examination of financial statements in accordance with generally accepted accounting principles and requires a financial review (instead of a full audit) for organizations with contributions more than $300,000 and less than $500,000. SB172 includes sunset date of January 1, 2027, at which time the audit threshold may be revised again through additional legislation to reflect cost of living changes or will revert to $300,000.

RATIONALE FOR CHANGE
Currently, Illinois has the most burdensome requirement in the nation regarding nonprofit audit thresholds. At $300,000, Illinois’ nonprofit audit threshold is at odds with national best practices. The Better Business Bureau’s Wise Giving Alliance doesn’t recommend an automatic financial audit until annual giving exceeds $1,000,000 – more than three times Illinois’ level. Illinois’ threshold is also out of sync with most states, especially those in the Midwest. Twenty-four states do not have a state law requirement at all (including neighbor states Iowa, Kentucky, and Missouri). The average audit costs between $6,000 - $12,000, which can be crippling for small organizations. Further, that money may generate a bigger and better return in our communities if applied to small organizations’ missions rather than paying for accounting services. This is a consensus bill, developed in partnership with the Attorney General’s office and multiple nonprofit coalition representatives.

BACKGROUND
As a major economic engine, nonprofits range in size from fully volunteer to major employers, and as a sector, they employ almost 600,000 people in the state of Illinois. Nonprofits provide a range of services and programs, building well-being for all communities by ensuring everyone can reach their full potential. All nonprofits are subject to annual registration and reporting requirements at the state and federal level; they are governed by community boards and maintain sound financial and accounting practices.

SUPPORTED BY
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1 The definition of contributions is not revised in this proposal. “Contributions” in current law includes “the promise or grant of any money or property of any kind, including the promise to pay (i.e., pledges),” but excludes the sale of tickets by music and dramatic arts organizations for live public performances of musical or theatrical works, union dues, and donated services. Similarly, there are no changes proposed to existing requirements for organizations with contributions less than $300,000.