

## Illinois Has a Higher Nonprofit Audit Threshold as of 1/1/24

**HB1197** was signed into law on June 30, 2023 and is now Public Act **103-0121**. HB1197 amended 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.

*Organizations that file their annual financial report (AG-990-IL) with the State on or after 1/1/24, and that receive between \$300,000 and \$499,999 in annual charitable contributions, may now submit a "financial review" instead of a financial audit (see 225 ILCS 460/4(b)(3)).*

### What are "Charitable Contributions?"

"The promise or grant of any money or property of any kind or value, including the promise to pay (i.e. pledges)."

This EXCLUDES the sale of tickets by music and arts organizations for live performances, union dues, and donated services, but may include other types of earned revenue.

### What Changed?

- Audit threshold increased from \$300,000 to \$500,000 in annual charitable contributions
- Organizations with contributions between \$300,000 - \$499,999 may now submit "financial review"
- No changes for anyone else
- Effective 1/1/24

### How Many Nonprofits Are Impacted?

*This change applies to a limited number of nonprofits in Illinois.* There are no changes to requirements for those that collect annual charitable contributions less than \$300,000 or more than \$500,000. ONLY nonprofits collecting \$300,000 - \$499,999 in charitable contributions are impacted. Organizations in this bracket were previously required to submit an audit, but as of 1/1/24, they may submit a financial review instead of a full audit. **All nonprofits should consult their auditor before making changes.** The audit threshold of \$25,000 for charitable organizations that use the services of a paid professional fundraiser has not changed (see 225 ICLS 460/4).

### Implications and Next Steps

Nonprofit organizations should maintain processes for tracking and distinguishing between types of revenue (e.g., grants, individual donations, ticket sales, tuition, fee-for-service arrangements).

*Nonprofits that routinely raise <\$300,000 in charitable contributions year after year will not need to submit a financial review or audit.*

Fluctuations in different types of revenue from year to year may impact what documents nonprofits are required to submit to the Attorney General the next year. Plan ahead. (See examples below.)

*Nonprofits with fluctuations in charitable contribution revenue (i.e., above \$300,000 or \$500,000 one year; below the next), may want to submit the same type of report annually for consistency of practice.*

### Audit vs. Financial Review

**Audit:** Reasonable assurance about whether organization's financial statements are free from material misstatement

**Financial Review:** Examination of financial statements in accordance with generally accepted accounting principles

Audit & Review must both be performed by independent CPA

## Possible Scenarios: Impact of Different Revenue Compositions

The arts organization below has total revenue exceeding \$300,000, but they do not have to submit a financial review or audit, because their charitable contributions specifically are <\$300,000. Conversely, even though the small grassroots org has less total revenue than the arts org, they must submit a financial review, because they collect >\$300,000 in charitable contributions. The large healthcare org will conduct a full audit regardless of what the state requires pursuant to federal grant requirements, which supersedes state law.

Type of Revenue	Small arts org relying on donors, volunteers, ticket sales, summer camps	Small grassroots org relying entirely on grants and donations	Healthcare org with federal grant using medical volunteers & billing insurance
Charitable Contributions	\$100,000	\$375,000	\$750,000
Union Dues	\$0	\$0	\$25,000
Ticket Sales	\$300,000	\$0	\$0
Donated Services	\$10,000	\$0	\$25,000
Tuition/Program Fees	\$25,000	\$0	\$0
Other Fee-for-Service	\$0	\$0	\$1,000,000
<b>Total Revenue</b>	<b>\$450,000</b>	<b>\$375,000</b>	<b>\$1,800,000</b>
<b>Required Report</b>	<b>None</b>	<b>Financial Review</b>	<b>Financial Audit</b>

## Additional Considerations

The exact cost of an audit versus a financial review will vary by market and circumstance. However, a **financial review will often cost less than an audit**. If cost savings are meaningful to the organization in the short term, opting for a financial review is an obvious advantage.

However, smaller nonprofits should also consider **continuity, efficiency, and cost**. If an organization receives just below \$500,000 in annual contributions and is accustomed to doing an annual audit under current law, continuing annual audits may be worthwhile, especially if they expect growth. **Changing course in the future may be more time-intensive and costly than maintaining current practice**. When audits resume, auditors must refamiliarize themselves with the organization's policies and procedures and possibly reperform other initial audit procedures which require additional audit hours.

Additionally, private and public **funders may require audited financials as a part of their grant application process** revenue of the size of the organization's charitable revenue. Nonprofits should be mindful of funders' requirements if they intend pursue certain grants, loans, or lines of credit that require audited financial statements.

## Resources

- <https://www.councilofnonprofits.org/running-nonprofit/nonprofit-audit-guide/step-1-selecting-audit-firm>
- <https://illinoisattorneygeneral.gov/Consumer-Protection/Charities/Building-Better-Charities/Charity-Registration/>

### When Are Reports Due?

**Federal:** The IRS grants an automatic 6-month extension for the 990 by filing form 8868 by the due date of the return.

**State:** Nonprofit annual financial report (AG990-IL) is due to the Illinois Attorney General's office by the 15<sup>th</sup> day of the fifth month after an organization's fiscal year end, which may be on a calendar or other basis (e.g., 12/31, 6/30, 9/30, or other). A copy of an organization's audited or reviewed financials is attached to the 990. Illinois' Attorney General may grant a 60-day extension pursuant to a written request prior to the Illinois due date.