1. Independent Audit Of Annual Financial Statements Now Required For Charities With Gross Revenues Of $2 Million Or More [Government Code section 12586(e)(1)]

- Charitable corporations with gross revenues of $2 million or more must prepare annual financial statements audited by an independent certified public accountant (CPA). The statements must use generally accepted accounting principles. The independent CPA must follow generally accepted auditing standards.

- If the accounting firm and CPA performing the audit also provides non-audit services to the nonprofit, the accounting firm and CPA must follow the independence standards in the Yellow Book issued by the U.S. Comptroller General.

- The audited financial statements must be made available for inspection by the Attorney General and the public no later than nine months after the close of the fiscal year covered by the financial statement.

- The audit requirement applies to charitable corporations, unincorporated associations and trustees required to register and file reports with the Attorney General, whenever such organizations accrue $2 million or more in gross revenue in any fiscal year.

- The $2 million-threshold excludes grants received from governmental entities, if the nonprofit must provide an accounting of how it used the grant funds.

2. Charities With Gross Revenues Of $2 Million Or More Must Establish And Maintain An Audit Committee [Government Code section 12586(e)(2)]

- Requirements for an audit committee apply only to charitable corporations that must register and file reports with the Attorney General, whenever such organizations accrue $2 million or more in gross revenue in any fiscal year.
► $2 million-threshold excludes grants received from governmental entities, if the nonprofit must provide an accounting of how it uses the grant funds.

► Governing boards must appoint an audit committee. The audit committee may include persons who are not members of the governing board.

► The audit committee cannot include staff members, the president or chief executive officer, the treasurer or chief financial officer of the organization. If an organization has a finance committee, members of that committee may serve on the audit committee, but cannot comprise 50 percent or more of the audit committee. The chairperson of the audit committee may not be a member of the finance committee.

► The audit committee, under the governing board’s supervision, is responsible for making recommendations to the board on the hiring and firing of independent certified public accountants (CPAs). The audit committee can negotiate the independent CPA’s compensation, on behalf of the governing board.

► The audit committee must:

• Confer with the auditor to satisfy committee members that the financial affairs of the nonprofit organization are in order;

• Review the audit and decide whether to accept it; and

• Approve non-audit services by the independent CPAs accounting firm, and ensure such services conform to standards in the Yellow Book issued by the U.S. Comptroller General.

For best practices on fiscal management please also review the Attorney General’s Guide for Charities.