



Rules governing charitable corporations with over \$2 million in gross revenue for the fiscal year

Obligation to conduct an independent audit of annual financial statements [Cal. Gov't Code § 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 (GAAP) and the CPA must follow accepted auditing standards.
- If the CPA performing the audit provides non-audit services to the nonprofit, the 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.

Obligation to establish an audit committee [Cal. Gov't Code § 12586(e)(2)]

- Governing boards of charitable corporations with gross revenues of \$2 million or more must appoint an audit committee.
- The audit committee may include persons who are not members of the governing board but cannot include staff members, the president/chief executive officer, or the treasurer/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 be more than 50 percent of the audit committee.
- The chairperson of the audit committee cannot 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 termination of independent certified public accountants (CPAs).
- Negotiating the CPA's compensation, on behalf of the governing board.
- Conferring with the auditor to satisfy committee members that the financial affairs of the nonprofit organization are in order.
- Reviewing the audit and deciding whether to accept it.
- Approving non-audit services by the CPA and ensuring such services conform to standards in the Yellow Book issued by the U.S. Comptroller General.

Obligation to review and approve executive compensation [Cal. Gov't Code § 12586(g)]

- The governing board or an authorized board committee must review and approve the compensation of the chief executive officer/president and the chief financial officer/treasurer.
- The compensation must be "just and reasonable."
- A review must occur at the time of hiring, when the term is modified, or when compensation is modified.
- Compensation includes all benefits.
- Review is not required if a modification is extended to most employees.

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