

Iowa Principles and Practices for Charitable Nonprofit Excellence

Revised 2016



 THE UNIVERSITY OF IOWA

Larned A. Waterman Iowa Nonprofit Resource Center

©2016

Iowa Principles and Practices for Charitable Nonprofit Excellence

Revised 2016



 THE UNIVERSITY OF IOWA

Larned A. Waterman Iowa Nonprofit Resource Center

©2016

Iowa Governor's Nonprofit Task Force

In 2004, Governor Thomas Vilsack and Lt. Governor Sally Pederson appointed a Governor's Task Force to examine and enhance the role of Iowa's nonprofit organizations in the building of Iowa communities. The Task Force consisted of Willard Boyd, Chair; Regan Banks; Lu Barron; Senator Nancy Boettger; Philip Borleske; Mary Ann Burke; Senator Mike Connolly; B.J. Do; Sally Falb; Representative Wayne Ford; Ken Gibson; Stanley Howe; Jon Hrabe; Andria Macias-Castillo; Joan McCulloch; Kori Nielsen; Shelia Perry; Representative Scott Raecker; Shannon Ramsey; Kathy Toborg; and Thomas Wilson. Secretary of State Chet Culver and Attorney General Tom Miller were ex officio members. These two offices represented the public in providing oversight on nonprofit organizations. Mollie Clause represented the Secretary of State's Office, and Assistant Attorney General Shauna Shields represented the Office of the Attorney General. The Governor's Office was represented by Adam Lounsberry and Joseph Mowers. The Iowa Principles & Practices for Charitable Nonprofit Excellence were originally developed by the Iowa Governor's Nonprofit Task Force.

For more information contact:

The Larned A. Waterman

Iowa Nonprofit Resource Center

130 Grand Avenue Court

Iowa City, IA 52242

Phone: 319.335.9765

Toll free: 866.500.8980

Web: <http://inrc.law.uiowa.edu>

E-mail: law-nonprofit@uiowa.edu

PAUL D. PATE
SECRETARY OF STATE



STATE CAPITOL
DES MOINES, IOWA 50319

OFFICE OF THE IOWA SECRETARY OF STATE

Dear Iowa Nonprofit:

As Secretary of State, I recognize the integral role charitable nonprofit organizations play in our communities. I commend the thousands of Iowans who lead these organizations as board members, employees, and volunteers. Your dedicated service is one reason why our state continues to thrive with more opportunity and a better future for all Iowans.

The first edition of the **Iowa Principles and Practices for Charitable Nonprofit Excellence** was published in 2005 as a result of the work of the Governor's Nonprofit Task Force. This fourth edition includes important updates as the nonprofit sector continues to develop and grow as a source of strength in all 99 of our counties.

Self-governance by well-informed and well-trained members of the nonprofit community remains the foundation for building and maintaining public trust. These principles and practices promote good management practices, ethical conduct, and public accountability. It is a valuable resource for new and established organizations to use as a guide for improving efficiency, effectiveness, and responsibility.

The diverse and dynamic missions of our charitable nonprofit organizations promote the vitality of our communities. While some principles herein identify legal requirements, most reflect standards for you to adopt and adapt based on your particular organization's purpose.

If there is further information or assistance my office may provide, please let us know. You may also link to information on our website at sos.iowa.gov.

Sincerely,

A handwritten signature in blue ink that reads "Paul D. Pate".

Paul D. Pate
Secretary of State



Table of Contents

Iowa Register of Accountability: The Principles and Practices	1
Preamble	5
I. Role of Charitable Nonprofit Organizations.....	6
II. Starting the Charitable Nonprofit	7
III. Mission Statement	11
IV. Strategic Planning.....	13
V. Board of Directors	15
VI. Executive Director	23
VII. Human Resources	24
VIII. Financing and Funding	27
IX. Communication	33
X. Information Technology	36
XI. Advocacy	38
XII. Collaboration	39
XIII. Accountability and Compliance	42

The Iowa Register of Accountability:

The Principles and Practices

The Iowa Register of Accountability on the Larned A. Waterman Iowa Nonprofit Resource Center website is a voluntary listing of charitable nonprofits that have committed themselves to continuous improvement by implementing the Principles and Practices as general guidelines. The purpose of the Register is to show Iowa and the nation that Iowa nonprofits make a concerted effort to operate efficiently, effectively, and ethically. The Register was recommended by the Governor's Task Force on the Role of Charitable Nonprofit Organizations in Iowa.

There are three ways to be listed on the Principles and Practices Register:

1. Adoption of Principles and Practices by board resolution
2. Completion of Principles and Practices training
3. Licensure by a state agency or accreditation by a national organization

A nonprofit organization need only to complete one of the three forms of adoption to be listed on the Register of Accountability. If an organization implements more than one of the forms of adoption, all will be included in that organization's listing on the Register. For example, a nonprofit that sends a board member to the Principles and Practices training and which also adopts the Principles and Practices by resolution will have both forms of adoption included in its Register listing.

1. Board adoption of Principles and Practices by resolution

An Iowa charitable nonprofit can be added to the Iowa Register of Accountability after an organizational review of the Iowa Principles and Practices for Charitable Nonprofit Excellence and a board of directors resolution, adopting them to pursue as part of its institutional operations. The resolution must state the date on which the board adopted the Principles and Practices and be signed by a board officer. (See example below.) Once a copy of the resolution has been received by the Larned A. Waterman Iowa Nonprofit Resource Center, the nonprofit will then be added to the Register of Accountability.

Example:

The Board of Directors of (name of nonprofit organization), in a regular meeting at which a quorum was present, reviewed the Iowa Principles & Practices for Charitable Nonprofit Excellence. We, the Board of Directors, hereby affirm that our organization already is committed to being guided by the Principles and Practices and is actively engaged in good faith efforts to meet each of them.

This resolution was passed by a (majority/unanimous) vote of the Board of Directors at its regular meeting on (date), and this Resolution has been recorded in the permanent minutes.

Signed by _____

On _____

For the Board of Directors _____

2. Training in Principles and Practices

An organizational representative can complete a Principles and Practices training program which will result in issuance of a certificate of completion for a stated period. In order for training to be adequate for the Register, it must be at least six hours long. Shorter training sessions can be combined for a total of six hours. Completion of the Nonprofit Organizational Effectiveness I and/or II courses at the University of Iowa will allow an organization to be listed on the Register. Any other form of nonprofit training can be submitted to the Larned A. Waterman Iowa Nonprofit Resource Center for review of sufficient coverage of nonprofit issues. To be listed on the Register of Accountability, the organizational representatives must be board members or executive-level paid staff.

3. Licensure or accreditation

An Iowa charitable nonprofit which is accredited by a national organization or licensed by a state agency will be presumed to have significantly complied with the Iowa Nonprofit Principles and Practices for Charitable Nonprofit Excellence. There are extensive ac-

creditation systems for educational institutions, health organizations, and libraries. Examples of accrediting entities that will allow a nonprofit to be listed on the Register are:

United Way
Girls Scouts and Boy Scouts of America
Goodwill
Salvation Army
American Red Cross
The National Council for Private School Accreditation
Commission on Accreditation of Rehabilitation Facilities
Continuing Care Accreditation System
American Association of Museums
State Library of Iowa
Joint Commission on Accreditation of Health Care Organizations

Examples of state agency licenses that will lead to listing on the Register of Accountability are:

Adult day care services programs (Iowa Code 231D)
Animal shelter (Iowa Code 162.4)
Assisted living programs, certified under Iowa Code 231C
(see also 27 Iowa Administrative Code 321 - 27)
Child care center, licensed under Iowa Code 237A
Child foster care licensed under Iowa Code 237
Child placing agency, licensed under Iowa Code 238
Elder group homes, certified under Iowa Code 231B
Nursing facility, licensed under Iowa Code 135C.1
Substance abuse programs, licensed under Iowa Code 125.13

A nonprofit will be listed on the Register of Accountability after receipt of a copy of the official notice of the state agency license or of the document awarding accreditation to the nonprofit.

All information should be mailed to:

Larned A. Waterman Iowa Nonprofit Resource Center
130 Grand Avenue Court
Iowa City, Iowa 52242
ATTN: Register of Accountability

The submitted documents should also list the organization’s name, current business address, contact person, charitable purpose, and year of creation. If this information is not included, it should be submitted along with the documentation, such as in a cover letter. When nonprofits have adopted the Principles and Practices, they may use the “P&P” logo as shown below on their publications, websites, and letterhead. The logo can be downloaded from the Larned A. Waterman Iowa Nonprofit Resource Center website.



Preamble

The purpose of the Iowa Principles and Practices for Charitable Nonprofit Excellence is to promote good management practices, ethical conduct, and public accountability for Iowa charitable nonprofit organizations as they perform their crucial community services. The Principles and Practices recognize that good organizational practices are primarily implemented through education and self-regulation. The Principles and Practices are not regulatory. While many of them will be helpful to all nonprofits, they are specifically written for 501(c)(3) organizations. The Iowa Principles and Practices for Charitable Nonprofit Excellence are intended to be primarily an educational process designed to improve efficiency and accountability. Iowa is enriched by its great diversity of nonprofits, and it is recognized that the implementation of these Principles and Practices will take different forms and occur at different levels, given the resources of the nonprofits.

A **Principle** is a broad statement of ethical or managerial directions for a charitable nonprofit.

A **Practice** is a description of a method to achieve the principles. Practices follow the related Principles.

I. The Role of Charitable Nonprofit Organizations

Principle

Iowa charitable nonprofit organizations are the essence of community. Iowa's citizens, volunteering in the thousands, build our communities. On their own initiative, Iowans address local needs, formulate values, and take action through these voluntary associations. Community organizations range across the broad spectrum of daily life and include religion, health, social services, education, culture, community development, housing, and human rights. Many are small and financially fragile, yet they are vital factors in making Iowa a great place to work and live. It is only with these crucial community nonprofit associations that Iowa advances economically and socially. The people of Iowa should recognize and support the contribution of the charitable nonprofits to their community through volunteer effort and donations.

Practices

- A. Charitable nonprofits must be publicly open and accountable, must be well managed, and must continually build trust with the public by appropriate financial reporting, communications with the public about significant contributions to the community with the charity's funds and programs, and strongly evident commitment to ethical behavior.
- B. Chartered by the State of Iowa, charitable nonprofits should work to have a responsible relationship with appropriate state agencies, including the Iowa Attorney General, the Secretary of State, and the Department of Revenue and Finance. Iowa charitable nonprofits shall respect and comply with the regulations and oversight of the United States Internal Revenue Service which accords tax exempt status.

II. Starting the Charitable Nonprofit

A. Principle – Statutory Guidelines

Iowa charitable nonprofit organizations, whether nonprofit corporations, trusts, or unincorporated associations, must ensure that they comply with statutory guidelines and common law in creation of their legal form.

Practices

A charitable nonprofit organization can be organized in Iowa as a corporation, a trust, a limited liability company, or an unincorporated association. While partnerships and sole proprietorships are legal entities in Iowa, the Iowa Internal Revenue Service will not give 501(c)(3) status to such entities.

1. Nonprofit corporation status under Iowa Code chapter 504 is often a preferable form for charitable nonprofits due to the limitation on liability of all those working for the charitable nonprofit corporation. Contrast this to unincorporated associations in which there is a higher degree of liability exposure for all association members. Under Iowa's Revised Uniform Unincorporated Nonprofit Association Act there is some limited liability for unincorporated associations. (Iowa Code 501B.8) Nonprofit corporations are formed by filing articles of incorporation with the Iowa Secretary of State. The Revised Iowa Nonprofit Corporation Act differentiates among mutual benefit, religious, and public benefit corporations. Religious and public benefit organizations are traditionally treated as charitable tax exempt organizations.
2. Charitable trusts can be formed with a declaration of trust or trust indenture. Iowa Code Chapter 634 is applicable to private foundations that are trusts. Creation of trusts is more common in the private foundation setting in Iowa than in the public charity setting. The Iowa Attorney General may exercise oversight of charitable trusts (Iowa Code section 633A.303).
3. Limited liability companies (LLC's) are formed under Iowa Code Chapter 490A with articles of organization. LLC's can be charitable and receive exemption under 501(c)(3) in limited circumstances, but only when all of its members are 501(c)(3) organizations.

B. Principle – Instrument Creating Nonprofit

The instrument creating the charitable nonprofit should adequately describe the organization by giving its name, charitable purposes, and contact information.

Practices

1. Iowa Code section 504.202 stipulates the contents of the articles of incorporation that must be filed with the Office of Secretary of State.
 - a. The corporate name must be distinguishable from other corporate names.
 - b. The organization must have a lawful purpose, though it is optional to state the purpose in the articles.
 - c. The corporation must have a registered office and agent.
 - d. The corporation’s incorporators and their addresses must be listed.
 - e. The articles of incorporation must set forth whether the corporation has members with governance level voting rights, such as the right to vote for directors. If the articles of incorporation do not specify those rights, the statutory default membership requirements apply. If the articles stipulate that there shall be no members with legal rights, support groups can be called “members” without legal rights.
 - f. The articles must also include provisions essential for federal tax exemption eligibility. These include restrictions on legislative advocacy and prohibition of private financial distributions to individuals except as reasonable compensation for services rendered.
 - g. The articles also may include provisions addressing the directors’ immunity from liability to the corporation and its members as well as impose requirements on the corporation regarding indemnification of directors and officers of the corporation.
2. Trusts in Iowa shall be consistent with Iowa Code section 633.1101 et seq. Charitable trusts shall include provisions required by Iowa Code Chapter 634 and section 633A.5101 et seq. If created in a testamentary context, the provisions of Iowa Code 633A.699 et seq. must also be considered.
3. Unincorporated associations are governed by Iowa statutory requirements, and adequate articles of organization should include comparable provisions. Iowa Code 501

C. Principle – Bylaws/Governance Document

For charitable nonprofit corporations and unincorporated associations an organizational meeting should be held soon after the formation of the entity by the initial directors to elect directors and officers, to adopt bylaws, and to commence the activities of the organization. For charitable trusts the trustees designated by the founder (settlor) should have their initial meeting.

Practices

Bylaws should be composed and adopted by the board which provide for regulating and managing the affairs of the charitable nonprofit entity. Bylaws are not filed with the secretary of state but are an internal document. Bylaws should address

1. the board of directors size, meeting times and notice requirements, nomination and election provisions;
2. if there are members with governance level voting rights, the meeting times and notice requirements for membership meetings;
3. the committees of the organization;
4. list and describe the responsibilities of the officers of the organization;
5. the fiscal year of the organization;
6. the process of amendment of the bylaws.

D. Principle–501(c)(3) Status for the Charitable Nonprofit

After completion of incorporation, creation of the trust with an indenture, or adoption of the articles of organization of an unincorporated association, the board should seek tax treatment consistent with its charitable purposes under Internal Revenue Code 501(c)(3) from the United States Internal Revenue Service, and then faithfully and successfully conduct the affairs of the nonprofit entity within that Code section's provisions.

Practices

1. Application should be made to the United States Internal Revenue Service for federal income exempt status on IRS Form 1023 available on the IRS web site at <http://www.irs.gov/pub/irs-pdf/f1023.pdf> or on the interactive Form 1023 at <http://www.stayexempt.irs.gov/Starting-Out/Interactive-Form-1023-Prerequisite-Questions> Smaller charities for which the annual gross receipts

will be \$50,000 or less for the first three years have the option of doing the Form 1023-EZ, available at <http://www.irs.gov/uac/About-Form-1023EZ>

2. The nonprofit should also apply for an employer identification number (EIN) with form SS-4 available on the IRS web site at <http://www.irs.gov/pub/irs-pdf/fss4.pdf> or with an interactive approach for the EIN at [http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Apply-for-an-Employer-Identification-Number-\(EIN\)-Online](http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Apply-for-an-Employer-Identification-Number-(EIN)-Online) This EIN number is required even if the charitable nonprofit is not an employer.
3. Subsequent to receiving federal recognition as a 501(c)(3) organization, there is no required filing for exemption from Iowa income tax.
4. The charitable nonprofit entity should make application for other state and local tax exempt status, such as property and sales tax (see Iowa Code 427.1(8), Iowa Code 422.45).
5. An Iowa nonprofit corporation that expands its activities into other states should submit the required foreign corporation filings in those states.

E. Principle – Government Filings

Once charitable nonprofit organizations are chartered and granted tax exempt status by the government, they must file reports with government agencies and comply with the applicable law.

Practices

1. Nonprofits shall file the reports required by Iowa state law.
 - a. For Iowa nonprofit corporations, biennial report and informational updates to the Iowa Secretary of State. The secretary of state has the discretion to commence an administrative proceeding to dissolve a corporation if any of the following occurs:
 - i. the corporation does not deliver its biennial report to the secretary of state within 60 days after it is due
 - ii. the corporation is without a registered agent or registered office in Iowa for 60 days or more

- iii. the corporation does not notify the secretary of state within 60 days that its registered agent or office has been changed
 - iv. The corporation's period of duration, if stated in years in the articles of incorporation, has expired
- b. For charitable trusts, there is no annual filing requirement with the state of Iowa, except if the trust were created in a testamentary context.
 - c. For nonprofit unincorporated associations there is no annual filing requirement with the state of Iowa.
2. Nonprofits must file the reports required by taxing authorities.
- a. Annual informational report to US Internal Revenue Service. A 501(c)(3) organization with public charity status must annually file a Form 990 report if its annual gross revenue is \$50,000 or more. Churches are not required to file the Form 990 even if the church's revenue is above that amount. 501(c)(3) entities that are private foundations file Form 990PF. Nonprofits with less than \$50,000 gross receipts must file Form 990-N. There is no required Iowa tax filing, though some agencies other than the Iowa Department of Revenue require the Form 990 as part of the overall reporting.
 - b. If there is unrelated income for the 501(c)(3) entity, it must file both a federal 990T form and a form 1120 with the Iowa Department of Revenue and Finance.

III. Mission Statement

Principle – Developing the Mission Statement

The mission statement sets forth the organization's basic service. Unlike the purpose clauses of the articles and bylaws, which are commonly constructed in legal language to assure government regulators that the organization will comply with the governing law, the mission statement should be set forth simply and clearly in language which can be understood by the general public.

Practices

- A. The mission statement needs to be a rallying point for the organization's constituencies: board, staff, volunteers, clients, donors, and the general public.

- B. The mission statement should serve as the basis for evaluating the success of the organization.
- C. Nonprofit mission statements should contain the following elements:
1. Name of the Organization. The name of the organization should clearly describe the core organizational service. Avoid clever names understood only by insiders.
 2. Tag Line. A short tag line following the name of the organization can further clarify to the general public the essence of the organization.
 3. Mission Statement. The mission statement should describe what the organization does.
 4. Vision Statement. The vision statement should describe what the organization ultimately desires to achieve by carrying out the mission. What is the outcome sought by the organization?
 5. Values Statement. The values statement should set forth the principles that will guide the organization in carrying out its mission, e.g., diversity, empowerment, compassion, sharing, inclusiveness, openness, integrity, respect, partnership. It outlines the ethical means to achieving the mission.
- D. The responsibility for creating the mission statement is that of the board of directors. The board must adopt the mission statement. The staff leadership needs to be actively involved. It is also desirable to consult with the paid and voluntary staff, representatives of the donors, clients, and the public the organization serves. The mission statement should be periodically reviewed in conjunction with the strategic planning of the organization.
- E. While it is desirable to be succinct in a mission statement, it is necessary to be sufficiently specific so that all constituencies can clearly understand the rationale of the organization. Among the issues to be considered when drafting a mission statement are:
1. Why does the organization exist?
 2. What service does the organization provide?
 3. What are the geographical boundaries in which the organization will function?
 4. Who are the clients to be served? Why should the clients utilize the services of the organization?

5. What differentiates the organization from those working in the same or allied fields? What is the organization's niche? How do you position the organization in the community?
6. Who are the key constituents both internal and external? Why should they associate themselves with the charitable nonprofit? In short, ask who are we? Why are we here?

IV. Strategic Planning

A. Principle - Drafting the Plan

To achieve its mission and vision, a charitable nonprofit organization needs a comprehensive plan which sets forth the organizational goals with specific action steps to be taken by specific individuals. Organizational success depends upon execution of the plan.

Practices

1. The board has the responsibility for adopting the strategic plan. The executive director and staff need to be actively involved in the planning process with counsel from other organizational constituencies.
2. Board and staff often resist planning because of the time and group thought required. However, if there is no consensus on organizational direction and no implementation of action, the organization will not function effectively. An outside facilitator can help bring issues before the group in a non-threatening way.
3. A comprehensive strategic plan sets forth general goals for all aspects of the organization's operations. This includes programmatic services, administrative support services, funding, budgeting, personnel needs, marketing, and public relations. The plan should identify the desired outcomes for the organization's constituencies and the method for assessing the achievement of those outcomes.
4. Each goal should be broken down into the specific actions (i.e., objectives, strategies, directions) required to achieve the goals such as the creation of timelines and the assignment of personnel to carry out each task.

5. A SMART strategic plan has goals and objectives which are:

Specific

Measurable

Attainable

Results oriented

Time bound

6. The strategic plan should identify specific management risks and provide for their reduction, elimination, or insurance. Such risks include loss of tax exempt status, fraud, embezzlement, fire, theft, service delivery malpractice, facilities, and automobiles.
7. Strategic planning should be undertaken every three to five years. The plan should be reviewed at least quarterly by the board to determine progress toward goals and to make adjustments on the plan based on experience and new pertinent information. New board member orientation must include the current strategic plan.
8. Strategic plans should provide for a method of evaluation/assessment of the outcomes/impact of its programs on the constituencies served.
9. The strategic planning process should include a SWOT (strengths, weaknesses, opportunities, and threats) assessment of the organization's strengths and weaknesses. There should also be an assessment of the external environment in which the organization functions which presents opportunities and threats such as new and improved methods of service and service providers, new laws and regulations, economic, demographic, and other social trends. A SWOT evaluation could result in the organization dropping or adding service or collaborating with other organizations for increased efficiency and cost reductions. To be effective a SWOT analysis needs to incorporate the views of clients served, funders, and other publics.
10. Boards should consider making a final version of the strategic plan which can be shared with the public.

B. Principle – Funding for the Plan

Adequate funding is essential to executing a strategic plan.

Practices

1. The strategic planning process requires a multi-year (3 years) overall balanced budget which consists of realistic estimates of income and expenses projected over a timeline. A conservative approach to budgeting protects staff jobs and assures client service.
2. At least quarterly, the board must review the budget and reduce expenditures where income falls short. Balanced budgets are crucial.
3. Most funders want their money to be spent on future projects, not retiring the organization's debt.
4. A budget plan requires additional detailed action plans to identify funding sources and to acquire funds. Fundraising from private individuals requires a specific plan.

V. Board of Directors

A. Principle – Board Responsibilities

Each charitable nonprofit must have a board, and the board must be active. Except as otherwise provided (by law and the governing document), all corporate powers shall be exercised by or under the authority of the board. The affairs of the charitable nonprofit shall also be managed under the direction of the board. (See Iowa Code section 504.801 for nonprofit corporations, Iowa Code section 633A.4101 et seq. for trusts)

Practices

1. The board of directors' primary responsibilities are to determine the organization's mission and its policies; to set the organization's overall program for the year; to engage in long-term planning; to establish fiscal policy; to provide adequate resources for the activities of the organization; to select, evaluate, and if necessary, terminate the appointment of the chief executive; and to develop and maintain communication links to its constituencies and the community.

2. The board should avoid involvement in day-to-day operations of the charitable nonprofit, although it is recognized that for smaller nonprofits with no paid staff, this is not possible.
3. The board sets organizational policies and monitors compliance with them. In making policies for a charitable nonprofit, a board is setting objectives against which to measure the organization. Setting and monitoring policy protects directors from liability where they act in good faith and with due care.
4. Board members must follow through on their assignments, attend regular and specially called meetings, and come to meetings prepared.
5. The board is responsible for securing funding resources to ensure the financial viability of the organization and its programs. Asking for and giving money are necessary. Every board member can do something useful to support fundraising efforts.
6. For charitable nonprofits there should be a strong commitment to boards serving in a volunteer capacity; if a charitable nonprofit wishes to compensate board members, it must have significant justification for the expenditure.

B. Principle – Board Membership

The board is not an abstraction. The board consists of volunteer citizens who come together in public service that requires their time and competency.

Practices

1. **Independence** – The board should consist primarily of independent persons who are not employees of the organization. The paid executive director(s) can serve as an ex officio board member, either voting or non-voting, with the provision that executive sessions of the board can be held periodically without the ex officio member present. If the executive director is to be ex officio, the bylaws must clearly state that. Where independent directors may have episodic business relations with the organization, such relations should be pursuant to conflict of interest rules. (See F. 2. below)
2. **Election** – Directors are elected by the voting members of the organization, by the board of directors, or as otherwise specified in the articles and/or by-law provisions. In charitable trusts the trust document (or, if testamentary, the

court docket) must be consulted to determine if any or all of the trustees are designated by the settlor (or appointed by the court) who must continue until their death or resignation.

3. **Size** – Board size depends upon the particular mission of the organization. At a minimum, the board size should be five members to assure the capacity to carry out the board duties. Among the factors which determine size are: geographical coverage, diversity, needed board skills, access to funding, and representation of constituencies served. It is essential that the talents of all board members be used to good advantage.

4. **Skills and Talents**

- a. **Operational area** – These include management, finance, investment, law, accounting, public relations, fundraising. Together board members should have a range of operational competencies needed to carry out the duties of the board.
 - b. **Program understanding** – Knowledge of and informed insight on the organization's programs.
 - c. **Connection to constituencies** – Widespread support requires a diverse board, including representation from groups the organization directly serves.
 - d. **Advocacy leadership** – Access to resources, influence with constituencies important to the charitable nonprofit organization.
 - e. **Inclusiveness** – Age, sex, ethnicity, religion, sexual orientation, socio-economic background, and geographic location of prospective board members.
 - f. **Commitment** – Give time and funds and participate in fundraising.
 - g. **Supportive** – Of mission, vision, and values.
5. **Attitudes** – Board members must be able and willing to work and contribute the strengths they have. Board members need to have a positive attitude toward the organization! Board members should be:
 - a. Knowledgeable
 - b. Interested
 - c. Enthusiastic
 - d. Accountable
 - e. Committed
 - f. Team players

6. **Board Orientation** – Either individually or collectively, new board members should receive oral and written orientation to their responsibilities as well as those of the executive director and staff. The board members should receive an overview of the board manual. The board manual should contain a history of the organization, its mission statement, its articles of incorporation and bylaws, its major policies, the long-range plan, the list of current board members, the committee names and functions, and the minutes of last year’s meetings.
7. **Board Evaluation & Development** – A regular process of evaluating board members individually and collectively will help identify performance strengths and weaknesses. Board development is an ongoing process that requires opportunities for members to receive feedback, learn, practice, and improve.

C. Principle – Team Effort

The board is a team. It functions as a body rather than as individuals. The board leader is the chair who works closely with the executive director to provide the team with information and involvement.

Practices

1. **Officers** – Unless otherwise provided in the articles of incorporation or bylaws, the officers of the board of directors are the President (Chair), Treasurer, and Secretary, Iowa Code 504.841. They are elected by the board, or, for some organizations, by a voting membership.
2. **Meetings** – Board meetings should be regular and engaging. Board meetings are more efficiently run when an agenda is followed, when there are time limits on each agenda item, and when participation is facilitated. Every board meeting should include a financial report. It is essential that the board have current knowledge and understanding of the organization’s financial situation so that it can take appropriate action to keep the budget balanced. Board meetings should also monitor policy application and program activity.
3. **Information after board members are on the board** – The nonprofit staff should continue to provide members with opportunities for development by

offering special training on legal and other pertinent organizational issues as well as economic, social, and environmental trends; by moving them from one committee to another; by offering tours of the organization's facilities and opportunities to participate in services offered by the organizations; by distributing relevant charitable nonprofit monographs; by organizing planning retreats for board and staff at which long-range trends and goals are discussed; and by periodically giving 20-minute training sessions at regular board meetings on issues of vital importance to the organization.

4. **Board Committees** – For Iowa nonprofit corporations there shall be at least two board members on the board's committees. Typical board committees include the following:

- a. Program
- b. Budget and Finance
- c. Audit
- d. Investment
- e. Personnel (Human Resources)
- f. Fundraising
- g. Marketing/Public Relations
- h. Facilities
- i. Governance (Nominating)

In the case of a larger board, an executive committee handles matters between full board meetings and is required to report to the board on its interim actions. See Iowa Code 504.826 for nonprofit corporation's committee provisions. Iowa Code section 504.826(6) states, "The creation of, delegation of authority to, or action by a committee does not alone constitute compliance by a director with the standards of conduct described in section 504.831."

5. **Advisory boards and support groups** - The board of directors is the sole governing body of the organization. It may establish advisory boards, such as friends groups and those identified as "membership" groups, who have no voting/governance authority.

D. Principle – Board Chair Leadership

The board chair is key in organizational dynamics. Organizational transition always flows through the board chair.

Practices

1. The board chair must have the skills, disposition and enthusiasm needed for board leadership.
2. The board chair and the executive director together must chart the course of the board's work along with an executive committee where it exists. This includes developing board meeting agendas, appointing and staffing board committees, and recommending policies.
3. The board chair must create a collegial atmosphere for the conduct of board and committee meetings. The board chair needs to be a team builder.
4. There should be a position description for the board chair.
5. The executive director must be evaluated annually. If the executive director is not performing satisfactorily, the board chair and the board should specify areas for improvement based on the executive director's evaluation, coach the executive director, and then, if there is insufficient improvement in performance, replace the executive director rather than cross the line from policy-making into policy administration.
6. Concentrating authority for organization and management in one person removes valuable checks and balances. Ideally, the positions of board chair, board treasurer, and executive director should be held by different individuals.
7. Increasingly, charitable nonprofit boards engage in annual evaluation of their own performance as a board. These evaluations should focus on the effectiveness and dynamics of the board as a whole as well as board committees and their leaders.

E. Principle - Board/Staff Relationship

Nonprofit organizational success depends on the clear delineation of responsibilities and mutual respect between the board and the staff.

Practices

1. The board chair must provide leadership and oversight; the executive director must administer the organization.
2. The executive director is appointed by and terminated by the board.
3. Board stewardship is a major responsibility of the executive director and requires serious time commitment. It is essential for the executive director to respond promptly and openly to the board. Executive directors are most effective when they understand, respect, and foster the role of the board.
4. The board chair and the executive director should be where communication between the board and staff intersect. There must be a trusting and open relationship and mutual respect between the board chair and the executive director.
5. The board must function as a board and speak through the board chair to the staff. The staff must function as a staff and speak to the board through the executive director. While individual members of the board and staff will work together, converse, and learn together through board committees and other organizational activities, it must always be recognized that “the buck stops” with the board chair and the executive director.
6. Board and staff interact through a formal communication process. Therefore, it is imperative for the board chair and the executive director to be open with their colleagues. Communication, including both dissent and bad news, must flow freely through these two communication conduits. Information breeds understanding.
7. The executive director and staff need to be open, forthright, patient and timely in their responses to the board. Staff must recognize that board members have limited time to offer the organization but they desire to be as effective as possible. The board should feel their expertise and skills are being effectively used and that the executive director and staff will not be defensive when challenged.
8. Where the executive director(s) is an ex officio member of the board, it is important that the board be given the opportunity to meet regularly without the executive director being present. Open communication within the board about the work of the executive director is the best way to assure good relationships.

F. Principle – Board’s Fiduciary Duty

Charitable nonprofit board members and officers must be aware of and comply with the three legal fiduciary duties related to their work: the Duty of Care, the Duty of Loyalty, and the Duty of Obedience.

Practices

1. **Duty of Care** – Board members and officers meet the duty of care by exercising their responsibilities in good faith and with diligence, attention, care, and skill. (For nonprofit corporations, see Iowa Code 504.831; for charitable trusts, see Iowa Code 633A.4203.) This includes both decision-making and oversight responsibilities and is fulfilled by such things as attending board meetings regularly, entering discussions, reading minutes, learning about the organization’s programs, maintaining careful oversight of finances, and questioning unclear or troubling activity.
2. **Duty of Loyalty** - Charitable nonprofit board members and officers meet the duty of loyalty by placing the interests of the organization before his or her private interests, including scrutinizing transactions in which the director has a personal financial interest, refraining from providing loans from the nonprofit to directors and/or directors’ family members, and avoiding the use of organizational opportunities for personal gain. (For nonprofit corporations see Iowa Code 504.833; for charitable trusts, see Iowa Code 633A.4202.) Conflicts of interest are managed rather than entirely avoided. For proper management, it is essential to have a written conflict of interest policy which includes:
 - a. an annual written conflict disclosure by all board members and officers;
 - b. another disclosure process as particular conflict-of-interest situations arise for particular board members and officers;
 - c. provisions outlined by which the individual board member will not be involved in board actions on matters presenting a conflict of interest for the board member or officer.
3. **Duty of Obedience** - Directors meet the duty of obedience by carrying out the purposes and mission of the charitable nonprofit, complying with federal and state law applicable to nonprofits, doing required filings, and complying with the organization’s governing documents, articles of incorporation, and bylaws.

G. Principle – Board Risk Management

Nonprofits should engage in regular risk management regarding board liabilities.

Practices

To help minimize the potential liabilities of board members, nonprofits in Iowa should consider:

1. **Entity status** (i.e., incorporation, by which the entity is liable, but not those working for the corporation)
2. **Specific statutory immunity** (in which acts neither intentional nor criminal are protected from liability) see Iowa Code 504.901
3. **Indemnification** (nonprofit corporation law in Iowa requires in some circumstances that the nonprofit corporation indemnify its board of directors) see Iowa Code sections 504.852 through .857
4. **Purchase of Director’s and Officer’s insurance** (which covers costs associated with directors and officers being sued in connection with their work for the nonprofit) see Iowa Code 504.858

VI. Executive Director

Principle – Executive Director Responsibilities

The executive director has the day-to-day administrative responsibility for achieving the organizational mission and assuring the efficient and effective operation of the organization.

Practices

1. The executive director has the responsibility to carry out the policies, procedures, and strategic plan adopted by the board.
2. The executive director must be effective in the use of the organization’s assets, human resources and program delivery, and set sufficiently high goals for the organization to achieve.
3. A major responsibility of the executive director is to work closely with the board through the board chair.

4. The executive director must have the intellectual vision to develop the organization and push the mission of the organization in seminal directions.
5. The executive director must be able to implement the vision through well-conceived programs that serve the public and develop supportive constituencies.
6. The executive director must be a communicator who can articulate the nonprofit's niche to attract and retain public constituencies.
7. The executive director enlarges the financial base by expanding private contributors, increasing inter-institutional collaboration, and developing new approaches to all levels of government.
8. The executive director must like people and be open to suggestions and the perspectives of others.
9. The executive director is responsible for assuring compliance with legal, financial, accounting, and ethical requirements.
10. The executive director must perform his or her responsibilities subject to fiduciary duties.
11. The board should annually evaluate the performance of the executive director.

VII. Human Resources

A. Principle – Motivation of Staff

Paid staff and volunteers operate and deliver the services of the charitable nonprofit organization. The quality of their work and their commitment to the organization's mission determine the success of the organization.

Practices

1. Staff and volunteers should receive clear direction from and regular supervision and evaluation by their supervisors.
2. Organizational policies and practices should address human resource issues and be made available to staff and volunteers.
3. A motivational environment and recognition of work well done are powerful stimuli for staff and volunteers.

B. Principle – Development of Staff

As the services and operations of charitable nonprofits become more complex, there is an increasing need for specially trained paid staff with a dedicated time commitment.

Since many of Iowa's charitable nonprofit organizations are small with fragile finances, paid staff members are often few and may only be employed part time. Regardless of numbers of paid staff, there should be documented policies and practices defining their status and guiding their work.

Practices

1. Human relations policies should cover:
 - a. position descriptions
 - b. interview standards
 - c. terms and conditions of employment
 - d. compensation and benefits
 - e. training and development
 - f. performance review
 - g. promotion policies
 - h. disciplinary grounds
 - i. termination grounds and procedures
 - j. conflict resolution procedures
 - k. grievance procedure
 - l. employee protection from discrimination, harassment, and as a whistle blower
2. A charitable nonprofit should carefully interview and plan the first few days of an employee's work with adequate orientation and mentoring.
3. A charitable nonprofit should provide a stimulating, flexible, and enjoyable working environment which encourages staff initiative, participation, and maximum utilization of staff skills.
4. A charitable nonprofit should invest in staff. In dealing with limited budgets give priority to paying staff adequate compensation and fringe benefits. Provide a budgeted amount for staff training that will improve skills and morale.
5. A charitable nonprofit should express appreciation and show respect for staff work well done in spontaneous as well as through formalized recognition awards.

C. Principle – Volunteer Role

Volunteerism is the hallmark of charitable nonprofit organizations. Volunteers create, govern, fund and staff charitable organizations.

Practices

1. A charitable nonprofit should regularly supervise and communicate with volunteers.
2. A charitable nonprofit should have liability insurance coverage to protect volunteers.
3. Regular collection of information on volunteer numbers and hours should be maintained by a charitable nonprofit.
4. A charitable nonprofit should practice recruiting methods that connect with diverse populations.
5. A charitable nonprofit should have screening procedures to identify suitable volunteers.
6. A charitable nonprofit should have written policies and job descriptions for volunteer involvement.
7. A charitable nonprofit should take annual measurement of the impact of volunteers.
8. A charitable nonprofit should have training and professional development opportunities for volunteers.
9. Training should be conducted for a charitable nonprofit's paid staff working with volunteers.
10. A charitable nonprofit should have an employee or volunteer responsible for recruitment of dedicated and committed volunteers.
11. Volunteer policies should cover:
 - a. Volunteer position description
 - b. Recruitment and placement procedures, including background checks where appropriate
 - c. Orientation
 - d. Training requirements
 - e. Time commitment
 - f. Evaluation procedure
 - g. Separation grounds and procedures

12. A charitable nonprofit should articulate the role of non-board volunteers in the operations of the organization. Charitable organizations should recognize the vital, albeit special, role of able and committed volunteers in carrying out the mission of the organization by affording them an opportunity to participate as partners rather than as adjuncts in charting and conducting the course of the organization.
13. A charitable nonprofit should provide individual praise for work well done by volunteers and hold group recognition events, including participation in the Governor's Award for outstanding volunteers.

VIII. Financing and Funding

A. Principle – Funding Essentials

No funding, no program. Funding is central to achieving the mission.

Practices

1. The board and staff are responsible for securing the funding needed to carry out the organization's programs.
2. A strategic plan must include a specific financial plan regarding sources of funding, individuals designated to secure funding, a timetable for funding, and review of funding status at every regular meeting of the board.
3. There should be proper training and supervision of people raising funds on behalf of the organization.
4. Diversity in funding sources increases organizational financial stability. Most charitable organizations derive their funding from a combination of sources including private contributions, earned income, and government.
5. Prudence requires an organization to generate income beyond daily operational needs in order to build cash reserves for both capital and operational long-term needs.

6. A gift-acceptance policy is helpful for the organization and potential donors by outlining the process for how a variety of gifts may be accepted or rejected.
 - a. A gift should be accepted only if it can be used or expended consistently with the purpose and mission of the organization.
 - b. Prospective donors should seek the assistance of personal legal and financial advisors in matters relating to their gifts, including tax and estate issues.
 - c. Some types of donations may be accepted subject to review by a committee or the board (e.g., bequests, life insurance, personal property, real estate, etc.).
7. All funding must be expended in pursuit of the organization's charitable mission, which includes improved service and access to service.

B. Principle – Financial Accountability

A charitable organization is accountable to its funders, its constituencies, and the public, both as to the sources and uses of funding. Current, complete, and accurate financial records are critical to meeting the legal obligations of the organization.

Practices

1. Financial Audits

- a. The board has a responsibility to have an annual audit. It is desirable to have a board audit committee which is separate from the board finance/budget committee(s).
- b. Where the organization has total annual gross revenues in excess of \$1,000,000 or more, its financial statements should be independently audited. Where the annual gross revenue is between \$250,000 and \$1,000,000 the financial statements should be reviewed by an independent public accountant. Smaller nonprofits in Iowa with annual gross revenue below \$250,000 are encouraged to get outside assistance with and outside review of their accounting activities regularly. Nonprofits should remain aware that some funders may require audits regardless of gross revenue amounts.
- c. The audit or financial statement should be available to all funders, government regulators, and the public.

2. Fraud/Embezzlement

All charitable organizations regardless of size are vulnerable to fraud and embezzlement. The handling of funds needs to be rigorously scrutinized by the board and the staff. There should be internal controls so that no single person is responsible for receiving, depositing, and expending funds. There should be a confidential procedure for reporting fraud and embezzlement.

3. Investments

Unless the gift instrument says otherwise, consider the following when determining accumulation and spending of growth in endowments of nonprofits. The nonprofit must act in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and consider such issues as the duration and preservation of the endowment fund; the purposes of the institution and the endowment fund; general economic conditions; the possible effects of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the institution; and the investment policy of the institution.

4. Regulatory, Donor, and Public Reports

- a. The organization needs to file the required government reports in a timely and complete manner. In particular this means the Internal Revenue Service Form 990.
- b. Regular reports should be provided to government and private funders concerning expenditure of funds in compliance with the terms of a grant or gift. Charitable nonprofit organizations must be aware of the requirements of separate fund accounting for restricted grants, funds, and endowments.
- c. Every organization should make available to its constituents and the public an annual report of its finances, program, current board members, and officers in printed and/or website form. Disclosure of the last three years of IRS Form 990 to anyone requesting it is required by law.
- d. Charitable nonprofits raising funds in Iowa must be prepared to disclose the costs of the fundraising in comparison to the amount of funds raised to any potential donor who requests it. Iowa Code 13C.

5. Reimbursement

The organization should establish written policies regarding payment of reimbursement expenses, including the types of expenses covered and the documentation required for reimbursement.

6. Loans

The organization should not provide loans to board members or trustees. Loans or paid advances to employees should be in writing and approved by the board. Depending on the nature of the loan or advance, additional state and federal reporting may apply.

C. Principle – Charitable Focus

Although many types of charitable organizations are funded in part by fees for service, e.g. hospitals and educational institutions, they must remain primarily charitable in their overall administration.

Practices

1. To be considered charitable rather than commercial, organizations charging fees must demonstrate that they serve a public purpose, such as providing services to people who cannot afford to pay.
2. Charitable organizations should be entrepreneurial but must be mindful that they are subject to the fiduciary duties of care and loyalty which require a prudent and detailed action plan which the organization has the capacity to achieve.
3. Where the Internal Revenue Service considers an activity unrelated to the core mission of the organization it applies the Unrelated Business Income Tax (UBIT) to the revenue generated from that specific activity. The organization needs to be aware that unrelated activities do not take precedence over the basic organizational mission, and the organization must report taxable unrelated revenues on IRS form 990-T and Iowa form 1120.

D. Principle – Financial Accountability

Charitable nonprofits must recognize that, while the government provides vital support by granting tax-exempt status to charitable organizations, and also often provides direct funding to charitable nonprofit organizations to deliver public

services, these are accompanied by restrictions and reporting requirements with which the charitable nonprofit must become familiar and with which it must comply.

Practices

1. Government funding carries with it conditions, restrictions, and regulations as to the use of and accounting for the funds by the charitable organization. For federal money, see the OMB Omni Circular, Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Rewards (2 CFR 200 et seq.) For Iowa state funds, there is some guidance in Iowa Code 8F.
2. Solicitation and deployment of government funds must be consistent with the charitable nonprofit's mission, policies, and practices as well as the applicable laws.

E. Principle – Tax Deductibility for Donors

Charitable nonprofits must recognize and make effective the American charitable tradition which has at its core contributions by private individuals and organizations. Public policy encourages private giving by making donations tax deductible to the donor, a policy that charitable nonprofits must ensure will continue through prevention of abuse.

Practices

1. A charitable organization needs an integrated private fundraising process based on a written plan that sets goals, objectives, and timelines and spells out the solicitation methods, programmatic needs, types of gifts, and the recruiting and training of volunteers and staff to implement the plan.
2. Charitable nonprofits shall be aware of and comply with Internal Revenue Code provisions (see, e.g., IRC section 170). They must also refrain from aiding donors who violate the Code.
3. The charitable organization shall provide donors with a written acknowledgment of donations pursuant to IRC section 170(f)(8) and estimations of quid pro quo values in return for gifts pursuant to IRC section 6115.
4. The charitable nonprofit should acknowledge non-cash gifts with IRS Form 8283, and the donor, not the charitable organization, is responsible for securing appraisals of the value of non-cash contributions.

5. Charitable organizations raising funds in Iowa shall comply with the Iowa Charitable Solicitation Act (Iowa Code 13C) administered by the Consumer Protection Division of the Office of the Iowa Attorney General. Iowa charitable nonprofits raising funds in other states should ensure their compliance with the fundraising regulation of each state in which they raise funds.
6. Fundraising communications should include clear, accurate, and honest information about the organization, its activities, and the intended use of the funds raised.
7. While significant costs of fundraising are real, fundraising costs should be reasonable in relationship to the total operational costs of the organization.
8. A charitable organization should adopt donation policies consistent with the law and public policy as well as its mission and its ethics. These policies should list any unacceptable fund sources and gift conditions which would preclude acceptance of a gift.
9. In the case of a restricted gift, a “charity is considered to comply with a gift restriction if the charity acts in good faith, reasonably construes the terms of the restriction, and adheres to all material requirements of the restriction”. See ALI Principles of the Law of Nonprofit Organizations. Charities need to be made aware of the gift restriction. Donor language expressing a wish rather than a restriction is not binding on the charity.
10. Where a donor requests anonymity, the organization should respect the request as to the name of the donor but make available information concerning the size and purpose of the gift. Form 990, Schedule B, with its list of larger donors, may be withheld from the otherwise required disclosure of the form.
11. The organization should not sell or otherwise make available the addresses of its donors without permission of the donors. Where required by law to do so, the organization shall provide full information to the designated governmental authorities.
12. The organization has the stewardship responsibility to keep donors apprised of the impact of their gifts and to respond promptly and fully to donor inquiries. General organizational information should be available through a printed or website annual organizational report.
13. The organization should designate the person(s) responsible for donor solicitation and stewardship.

IX. Communication

A. Principle – Importance of Communication

Charitable organizations are not abstractions. They are people (constituencies) interacting with each other in a variety of ways. Communication is key to effective interaction.

Practices

1. Communication is a form of accountability to the organization's constituencies. It should be oriented to the constituencies and thus requires an outreach mindset.
2. A goal of a charitable nonprofit's communication should be transparency which includes:
 - a. Continually building trust with the public by appropriate financial reporting
 - b. Communication with the public about significant contributions to the community with the charity's funds and programs
 - c. Strongly evident commitment to ethical behavior
3. Communication should be strategic, integrated, and central to the organization's functions.
4. Messages must be timely, informative, clear, and forthright with openness and candor about bad news as well as good news.
5. Effective communication identifies:
 - a. The constituencies who are to receive the message
 - b. The content of the message to be delivered
 - c. The method of delivering the message
6. Constituencies are both internal, including the board, staff, and volunteers, and external including the people who receive the organizations' services, the funders, the regulators, and the general public.
7. Evaluate the effectiveness of your communication effort by gathering feedback from your internal and external constituencies. Understanding how those inside and outside your organization learn and respond to your methods of communication will help you achieve your organization's goals.

B. Principle – Internal Communication

Internal communication is essential to motivate, inform, and counsel people to achieve organizational excellence.

Practices

1. Effective internal communication welcomes alternative perspectives, invites and encourages participation at all levels, minimizes defensiveness, and builds and maintains camaraderie.
2. To be effective, internal communication needs to flow freely up as well as down, horizontally as well as vertically. Management needs to solicit actively, to listen carefully, and to respond respectfully to the views of internal constituents.
3. Internal constituency communication methods include a policies and practices manual, open meetings, newsletters, e-mail reports, a suggestion box, friendly one-on-one suggestion sessions, reports on meetings of the board and its committees, recognition awards, and receptions for board, staff and volunteers.

C. Principle – Communication to External Constituency

External communication is essential to attract and retain users of the organization's services and to raise public consciousness, understanding, commitment to, and funding of the organization. Your communication should clearly identify your organization, as well as be accurate and truthful.

Practices

1. Marketing entails a plan to identify and keep in touch with the organization's external constituencies about their needs and desires and explains and promotes how the organization's programs meet those consumer needs.
2. Public relations focuses on relationships between the organization and the public. These relationships include news information, crisis management, and government relations.

3. There are several external communication objectives:
 - a. **Visibility** - Do your publics know who you are?
 - b. **Reputation** - Are you trusted?
 - c. **Accessibility** - Can your publics get information quickly from you through a live and knowledgeable staff member?

4. Some of the more important external communication methods are: website, annual report, advertising, public service announcements, promotion brochures and flyers, news releases, press conferences, feature stories, special events, and promotions.

D. Principle – Public Relations

Board members, staff, volunteers and friends are encouraged on their personal time to be public advocates for their charitable organizations and the entire charitable nonprofit sector at the local, state, and national levels.

Practices

1. Organization communications should identify the organization as charitable in purpose and in action.
2. Organizations should cooperate with other charitable nonprofits to inform how they collectively serve the public as charitable organizations.
3. Organization communication should enhance public awareness and understanding about the charitable nonprofit sector as a whole.
4. Organizations should identify specific public spokespersons.
5. Organizations should have a procedure for developing public statements which reflect the full range of the views of the organization's constituencies and not just the opinion of a few people.

X. Information Technology

A. Principle – Using Technology Effectively

Proper information management is essential to a successful nonprofit organization and the fulfillment of its mission.

Practices

1. A charitable nonprofit should incorporate the following concepts into its information management plan:
 - a. Confidentiality of information
 - b. Accuracy of information
 - c. Integrity of information
 - d. Recovery of stored/backup data
2. A charitable nonprofit should have information systems implemented that provide timely distribution of information with a high degree of accuracy and reliability.
3. A charitable nonprofit should have policies and procedures clearly documented and distributed to its personnel regarding how the organization's information is to be stored and maintained, how the accuracy of the information will be determined, how the information is to be backed up, and to whom the information is to be distributed.
4. A charitable nonprofit should designate at least one person within the organization to be responsible for the successful implementation of the information management plan and the annual review of the plan to ensure its efficiency and efficacy.

B. Principle – The Goal of Technology

Information technology and computing assists the mission of charitable nonprofits by improving productivity and facilitating improved communication. Other benefits are: the speedy creation of letters, reports, minutes, news releases, speeches, etc.; communication by email, instant messaging, and video conferencing; mailing list management, record keeping; discussion forums and Internet meetings; and financial recordkeeping and analysis.

Practices

1. A charitable nonprofit should invest in:
 - a. an effective application suite to assist its staff in the creation and maintenance of documents. At a minimum, the charitable nonprofit should purchase a word processing program;
 - b. a spreadsheet program to prepare budgets and regular financial reports;
 - c. an accounting program to track and manage finances;
 - d. a database program to maintain member records and other records;
 - e. voice mail, email, and Internet access for its staff and regular personnel.
2. A charitable nonprofit should have donation databases which can generate donation reports, enable staff to sort donor data in a variety of ways, record multiple donation/donor details, create and sort lists of potential and current donors, and print letters, labels, and a variety of reports.
3. A charitable nonprofit should consider implementing local area networks (LAN), which allow staff members to access each others' files via their desktop computers.
4. In addition, staff can share Internet access across all the computers on the LAN, share one central database, and enable an automated backup system for all computers on the network.
5. A charitable nonprofit should allocate sufficient resources to train its board, employees, and volunteers in the use of the procured software and hardware.
6. A charitable nonprofit should establish goals for the information system's physical growth and future expenditures.

C. Principle – Website Design

A well-designed website provides several advantages for a charitable nonprofit such as income generated from an e-commerce section, web advertisement, publication of the organization's ideas and writings, providing a positive multimedia experience for website users, advertising its business with an online brochure, and most important, providing information to its customers and other visitors.

Practices

1. Before it begins the design process, a charitable nonprofit should do a requirements analysis for a proposed website. A requirements analysis includes:
 - a. Determining host disk space and monthly traffic allowance
 - b. Selecting a suitable web-hosting package
 - c. Determining whether to create the pages in-house or to hire a consultant
 - d. Determining server side requirements (software, etc.)
2. A charitable nonprofit should come up with a design of the website, obtain a domain name, resolve web-hosting concerns, develop the website, promote the website, and finally define monthly maintenance tasks.
3. A charitable nonprofit should focus a considerable amount of time and energy developing a Frequently Asked Questions (FAQ) section of the website, which reduces the costs of serving constituents, makes the organization's information available 24-hours a day, and frees staff to better achieve the goal of fulfilling the organizational mission.
4. A charitable nonprofit should help ensure the success of its website through search engine optimization (the use of appropriate keywords and phrases in the page content), by determining what the major search engines are, by monitoring the website's rankings, and by listing the web address (url) on all relevant publications and business-related materials such as letterhead, business cards, advertisements, and the like.

XI. Advocacy

Principle – Communicating to the Government

Nonprofit organizations should individually and collectively communicate their views to government about matters which affect the delivery of their services.

Practices

1. IRC 501(c)(3) organizations are free to contact and seek to influence actions of executive and administrative governmental bodies.

2. Under the Internal Revenue Code, organizations are limited to insubstantial activities to influence legislative bodies, but it is acceptable to engage in advocacy within those limits.
3. The measure of whether lobbying is insubstantial or not is complex unless nonprofits make the 501(h) election by filing form 5768 with the IRS to make calculation of insubstantial lobbying easier.
4. Charitable nonprofits can provide educational information to the public about pending legislation not advocating one side or the other, but urging the public to contact their legislators is restricted.
5. Nonprofits exempt under IRC 501(c)(3) are prohibited from participating in political campaigns by distributing information about or endorsing specific candidates. They may provide educational information in a nonpartisan manner about all candidates running for a particular position. Private foundations are subject to excise taxes under IRC 4945 for funding political activity.

XII. Collaboration

A. Principle – Value of Collaboration

In its strategic planning, a charitable nonprofit organization should consider means by which it can collaborate with other organizations in order to increase the effectiveness and efficiency of its services.

Practices

Collaboration takes two forms:

1. Merger – a statutory (Iowa Code Section 504.1101, et seq.) procedure by which two or more nonprofit corporations join together with one of the organizations as the surviving organization.
2. Joint Ventures – a contractual method, either oral or in writing, where two or more organizations come together as peers to undertake joint activities which will enable each organization to serve the public more efficiently and effectively. Each organization maintains its corporate identity even

though the joint venture may have an overarching name to identify the joint venture. A joint venture might also be described as an alliance, network, or coalition.

B. Principle – Joint Venture Alternative

The purpose and details of the joint venture must be carefully thought out and enumerated.

Practices

1. The goals of the joint venture must be clearly identified.
2. The objectives and strategies for achieving the goals must be specific.
3. It is essential to spell out the desired outcomes of the joint venture and how to measure them.
4. It is essential that the organizational structure be clear as to how the joint venture will operate and to whom it is responsible, including who makes policy, who executes, who evaluates, and how the joint venture is accountable to the participating organizations.
5. It is essential to identify what resources will be required, who will supply them, and how the benefits will be shared.

C. Principle – Cost/Benefit of Collaboration

The needs for joint ventures are as varied as the types of collaborators. These include other nonprofit organizations, businesses, and governments.

Practices

1. Charitable nonprofit collaborations with other nonprofits reduce costs and improve operations in the following ways:
 - a. By sharing management, financial, information technology, and other administrative staff
 - b. By joint marketing, public relations and promotion such as cultural alliances

- c. By sharing facilities
- d. By delivering comprehensive service
- e. By reaching new clientele
- f. By joint program planning and service delivery in common fields such as children and elders
- g. By joint purchasing of supplies, insurance and other products and services where quantity buying reduces costs and affords access
- h. By joint fundraising
- i. By reducing costs associated with competition
- j. By increasing access to capital funds
- k. By enhancing public advocacy for participants and the nonprofit sector as a whole

2. Nonprofit collaborations with the business sector improve operations:

- a. By working actively with the local chamber of commerce and economic development organization to advance the local economic and civic environment
- b. By working with the chamber of commerce and business organizations to create a charitable nonprofit “board bank” which identifies and trains potential board members for nonprofit boards of directors
- c. By businesses providing loaned employees and encouraging employees to volunteer for charitable nonprofit service
- d. By businesses providing financial and computer service assistance to small charitable nonprofits
- e. By opening business management training programs to charitable nonprofit executives for no or low cost

3. Charitable nonprofit collaboration with government afford benefits:

- a. By increasing joint community needs assessment and planning for government funded services and programs

- b. By designating staff members in government agencies to work regularly with the nonprofit sector in identifying opportunities to collaborate
- c. By expanding grant opportunities and contract eligibility for Iowa's many charitable organizations
- d. By providing adequate training to assure accountability and compliance

XIII. Accountability and Compliance

A. Principle – Compliance Responsibility

Charitable nonprofit organizations are chartered and granted tax exempt status to serve the public. With this public privilege comes the obligation of accountability. This accountability takes a variety of forms: good management practices, legal mandates, and ethical conduct. The obligations of charitable nonprofit organizations are defined by government laws and regulations and by self-regulation through policies adopted by organizational peers and by the organization itself.

Practice

1. Government Regulation – Federal, state, local:
 - a. Tort and Contractual Liability - The concept of charitable immunity from lawsuits has been eliminated. Therefore, directors and officers are liable for organizational torts and breaches of contract where they are negligent and third parties have been injured.
 - b. Statutory - A charitable nonprofit organization and its agents shall comply with statutes and administrative rules which are enforceable by government and third parties.
 - c. Sarbanes-Oxley Federal Legislation - Sets record retention and whistleblower protection requirements for nonprofit organizations. In general, a nonprofit organization should have a written, mandatory document retention and periodic destruction policy for maintaining various categories of documents (e.g. financial, fundraising, personnel, etc.), as well as requirements for electronic materials such as e-mail. Otherwise,

this legislation applies only to for-profit corporation conduct. However, the legislation suggests good practices for charitable nonprofit organizations such as the requirement of an audit committee.

- d. Licensure - Many of the services delivered by charitable nonprofit organizations require licensure of the organization and/or the personnel delivering the service e.g. hospitals, health providers, day care, nursing homes.
- e. Operational Regulations - Charitable solicitation, consumer fraud, Occupational Safety and Health Act (OSHA), Americans with Disabilities Act (ADA), wages and hours law (overtime), working conditions, ERISA and pension management and reporting requirements, anti-discrimination requirements such as civil rights legislation.
- f. Grant Restrictions - (other than interference with free speech) accountability including reports and audits.

2. Peer regulation:

- a. Three forms of Peer Regulation - Peer organizations create peer regulation, and charitable nonprofits should review the three forms this peer regulation takes: best practices, codes of ethics, and accreditation.
- b. Principles and Practices – Best practices are being identified by the various charitable nonprofit disciplinary fields and across the entire nonprofit sector at the state and national level.
- c. Ethics Codes – Increasingly charitable nonprofit groups are promulgating ethical conduct codes pertaining both to individual professional conduct (e.g. nurses, curators, lawyers) and to the conduct of the organization as a whole.
- d. Accreditation by Peers – Accreditation is a formal process of examining all aspects of an organization by outsiders. The examination is pursuant to specific standards relating to all dimensions of organizational performance. It is designed to create uniformity of operations. Accreditation may be a condition for government grants and entry into a profession. Accrediting agencies are sometimes accredited by a government agency either in the executive or judicial branch. Moreover, accreditation decisions take on a quasi-legal status and can be subject to judicial review because of their economic impact.

3. Individual charitable nonprofit organizations should adopt their own principles, practices, and ethics codes.
 - a. Principles and practices – Boards of directors should adopt the principles and practices that guide the organization. Their application should be monitored by the board. They should be published in a manual available to all constituencies. They should be distributed to all staff and volunteers. There should be regular staff training based on the manual. Among the issues covered in principles and practices might be equal opportunity, sexual harassment, terms of employment conditions, staff evaluation, staff promotion, and internal grievance procedures.
 - b. Ethics codes – Ethics require subordinating self interest in favor of the public interest. Ethics codes set a higher standard of conduct than the law. Ethics go to the essence of our beliefs and how we feel and care for others. A code of ethics demands a sense of responsibility and courtesy to others. Others come ahead of our own interests. Nonprofit ethics codes cover such issues as obeying the law, respect for the worth and dignity of individuals, diversity, fairness, openness, honesty, prudent application of organizational resources, and professional conduct in service to others. The board, staff, and volunteers should develop and implement a code of ethics that reflects the values of the organization. New organization members should receive a full orientation to the code; all policies and procedures should reflect the code in practice; and a process for addressing misconduct should be adopted.

B. Principle – Individual Responsibility

The most effective means of assuring public accountability is to foster a culture of compliance at the organizational level, a culture of compliance in which it is not enough merely to adopt self-regulations, but in which self-regulation is embraced and applied in all that the organization does. People are organizations. Organizational actions are taken by people. The people of the organization are accountable for its actions.

Practices

1. Responsible individuals – those who carry out the work of the organization, i.e. board members, officers, staff, volunteers, and hence are responsible for the actions of the organization.
2. Protection against individual liability.
 - a. Standard of care [see above at V.G]
 - b. Limited corporate liability
 - c. Exculpatory statutes – volunteer protection statutes
 - d. Indemnification statutes and articles and by-law clauses
 - e. Directors' and officers' insurance
3. Charitable nonprofits should engage in a process of compliance assurance by doing training, seeking advice, and carrying out a compliance audit.
 - a. Training – Board, staff, and volunteers should receive regular training in government laws and regulations and in the peer and organizational policies, practices, and ethical principles.
 - b. Advice – A board member or staff member should be designated as the compliance officer and should be available for advice and interpretation concerning the organization's obligations.
 - c. Audit – The board should require an annual compliance audit with a report to the board.

For more information contact:

**The Larned A. Waterman Iowa Nonprofit Resource Center
130 Grand Avenue Court
Iowa City, IA 52242**

Telephone: 319-335-9765 or 866-500-8980 (toll free)

Web: <http://inrc.law.uiowa.edu>

Email: law-nonprofit@uiowa.edu

