

Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

Nonprofits build credibility on solid financial footing

By Barry VanderKelen

The fifth anniversary of the signing of the Sarbanes-Oxley Act was observed July 30. The law was enacted to rebuild public trust in accounting and reporting practices of corporations after a series of high-profile scandals. California has become a leader in applying Sarbanes-Oxley to nonprofits.

In 2004, California enacted the Non-profit Integrity Act, or NIA, that is based on Sarbanes-Oxley. The aim is to strengthen accountability and oversight of charitable organizations as well as the solicitation campaigns that commercial fundraising firms are hired to do. Many of the provisions of this act apply only to nonprofits that have gross revenue of \$2 million or more. Educational institutions, religious organizations, hospitals, licensed health care service plans and cemeteries are exempt. In San Luis Obispo County, approximately 1 percent of the nonprofits are affected by NIA.

While federal and state laws do not apply to every nonprofit, voluntary implementation of their principles can enhance an organization's reputation and improve its competitive ad-

vantage.

One good practice of an organization is to have its financial statements audited by a certified professional accountant. Before Sarbanes-Oxley, many accounting firms conducted audits of nonprofits for free. The oversight required by the law has reversed that, and most, if not all, audits are now done for a fee. Some small nonprofits, those with annual revenues under \$100,000, have arranged to have their financial statements compiled or reviewed by a certified public accountant, which is less costly than an annual audit.

Another low-cost practice almost all nonprofits have adopted is adding financial experts to their boards of directors. These board members can help the organization follow best practices for fiscal management.

Larger nonprofits are advised to establish audit committees. These committees are given the authority to hire an independent auditor to review the organization's records. They typically also serve as a safe place for lodging complaints when illegal activities are suspected. Also, independent oversight assures the general public that the organization is responsibly using its resources.

Other provisions of the federal and state laws that have been adopted voluntarily by nonprofits to varying degrees are term limits for board members, conflict-of-interest policies, board self-evaluations and document destruction policies.

An individual may research a nonprofit through a number of sources. One is to read the audit. If the organization has three or more employees, it must make its audited statements available for inspection during regular business hours or post them on its Web site. Organizations may charge a reasonable fee for copying the audit if someone wants it.

Another way to gain insight into an organization is to see its official record on the attorney general's Web site (www.ag.ca.gov/charities). Included is a copy of the most recent IRS Form 990, a mandatory filing for organizations that have revenue of \$25,000 or more. In San Luis Obispo County, some 40 percent of nonprofits meet this revenue threshold. Nonprofits should proactively take steps to assure their donors and clients that they are managed in accordance with regulations.

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Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

Nonprofit Business Column of The Tribune

The San Luis Obispo Tribune publishes a column every other week in the Business section dedicated to the business practices of nonprofit orgs. Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes the bi-

weekly column to help strengthen nonprofit organizations in the community. Each column is reprinted here as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at barry@slocf.org.