

U.S. Senate Committee on Finance
Hearing on Charity Oversight and Reform
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Mr. Chairman and Senator Baucus, we are grateful to you for holding this hearing emphasizing "the importance of the nonprofit community to the nation." Even though we live in an increasingly globalized society, we live our lives locally. In the American tradition, our voluntary nonprofit organizations are the building blocks of community. Through our local nonprofits we provide community service, develop community values and take community action together as citizens. In Iowa, our 3,614 charitable 501(c)(3) nonprofit organizations that filed 990 forms in 2003 are small and rely heavily on volunteers in all aspects of their operations. Approximately 72% of all Iowa charitable organizations filing tax returns have revenues under \$500,000. Forty-four percent have revenues of less than \$100,000. Iowa nonprofit organizations do much with little funding. We are committed to doing good — well and responsibly. While we share the desire for accountability and transparency, we are, nevertheless, concerned about over-regulation of very small, very effective and very dedicated organizations. The majority of Iowa charitable organizations have six or fewer employees. Staff compensation is very low compared to the business and government sectors and often does not include health and other fringe benefits. Little or no funds are available for training. This does not deter staff from improving their effectiveness and efficiency. Their commitment to serving the public sets an example for all Iowans.

Our three Regents universities and the community colleges provide inexpensive and accessible training opportunities. In

particular, the University of Iowa and University of Northern Iowa work with Iowa State University in providing nonprofit training academies in various parts of the state. The University of Iowa Nonprofit Resource Center also works with the University of Northern Iowa in support of its important National Center for Public and Private School Foundations with which Senator Grassley has been a prime mover.

The Iowa Nonprofit Resource Center at the University of Iowa concentrates on the generation and dissemination of substantive information on the legal, tax, and managerial issues confronting nonprofit organizations. The Center's website is a major vehicle for reaching every Iowa nonprofit organization. Our website contains several valuable sections. First, we list over 50 informative and practical books on different aspects of nonprofit organizations. Through a link to the Iowa State Library system, a nonprofit can find the book closest to it geographically. Second, all of Iowa's higher educational institutions can list directly on our website those courses that are relevant to improving nonprofit organizational management, thereby ensuring our nonprofit leaders access to training that improves their performance. Third, we list useful local, state and national web links. Fourth, we list available consultants who are knowledgeable in finance, information technology, fund-raising, marketing, and management. Finally, we have a FAQ (Frequently Asked Question) section, which provides basic information.

The Iowa Nonprofit Resource Center has also developed a monograph series. Our first two are: "Legal Guide for Iowa Nonprofits" which includes tax information and "The Governing Board for Iowa Nonprofits." The "Governing Board" monograph contains practical appendices including a job description for board members and a job description for the chairman of the board. The chairman of the board is a critical figure in the effectiveness of the nonprofit organization. Very little attention is paid to identifying and training board chairs, so we are emphasizing the importance of board chair succession. We also include a board self-evaluation form, committee charters, an outline of an informational board manual, and a listing of

important policies that the governing board should have in place. We are developing monographs on strategic planning, volunteers, human resources, fund-raising, community foundations, and website development.

The Governor's Task Force is focused on improving nonprofit practice. At our June 10, 2004, meeting we agreed to develop a compendium of good practices modeled on the Minnesota Standards for Nonprofit Excellence which are similar to those in Maryland and Utah. We are involving the Offices of Secretary of State and Attorney General in this process. We are eager for them to publish these practices on their websites in order to notify all Iowa nonprofit organizations of good practices and the importance of adhering to them. We also want to develop a legal compliance audit for nonprofits over and beyond the financial audit. This would help assure compliance with those operational, tax, and accountability laws and regulations governing nonprofits.

The 2004 Iowa General Assembly enacted — and Governor Vilsack signed — a new Iowa Nonprofit Corporation Act based on the American Bar Association Revised Model Nonprofit Act. For the first time Iowa has defined by statute the fiduciary duties of nonprofit board and staff members. This Code includes the longstanding Iowa Code prohibition on loans to board members and officers.

To strengthen nonprofit accountability, we need to stress the importance of mission statements. Mission statements are the benchmark for evaluating the success of a nonprofit as well as clearly notifying the public of what the nonprofit actually is supposed to do. A for-profit corporation can be judged by the value of its stock and its dividend. The nonprofit's success is judged by how well it achieves its mission. We emphasize outcome evaluation. Although outcomes are often hard to quantify, an assessment effort is a systematic way of thinking about effectiveness. In our Task Force we are discussing the format of a simple nonbureaucratic annual report which each organization, however small or large, will make available in web and

print form. In addition to budget and fund-raising information, it will include a forthright statement of mission and program activities.

Our small, fragilely financed Iowa nonprofits face numerous challenges including the enormous difficulty of providing fringe benefits, particularly health care. Our Task Force is exploring regional joint purchasing. We are also concerned about liability of our unpaid volunteer directors, officers and staff. We recognize there are both federal and state volunteer liability protection laws, but they do not cover the costs of a successful defense by an individual volunteer if the nonprofit organizational resources are insufficient to indemnify.

We are greatly challenged to raise funds for operations. The movement by grantors and donors away from general operating support of basic infrastructure to restricted giving that focuses on particular programs imperils basic operational effectiveness. We also worry about an emphasis on “entrepreneurship” which can lead an organization astray from its charitable mission. Even if the UBIT is paid, there can be drift away from the basic nonprofit mission.

We are proud that the community foundation movement is growing rapidly in Iowa. It has been greatly advanced by Endow Iowa, a matching state grant and tax credit program as well as gambling revenue grants for those counties that do not have gambling. We recognize the importance of good stewardship by the community foundations. We focus on accountability in fund-raising and fund application.

We deeply appreciate your commitment to a tax policy that provides donor incentive such as the charitable deduction by non-itemizers which is so important in Iowa. We are alarmed that nationally the percentage of income people are giving to charity has been declining. We are committed to strengthening volunteerism, which is the root of private giving. Our Task Force wants to enhance community service learning opportunities for young people and seek out senior citizens to perform vital volunteer activities that they will find

invigorating and fulfilling. Even though Iowa has the second highest percentage of volunteers in the nation, we intend to do better. Montana has the fifth highest percentage of volunteers.

As you address accountability issues of justifiable concern to you, I hope you will not nationalize America's nonprofit organizations. Historically, they have been chartered, governed, and made accountable under state law. The Internal Revenue Service needs more staff to enforce its existing nonprofit regulations. Adding more federal regulation and accreditation of all aspects of governance and operations would certainly crush small organizations financially, operationally, and psychologically. Ironically, twenty-four years ago, the President of the University of Chicago and I, as President of the University of Iowa, had a lengthy conversation with then Presidential candidate Ronald Reagan about the concerns he and we had about the financial and bureaucratic costs of proliferating accreditation in higher education. Over-regulation of small organizations would also run counter to the efforts of the Federal Faith Based and Community Organizations program that is designed to make federal funds more accessible to small organizations by reducing redtape and by funding managerial training at the local level.

We applaud this hearing because it is an opportunity to emphasize the importance of the nonprofit sector in the life of America. Historically, we have relied upon the local private nonprofit sector to meet many community needs. We must continue to strengthen that tradition. Thank you for all you are doing to assure that voluntary associations can continue to build strong communities.