

The California Non-Profit Integrity Act

The Non-Profit Integrity Act of 2004 (SB 1262) imposed a number of 'good governance' requirements on non-profit organizations and professional fundraisers. Non-profit organizations subject to the Act's provisions include charitable corporations, unincorporated associations, trustees and other legal entities holding property for charitable purposes. Organizations with gross revenues in excess of two million dollars are subject to additional requirements. The Act was effective January 1, 2005.

1. **Registration:** All charitable organizations domiciled or operating in California are required to register with the Attorney General's office within 30 days after the organization first receives property. Under prior law, charitable organizations had 6 months to register. Registration was initially accomplished by filing Form CT-1 (and some materials still refer to that form), but the form is no longer in use. A checklist of the information and materials an organization must file to register is available on the Attorney General's website (<http://caag.state.ca.us/charities/forms.htm>).

As under prior law, charitable organizations are required to file an annual report on Form RRF-1 with within four months and fifteen days after the close of each fiscal or calendar year.

2. **Salary review:** The board or a board committee of every charitable organization must review the Chief Executive Officer's (CEO) & Chief Financial Officer's (CFO) compensation to determine whether the compensation is just & reasonable. The review must be conducted whenever certain events occur:
 - (a) the officer is hired
 - (b) the officer's term of employment is extended or renewed, or
 - (c) the officer's compensation is modified, except for a general modification of compensation that extends to substantially all employees.
3. **Fundraising:** The Act requires charitable organizations to establish and exercise control over their fundraising activities and over fundraising conducted by others on their behalf. The Act requires written contracts between charitable organizations and professional fundraisers or fundraising counsel and imposes mandatory provisions in such contracts. Professional fundraisers (persons or firms who fundraise for compensation) and fundraising counsel (persons or firms who provide fundraising advice for compensation) are required to register with the Attorney General.

4. Additional Requirements for organizations with over two million dollars in gross annual revenues, excluding revenues from governmental sources that require an accounting:

- a. Audited financials: The organization is required to prepare annual financial statements using generally accepted accounting principles, and to have the statements audited by a certified public accountant in accordance with generally accepted auditing standards.
- b. Audit committee: The organization is required to establish an audit committee. The membership of the audit committee cannot include:
 - i. The organization's CEO
 - ii. The organization's treasurer
 - iii. Any employee of the organization, and
 - iv. Any person with a material financial interest in any entity doing business with the organization.

If the organization has a finance committee, members of the finance committee must constitute less than one-half of the membership of the audit committee and the chairperson of the finance committee shall not serve on the audit committee.

- c. Public availability of audited financials: The organization must make its audited financials available to the Attorney General and the public in the manner prescribed for making its IRS Form 990 available to the public in Internal Revenue Code §6104(d)(such as posting on the internet).

2004 California Laws Chapter 919 (SB 1262), amending Section 17510.5 of the Business and Professions Code, amending Sections 12581, 12582, 12583, 12584, 12585, 12586, 12599, and 12599.1 of the Government Code, and adding Sections 12599.3, 12599.6, and 12599.7 to the Government Code.