Quick Primer about Nonprofit Organizations

Information for the ILF Board and Members considering leadership positions in ILF

The volunteer committee and board members of Indiana Library Federation come from all walks of life, many from public, academic and school libraries. Some volunteers may have never served on a nonprofit committee or board of directors1. Both public and private organizations are concerned with stewardship of funds, good governance, effective management and advancing a mission. However, the governance and operations for nonprofit organizations varies slightly from public organizations. The abbreviated information below is to help prospective committee and board members understand the legal structure and requirements for nonprofit organizations.

What is Indiana Library Federation, Incorporated (ILF)?
- Indiana Library Federation, Incorporated is a **nonprofit corporation**, as originally incorporated under the 1971 nonprofit law, and operating under the 1991 nonprofit law in the State of Indiana. Another type of nonprofit organization is an **unincorporated association or organization**.
- ILF is a **membership organization**, which means the voting members (defined in Articles of Incorporation) elect the board of directors.
- ILF is a **501-c-3 nonprofit organization**, tax-exempt and able to accept charitable contributions.

ILF’s Tax-exempt Status
- The Internal Revenue Service recognizes many types of tax-exempt, or **nonprofit organizations** (i.e. charitable/educational organizations, trade associations, labor unions, cemeteries).
- ILF is a **tax-exempt** nonprofit organization, which means that ILF generally does not pay income, sales or property taxes on any item, holding or property that is maintained or used for our stated tax-exempt purpose. If ILF engages in business that is unrelated to our **charitable purpose**, ILF would pay “unrelated business income tax.”
- Each year, Indiana Library Federation **files tax returns** with both the Internal Revenue Service and the Indiana Department of Revenue that describe our purpose, operations, governance, revenues and expenses, as well as additional reports for certain types of activities (lobbying, charitable gaming, etc.).
- The 501-c-3 status is a requirement for most **philanthropic grants**.
- The **501-c-3 status** allows ILF to accept contributions from donors who may be eligible for a **tax deduction** on their own individual income tax return. It is for this special privilege of tax-deductibility that the IRS places certain requirements on nonprofits with the 501-c-3 status. Tax-deductibility is not automatic for the donor.
- Failure to comply with certain laws or reporting requirements may cause **revocation** of the 501-c-3 status.

ILF’s Governing Documents
- From a legal perspective, nonprofits are **organized, incorporated and registered with a state**, in our case, with the State of Indiana, Secretary of State’s office.
- Our ILF **Articles of Incorporation** outline our purpose and how we comply with laws applicable to nonprofit corporations. Our ILF **By-Laws** express who (board, officers) governs and how ILF is governed. **Standing rules, policies and procedures** may be created to outline expectations for specific operations, and all these documents must comply with the Articles and By-Laws.
- An organization’s Articles of Incorporation overrules its By-Laws. A legal organization’s By-laws overrule any policies or standing rules for organizational operations.
- Any changes to the Articles must be filed with the Secretary of State. Any change to tax-exempt purpose must be reported to and approved by the Internal Revenue Service.

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1 Nonprofit practice resources include Board Source, Council of Nonprofits, Nonprofit Quarterly, GuideStar and Blue Advocado.

*Indiana Library Federation leads, educates and advocates to advance library services for the benefit of Indiana residents.*

941 East 86th Street, Suite 260, Indianapolis, IN 46240 / 317-257-2040 / [www.ilfonline.org](http://www.ilfonline.org)
**Filing and Reporting Requirements**

ILF is legally required to file the following reports:

- Registration with the Indiana Secretary of State (annually)
- Tax filings (annually)
  - Form 990 tax return with the Internal Revenue Service (May 15 or Nov 15)
  - Tax return with IN Department of Revenue (after IRS form is filed)
  - Marion County property tax exemption (May)
- Lobby Registrations with the Indiana Lobby Registration Commission (annually)
- Lobby reports with the Indiana Lobby Registration Commission (2x/year, May and Nov)
- Fire code compliance with local officials

Depending upon activities, ILF may also file any of the following:

- Executive Branch Lobby registration and reporting with Indiana Department of Administration
- Charitable Gaming Registration (annually)
- Charitable Gaming event-specific applications and reports (upon event)
- Grant reports from any specific funders, reports to American Library Association about chapter status, etc.

**Document Retention Requirements** – Most documents are required to be maintained on file for a certain length of time in the event of audit. Retention requirements vary with type of document. The ILF Financial Policies and Procedures outlines retention requirements.

**Transparency and Accountability**

- Any 501-c-3 nonprofit organization is required to make its federal tax return IRS Form 990 available upon request. ILF posts its IRS Form 990 on its website available to the public.
- Certain funders or authorities may require types of audits of financial, personnel and other records. ILF seeks to maintain its records by best practices. ILF contracts with an external accounting and auditing firm.
- In the interest of full transparency and accountability, ILF posts additional information on its publicly available website and through Guidestar, an organization committed to making nonprofit information available.
- ILF posts certain information with “members only” access, such as committee and board meeting minutes, internal policy reports, budgets, policies and procedures, etc. In the interest of full transparency and active engagement, ILF also posts recordings, process documents, work plans and progress reports.
- ILF also provides publicly available information, such as newsletters and people in leadership.

**ILF’s Board of Directors**

- ILF’s Board of Directors members are legally responsible for the organization. ILF secures Directors’ and Officers’ Insurance to protect Directors in their faithful execution of the role as a board member.
- **Primary duties of a board** are to: determine purpose; select, support and evaluate the executive; determine and monitor programs aligned with mission; ensure and manage financial resources effectively; maintain a competent, effective board; and enhance the organization’s public image.
- ILF members serving voluntarily in leadership positions within Indiana Library Federation are expected to exercise the three primary legal duties that are expected for all nonprofit board members: **duty of care, duty of loyalty and duty of obedience**. Below is an excerpt from the Council of Nonprofits that explains each duty:
  - Duty of Care - “Take care of the nonprofit by ensuring prudent use of all assets, including facility, people, and good will; and provide oversight for all activities that advance the nonprofit’s effectiveness and sustainability.”
  - Duty of Loyalty – “Make decisions in the best interest of the nonprofit corporation; not in his or her self-interest.”
  - Duty of Obedience – “Ensure that the nonprofit obeys applicable laws and acts in accordance with ethical practices; that the nonprofit adheres to its stated corporate purposes, and that its activities advance its mission.”
- ILF Board members work collaboratively and in partnership with the Executive Director to advance the mission.