

Panel on the Nonprofit Sector

Convened by INDEPENDENT SECTOR

*Strengthening the foundation
of America's charitable and
philanthropic community.*

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News Release

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Nonprofit Panel Recommends More than 120 Actions to Strengthen Transparency, Governance, and Accountability in the Charitable Community

(Washington, D.C.) – The Panel on the Nonprofit Sector, a collaboration among leaders of America's charitable organizations, today offered a comprehensive series of recommendations intended to strengthen the ability of the nation's 1.3 million charities and foundations to serve as responsible stewards of the public's generosity.

In the report it presented to Senator Charles Grassley (R-IA), chairman of the U.S. Senate Finance Committee, and Ranking Member Max Baucus (D-MT), the Panel recommended more than 120 actions to be taken by charitable organizations, by Congress, and by the Internal Revenue Service, which together would strengthen the sector's transparency, governance, and accountability. Representing the collective expertise of hundreds of nonprofit leaders, these recommendations, if implemented, would constitute the most sweeping changes to the governance, operations, and regulation of charities and foundations in three decades.

“Charitable organizations make indispensable contributions to every community,” said M. Cass Wheeler, chief executive officer of the American Heart Association and Panel co-convenor. “To ensure that we continue to enjoy the trust and support that makes our work possible, nonprofit leaders and experts from around the country have come together to offer these wide-ranging solutions.”

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The report, which has incorporated input from thousands of people across the charitable community through field hearings and national conference calls, proposes a carefully integrated package of actions from charitable organizations, from Congress, and from the Internal Revenue Service. Among its proposals:

- **To strengthen governance**, the Panel recommends that charitable organizations adopt, implement, and publicize audit procedures and policies on travel expenses, conflicts of interest, and whistleblower protection.
- **To make financial information more reliable**, the Panel recommends that Congress require audits by charitable organizations with annual revenues of \$1 million or greater and an independent accountant's review for organizations with annual revenues between \$250,000 and \$1 million. The Panel also calls for Congress to require mandatory electronic filing of charitable organizations' annual information returns, the Forms 990; the IRS to improve the design of and instructions for Forms 990; and charitable organizations to have their CEOs or CFOs certify the accuracy of their information returns.
- **To prevent abuse of charitable entities**, the Panel recommends that Congress establish clearer legal guidelines for donor-advised funds, Type III supporting organizations, and participation by tax-exempt entities in potentially abusive tax shelters. It also urges Congress to tighten up rules and strengthen penalties to help prevent transactions that benefit donors, rather than the public.
- **To ensure that non-cash contributions support charitable causes**, rather than provide improper tax deductions for donors, the Panel recommends that Congress establish clearer rules for valuing donated property and mandate stricter guidelines for appraisals of land and other appreciated property.
- **To address instances of excessive executive compensation**, the Panel recommends that Congress strengthen the penalties on board members who approve and executives who receive excessive compensation, that the IRS revise the Forms 990 to make the total compensation of executives clearer to the public and regulators, and that charitable organization boards approve executive compensation each year.

“These recommendations strike a balance between providing the oversight needed to prevent abuses and protecting the independence that is a vital element in the charitable community’s innovation and effectiveness,” said Paul Brest, the Panel’s other co-convener and president of the William and Flora Hewlett Foundation. “They reflect the Panel’s belief that any new regulation should not impose costs that exceed their benefits.”

The recommendations incorporate the Panel’s interim report, released in March. In hearings before the Senate Finance Committee in April, IRS Commissioner Mark Everson called the Panel’s interim report, “an impressive effort to move the tax-exempt community to a better place.”

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“These recommendations carefully combine improvement within the sector, more effective oversight, and changes in the law,” said Diana Aviv, executive director of the Panel on the Nonprofit Sector and president and CEO of INDEPENDENT SECTOR. “Successful reform must include all three of those approaches, and no single action can achieve the necessary results by itself.”

The Panel on the Nonprofit Sector was convened in October 2004 at the encouragement of the Senate Finance Committee Chairman Grassley and Ranking Member Baucus. Concerned about ethical lapses in governance, fundraising, and other practices, both the Senate Finance Committee and the House Ways and Means Committee have held hearings over the past year about the operations of nonprofit organizations. The IRS is also reviewing the practices of charities and foundations.

The Panel will offer supplemental comments in the fall on issues of financial reporting and transparency, accreditation and standard setting, and possible changes in the legal framework, including federal and state regulation of fundraising activities.

A copy of the Panel on the Nonprofit Sector report and other details are available at www.NonprofitPanel.org.

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The Panel on the Nonprofit Sector is an independent panel of 24 leaders from a wide range of the country’s public charities and private foundations. Convened by INDEPENDENT SECTOR at the encouragement of the U.S. Senate Finance Committee, the Panel has worked over the last eight months to develop recommendations to improve the governance, ethical conduct, and oversight of nonprofit organizations. A Citizens Advisory Group, an Expert Advisory Group, and five specialized Work Groups are assisting the Panel, which also invited input from charities and foundations of all sizes serving diverse missions and geographic locations. The Panel plans to make further recommendations in a supplemental report in the fall.

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Panel Time Line

- June 21, 2004: U.S. Senate Finance Committee issues a draft of staff-proposed recommendations for discussion.
- June 22, 2004: Finance Committee conducts a hearing on charitable organizations. Diana Aviv, executive director of the Panel and president and CEO of INDEPENDENT SECTOR, testifies.
- July 22, 2004: Finance Committee staff hosts a roundtable discussion with nonprofit leaders to review the staff-proposed recommendations.
- September 22, 2004: Chairman of the Finance Committee, Senator Charles Grassley (R-IA), and ranking member, Senator Max Baucus (D-MT), send a letter to INDEPENDENT SECTOR encouraging it to convene an independent panel of sector leaders to recommend actions to strengthen governance and ethical conduct.
- October 12, 2004: INDEPENDENT SECTOR announces the formation of the Panel on the Nonprofit Sector, naming 24 distinguished leaders from public charities and private foundations as its members.
- November 1, 2004: The Panel names members of its Expert Advisory Group, who are drawn from academia, law and nonprofit oversight.
- December 7, 2004: The Panel names over 100 members of five specialized Work Groups to assist the Panel as it prepares recommendations.
- December 9, 2004: The Panel names its Citizens Advisory Group, whose members are leaders of America's business, education, media, political, cultural, and religious institutions.
- December 17, 2004: The Panel holds first national conference call of the nonprofit community to receive input from the sector.
- January 25-February 18, 2005: The Panel conducts a public comment period to solicit reactions from the sector on Phase I draft Work Group Recommendations.
- January 26, 2005: Second National Conference Call.
- March 2005: The Panel forms two advisory committees to examine how to improve the Form 990 and Form 990-PF.
- March 1, 2005: The Panel releases its Interim Report to Congress.
- March 4, 2005: Third National Conference Call.
- March – May 2005: The Panel meets with thousands of members of the nonprofit community through field hearing held in Atlanta, Chicago, Dallas, Denver, Des Moines, Detroit, Duluth, Helena, Minneapolis, New York, Philadelphia, San Diego, San Francisco, Seattle, and Washington.
- April 5, 2005: Diana Aviv testifies before the Senate Finance Committee hearing on "Charities and Charitable Giving: Proposals for Reform."
- May 10–19, 2005: The Panel conducts a public comment period to solicit reactions from the sector on Phase II draft Work Group Recommendations.
- June 22, 2005: The Panel on the Nonprofit Sector presents its Final Report to Congress.
- June 24, 2005: Fourth National Conference Call.
- Fall 2005: The Panel will offer supplemental comments on issues of financial reporting and transparency, accreditation and standard setting, and possible changes in the legal framework.

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Facts and Figures about Charitable Organizations

- There are approximately 1.3 million 501(c)(3) tax-exempt organizations, including hospitals, museums, private schools, religious congregations, orchestras, public television and radio stations, soup kitchens, and foundations.
- The Internal Revenue Code defines more than 25 categories of organizations that are exempt from federal income taxes. Because 501(c)(3) organizations must benefit the broad public interest, Congress has provided that contributions made to 501(c)(3) nonprofits are tax-deductible.
- The sector is predominately composed of small organizations. Seventy-three percent of charitable organizations had annual budgets of less than \$500,000 in 2003; only 4 percent had annual budgets of more than \$10 million.
- Nine out of ten households give to charitable causes. Total charitable giving in 2004 reached \$248.5 billion, according to *Giving USA*.
- Charitable organizations employ 11.7 million workers, or 9 percent of working Americans. This is larger than employees in the real estate, insurance, and finance industries combined.
- From mid-1980s to mid-1990s, the number of charitable organizations in the U.S. experienced more than double the growth rate of the business sector.
- In 2003, the total budgets (expenses) of all reporting public charities – that is, 501(c)(3) organizations required to file the Form 990 series return with the IRS – totaled an estimated \$934 billion.
- The total combined assets of public charities and private foundations are estimated at \$2.95 trillion for 2004.

For more information, visit www.NonprofitPanel.org.