



INDEPENDENT
SECTOR

Panel on the Nonprofit Sector

Convened by INDEPENDENT SECTOR

TESTIMONY BY DIANA AVIV

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“Charities and Charitable Giving: Proposals for Reform”
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Testimony of Diana Aviv
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Chairman Grassley, Senator Baucus and distinguished members of the Committee, I am Diana Aviv, executive director of the Panel on the Nonprofit Sector and President and CEO of INDEPENDENT SECTOR, a national nonprofit, charitable organization with approximately 500 members including public charities, private foundations and corporate philanthropy programs. I am pleased to be here today to share with you the recommendations contained in the Interim Report developed by the Panel on the Nonprofit Sector and to tell you about the remarkable process that resulted in these interim recommendations and that will continue for the next few months as we consider additional recommendations that will be included in the Final Report that you will receive in late spring.

INDEPENDENT SECTOR is a 501(c)(3) organization whose mission is to advance the common good by leading, strengthening, and mobilizing the independent sector. INDEPENDENT SECTOR's membership collectively represents tens of thousands of charitable groups serving causes in every region of the country, as well as millions of donors and volunteers. Long before the creation of the Panel on the Nonprofit Sector, INDEPENDENT SECTOR was working with our member organizations on identifying best practices and setting the highest standards of ethics and accountability. A Model Code of Ethics was developed and posted on our website last year, along with a guide for adopting and implementing a code. In 2002, INDEPENDENT SECTOR published a guide for nonprofit managers and trustees on the laws and regulations regarding intermediate sanctions. Currently IS committees are working on recommendations for a conflict of interest policy, a guide to creating and working with audit committees, and policies and procedures to encourage and protect those who make credible reports of illegal or unethical behavior. All of these publications and policy recommendations will be widely available to charities and foundations across the country.

The Panel on the Nonprofit Sector was convened by INDEPENDENT SECTOR in October 2004, with encouragement from the leadership of this Committee, in order to bring together an independent group of leaders from the nonprofit, charitable sector to consider and recommend actions that would strengthen governance and oversight of public charities and private foundations. The 24 distinguished leaders we contacted immediately agreed to serve on the Panel because they recognized that the unethical actions of some charitable organizations, coupled with the corporate scandals of recent years, had the potential to erode the public trust that is the lifeblood of charitable and philanthropic organizations.

Abuses in the nonprofit sector also prompted state and federal public officials, including this Committee, to seek ways to stop and prevent abuses by directors, staff leaders, donors, and those doing business with nonprofit organizations, possibly through new laws or regulations. At the Senate Finance Committee hearing in June 2004 and the roundtable discussion in July, INDEPENDENT SECTOR, among others, discussed initiatives we had previously undertaken to help

our member organizations improve their practices and meet high standards of governance and accountability. We were honored to have an opportunity to convene some of our sector's leaders in a more formal process to discuss these issues, to hear from experts from other sectors, and to share our best thinking with this Committee, with other public officials and, of course, with our colleagues in the charitable and philanthropic community.

Before I proceed with describing the work of the Panel, it is important to state clearly that the vast majority of America's 1.3 million charitable organizations are now, and have always been, responsible, ethical and accountable in the conduct of their programs and the management of their funds. The public annually entrusts these institutions with over \$200 billion in direct charitable contributions, and the nation's 65,000 private foundations and corporate giving programs provide an additional \$40 billion to support charitable endeavors. Some bad actors in our field have undermined the good works of all and we must respond, but we also must keep in mind that our goal is to eliminate bad practice, not to stifle the generosity of Americans whose gifts of time and money are essential to the work of charitable organizations, nor to impede the creativity of and the delivery of services from these organizations. The enthusiasm and speed with which the Panel, its work groups and advisory groups are conducting their work reflects our collective determination to assure the public and Congress that we are serious about preventing and punishing misconduct in the nonprofit sector and equally serious about preserving an environment in which the hundreds of thousands of lawful, ethical and accountable nonprofit organizations can continue to serve and enrich our communities, our nation and the world.

The Panel, Work Groups and Advisory Groups

INDEPENDENT SECTOR announced the formation of the Panel on the Nonprofit Sector on October 12, 2004. The 24 Panel members are all distinguished leaders from public charities and private foundations. Their collective experience reflects large and small nonprofit organizations, community foundations and membership associations, organizations that operate worldwide and those serving a single state. The missions of these organizations encompass a broad spectrum of causes, all of which are intended to promote the public good. The co-conveners of the Panel are Paul Brest, President of the William and Flora Hewlett Foundation in Menlo Park, California, and M. Cass Wheeler, Chief Executive Officer of the American Heart Association based in Dallas, Texas. (A complete list of Panel members and brief biographies are attached.)

As impressive as their experience and knowledge is, the members of the Panel recognized from the beginning of their work that it would be vitally important for them to benefit from the immense expertise within the sector as well from the views of experts outside the nonprofit world. To that end, the Panel established five Work Groups that collectively utilize the talents of more than 100 nonprofit professionals and experts, all of whom volunteered to participate in the Panel's work. Work Group members include leaders of national, regional and local organizations, academics and practitioners, state oversight officials, and executives of charities, foundations and corporate giving programs. Four of the Work Groups focus on issue areas—Governance and Fiduciary Responsibilities; Government Oversight and Self-Regulation; Legal Framework; and Transparency and Financial Accountability—while the fifth focuses on the special considerations of small organizations.

In addition, two Advisory Groups were created. The Expert Advisory Group draws its members from academia, law and nonprofit oversight, and offers the Panel particular expertise in the issue areas. The Citizens Advisory Group is comprised of leaders of America's business, educational, media, political, cultural and religious institutions who provide a broad perspective on how these issues affect the public at large.

Each of the Work Groups met three times between November 2004 and January 2005. They reviewed materials prepared by the Panel's staff and legal team analyzing issues raised in the Finance Committee's staff discussion paper on nonprofit governance, fiscal management and ethical practice. In between meetings, members actively shared opinions, comments and information via listservs and phone calls. By early 2005, each Work Group had developed recommendations to be submitted to the Panel for its deliberations. The Expert Advisory Group reviewed the Work Groups' recommendations and added its own comments and suggestions.

Because the Panel wanted to make its work as inclusive and transparent as possible, we created a website at www.NonprofitPanel.org. The recommendations of the five Work Groups and the comments of the Expert Advisory Group were all posted on the website; the Panel then encouraged members of charitable organizations to review and comment on them. In addition, three national conference calls were convened to answer questions and gather feedback from the field. Nearly 1,500 members of the nonprofit community participated in these calls.

On March 1, the Panel presented its Interim Report to Chairman Grassley at an event attended by press and members of the nonprofit community and shared with Senator Baucus, Congressman Thomas, and Commissioner Everson and distributed to all other Members of Congress. The Panel's work and deliberations benefited from the broad experience and collective wisdom of all these people. In the end, however, the recommendations contained in the Interim Report are those of the Panel.

You all have before you the Interim Report, which I request be submitted for the record in its entirety. Since the report was released, more than 200 organizations have endorsed its recommendations, and others continue to sign on. A list of endorsing organizations to date is attached to this testimony, and the list on our website is updated daily

The Panel asks this Committee to remember that we are only about half way through our process. As this hearing is taking place, Work Groups are well into the second phase of their work, and the Panel intends to offer many more recommendations in its Final Report in June. While we understand the desire to begin moving the legislative process forward, we believe that any bill on the critical issues of how to improve conduct within our sector should be informed by the recommendations that result from the profound effort of hundreds of groups that have come together in good faith to offer their views. These issues are so important and the effort so great that we fervently hope you will allow the Panel the opportunity to complete our work for you before introducing a bill.

I hope to have another opportunity to speak to the Committee when the Panel's Final Report is completed in June.

Mr. Chairman, your leadership in this area, the hearing and roundtable discussion the Finance Committee held last year, and the IRS's focus on exempt organizations have already had a significant effect on the sector's practices and procedures. As I travel around the country for field hearings on the Interim Report, I am constantly asked for more information on the issues and guidelines for action. Organizations are examining their own governance structures and identifying best practices. Leaders across the sector want to know what to do and how to improve their organizations. You have raised the level of awareness and stimulated a positive energy for change. Your leadership has already made a positive impact on raising the standards of conduct within the sector.

I elaborated on the process that resulted in the Interim Report because it speaks to the depth of the commitment within the charitable and philanthropic community to raise standards and improve practices in order to strengthen the public trust in the nonprofit sector and encourage the voluntary spirit that has since its earliest days been one of the distinguishing features of our country.

Guiding Principles

The Panel began its work with a discussion of the principles that should guide the recommendations it would make. The decision to establish this kind of framework led to a fascinating and edifying conversation that allowed us to step back from the detailed legal and accounting issues to think about the evolution of the sector, the role it has played in shaping the history and character of America, the millions of people who dedicate their time as volunteers, and the billions of dollars donors freely contribute to support not only individual programs or specific organizations, but the *idea*, uniquely American, that individuals can band together in groups or associations to address problems, advance ideas, alleviate suffering, encourage artistic endeavors, protect freedoms, preserve the environment and improve our lives.

We are here today to talk about the details, the recommendations for forms and filings, audits and aggregates, and I will get to them in just a minute. Before I do, however, I ask this very knowledgeable Committee to do what the Panel members did: step back for a moment and remind yourselves that the task before us is to strengthen and improve the third sector of our society, the nonprofit sector, which along with government and business is a fundamental support of our nation and its people.

The eight principles that guided the Panel are:

- Principle 1:** A vibrant nonprofit sector is essential for a vital America.
- Principle 2:** The nonprofit sector's effectiveness depends on its independence.
- Principle 3:** The nonprofit sector's success depends on its integrity and credibility.
- Principle 4:** Comprehensive and accurate information about the nonprofit sector must be made available to the public.
- Principle 5:** A viable system of self-regulation is needed for the nonprofit sector.
- Principle 6:** Government should ensure effective enforcement of the law.
- Principle 7:** Government regulation should deter abuse without discouraging legitimate charitable activities.

Principle 8: Demonstrations of compliance with high standards of ethical conduct should be commensurate with the size, scale and resources of the organization.

The Interim Report briefly elaborates on each of these principles. Together, these eight principles touch on the value of the nonprofit sector, the responsibilities of nonprofit organizations as stewards of the public trust, and the roles of both the sector and government in maintaining the integrity of the sector and deterring abuse. We urge you to consider how any legislative changes would support or weaken these principles.

Recommendations of the Panel on the Nonprofit Sector

Maintaining the public trust in the nonprofit sector requires a balance between a self-regulatory system for charitable organizations, including a viable system of management and governance standards and proactive educational programs, and vigorous governmental oversight and enforcement. The recommendations in the Interim Report include suggested actions to be taken by the charitable organizations individually and the charitable sector as whole, actions to be taken by the IRS, and legislative actions to improve governance and oversight of the sector. *It should be emphasized that these recommendations are part of a comprehensive package of reform efforts in which no single remedy or recommendation stands alone.* Work Group members and Panel members repeatedly emphasized the imperative of viewing the recommendations contained in this Interim Report as a set, not to be divided up and carried out piecemeal.

The Interim Report divides the issues examined by the Panel into three categories and offers recommendations to:

1. Strengthen government oversight of charitable organizations;
2. Improve transparency in charitable organizations; and
3. Enhance governance of charitable organizations.

In the Interim Report each issue is described; actions are recommended for charitable organizations, for legislation, and/or for regulatory improvements; a rationale for each recommendation is offered; and other considerations, if any, are mentioned.

In its Final Report the Panel will offer recommendations on a range of other issues that are currently under consideration.

Since each of you has a copy of the full Interim Report, I will only highlight the key recommendations in the three categories at this time.

I. Recommendations to Strengthen Government Oversight of Charitable Organizations

In its Interim Report, the Panel identified several areas where current legal standards have proven inadequate to allow government regulators to deal with those who deliberately abuse the public trust and exploit nonprofit organizations for personal gain. The Panel and its Work Groups have, and continue to, examine new approaches to strengthen the regulatory framework to address and deter abuses without inhibiting the countless numbers of responsible volunteers and donors from

contributing their time and money to serve charitable organizations. In considering changes to the laws governing charitable organizations, the Panel is also aware of the need to contain the administrative and financial burdens of compliance for charitable organizations so that they are not forced to curtail or cease legitimate charitable activities.

First, the Panel believes that the legal framework for donor-advised funds must be strengthened to reduce the potential for abuse of these important charitable instruments. There is currently no statutory definition of a donor-advised fund, but it is generally understood to be a fund that is owned, controlled and administered by a public charity where the donor retains the right to make recommendations regarding the investment and/or distribution of the fund's assets for charitable purposes. Donor-advised funds have evolved as an important means of stimulating charitable contributions from donors who do not want the administrative and regulatory burdens of creating and maintaining their own foundation and who are willing to give up control of decisions regarding the investment and distribution of funds to gain the many benefits a donor-advised fund can offer.

The Panel believes it is essential that Congress enact a statutory definition of donor-advised funds to provide the context for specific rules to ensure that public charities administering donor-advised funds do not intentionally—or inadvertently—use those funds to provide inappropriate benefits to the donor or parties related to the donor. We have identified some of the components that should be included in that definition in our Interim Report and will recommend specific language for the definition in our Final Report. We have also recommended a number of statutory and regulatory changes that would prohibit grants from donor-advised funds to private non-operating foundations and prohibit grants, reimbursement or compensation to donor-advisors or related parties for services rendered, if all or substantially all of such compensation is paid from the relevant donor-advised fund.

We also recommend that public charities holding donor-advised funds be subject to minimum activity rules to ensure that funds are not permitted to remain inactive for extended periods and we are currently in the process of developing specific recommendations for such rules for this Committee's consideration. The principle of funds being required to have some activity directly addresses the concern of certain donors reaping the tax benefit of creating such accounts without distributing some of the funds for charitable purposes.

Second, the Panel believes that managers, directors and other “disqualified persons” should be subject to strict penalties when they receive improper or excessive financial benefits from the charitable organizations with which they are affiliated or when they approve or participate in illegal or improper transactions. Current penalties for self-dealing transactions by foundations leaders should be increased and the standard for imposition of first-tier excise taxes on organization managers should be modified to provide a realistic possibility that such penalties will be imposed on managers who approve or fail to oppose a prohibited transaction. The Panel is studying the proposals made by the Joint Committee on Taxation in its January 27, 2005, report and will make specific recommendations to this Committee for strengthening the system of penalties for those who knowingly participate or approve participation of others in abusive transactions. These recommendations will be forthcoming in the Final Report.

Third, the Panel recommends that Congress enact specific targeted rules to eliminate the inappropriate use of Type III supporting organizations for the personal benefit of contributors and their family members, while not eliminating altogether this type of organization. Supporting organizations are public charities that are organized and operated for the benefit of one or more other public charities. They allow a public charity to use separate entities to insulate assets from liability or to separate certain functions such as investing or fundraising. Type III supporting organizations should have a close and continuous relationship with the charities they support, but the charities have no legal control over the Type III organizations that support them. The flexibility currently allowed for Type III supporting organizations makes them uniquely suited to meet the needs of public charities, governmental entities, and donors in a variety of circumstances, but they have also been targets for abuse. The Panel is currently studying specific proposals made by the Joint Committee on Taxation, the American Bar Association, and others and will make specific recommendations for targeted anti-abuse rules in its Final Report.

Fourth, the Panel recommends that Congress enact appropriate anti-abuse provisions to deter charitable organizations from participating in abusive tax avoidance transactions. The Panel is deeply troubled by the participation of some charitable organizations in abusive tax shelter arrangements, but notes that such activity is a complex problem whose reach extends beyond charitable organizations. The Panel is currently studying proposals by the Joint Committee on Taxation and others to deprive charities of any financial benefits from prohibited tax shelter transactions and to penalize managers who approve such transactions, knowing or having reasons to know that the transaction is a prohibited transaction, and will make specific recommendations for corrective legislation in our final report. The Panel is also examining how organizations in our sector can work more effectively with the Internal Revenue Service to educate managers and directors about tax shelter transactions in order to prevent charities from becoming unwitting participants in abusive schemes. Recommendations on these issues will be forthcoming in the Panel's Final Report.

Fifth, the Panel recognizes that both current laws and recommended changes in the laws governing charitable organizations can only deter abuse if there is effective law enforcement. Today, oversight and enforcement of regulations governing charitable organizations is hampered by legal restrictions that prevent the IRS from sharing information about ongoing investigations with state attorneys general and other state officials charged with overseeing charitable organizations. This inability to share information about ongoing investigations increases the cost of oversight and enforcement, results in duplication of effort, and impedes the efforts of state and federal officials to weed out wrongdoing efficiently and effectively. In 2003, this Committee led the way to eliminate this barrier through a provision in the CARE Act that would allow state attorneys general and other state officials charged with overseeing charitable organizations the same access to IRS information currently available by law to state revenue officers. As you know, the CARE Act was passed by the full Senate by an overwhelming margin, although Congress was unable to resolve differences between the Senate and House versions of that bill before the end of the 108th Congress. We hope that this Committee will again lead the way to make sure that this important change is enacted into law this year.

Sixth, effective enforcement also requires adequate resources to ensure that the Internal Revenue Service is able to conduct audits and investigations to identify and pursue wrong-doing by

charitable organizations, as well as by individual and corporate taxpayers who misstate their tax liabilities. I want to commend Commissioner Everson for his actions in reallocating resources within the IRS budget to strengthen oversight and enforcement in the Exempt Organizations Division and to move ahead with electronic filing of the annual information returns filed by public charities and private foundations. I also want to express our appreciation to Commissioner Everson and the staff of the Exempt Organizations Division for their efforts to improve the information provided to managers and directors of charitable organizations through the IRS website and regional trainings. At the same time, we know that more resources are needed to ensure that the IRS is able to provide adequate oversight and enforcement of tax laws for *all* taxpayers, including those who may be overstating the value of their contributions to charitable organizations to reduce their tax liability inappropriately. We urge this Committee to work with your colleagues on the Appropriations Committees and with the Administration to increase the resources available to the IRS to ensure that the tax laws you enact are enforced fully.

Seventh, and last, the Panel believes that this Committee and Congress should take a careful look at the appropriate valuation and disposition of property donated to charitable organizations. Non-cash contributions are a significant source of support for countless charitable organizations and it is clear that the current tax laws provide important incentives for such contributions. A study by Michael Parisi and Scott Hollenbeck of 2002 individual income tax returns indicates that non-cash contributions represented nearly 25 percent of the contributions claimed as tax deductions by individual taxpayers who itemized deductions.¹ While many of these contributions are likely to be gifts of publicly traded stock, many Americans now hold their assets in real estate, privately held businesses and other personal property, and choose to make gifts of those assets to charitable organizations. The current tax incentives which allow individual taxpayers to claim the fair market value of those assets as a tax deduction, subject to rules for obtaining appraisals or other substantiation of that value and reporting those values to the IRS, appear to be a significant benefit for taxpayers who itemize deductions. The Parisi and Hollenbeck study shows that nearly 53 percent of taxpayers who itemized deductions claimed deductions for non-cash contributions totaling \$34.3 billion in 2002.

The Panel shares your concerns, Mr. Chairman, about preventing and penalizing actions by individual and corporate taxpayers in over-valuing property they contribute to charity for the purpose of avoiding taxes they are obligated to pay. We also believe that it is essential for Congress not to create barriers that could severely damage a significant source of contributions for charities throughout the country. The Panel is currently examining a variety of proposals and data regarding ways to strengthen regulations, procedures and penalties to address the concerns raised by the Joint Committee on Taxation and will make specific recommendations for action by the Senate Finance Committee and the Internal Revenue Service in our Final Report.

INDEPENDENT SECTOR is working with a broad range of charitable organizations that are deeply concerned about the impact these proposals could have on their ability to fulfill their missions and serve community needs. I would like to share with you some of the specific concerns our community has regarding these proposals.

¹ Michael Parisi and Scott Hollenbeck, Individual Income Tax Returns, 2002, SOI Bulletin Fall 2004.

1. The Joint Committee's proposal to limit the charitable deduction for clothing and household items to an aggregate annual total of \$500 per taxpayer would create a significant disincentive for these gifts that are vitally important to the support of charitable activities. While many donations of clothing and household items may have minimal resale value, some may be given directly to families in need while other gifts, such as high-quality furniture, electronics, new or slightly used clothing and jewelry, are used in fundraising auctions, or sold through auctions and thrift stores to support vital charitable activities. Families often choose to donate the entire household furnishings and goods when closing an estate rather than conducting an auction or hiring an estate liquidation service, and these goods are of significant value to charities for their direct use or resale value. Setting a cap of \$500 would be a significant disincentive to making these "higher-end" contributions for many taxpayers. We note that the Joint Committee does allow that the \$500 limit "could be adjusted higher or lower," and we strongly encourage the Finance Committee to examine the impact of this proposal and consider alternatives proposed by the charitable community before determining the most appropriate manner of preventing taxpayer abuse without unduly harming this important revenue stream for our nation's charities.
2. We are deeply troubled by the Joint Committee's proposals to limit deductions on donations of property (other than publicly traded securities) to the lesser of the donor's basis or the fair market value. A significant number of Americans, particularly in rural areas, hold their wealth in real estate and in private business. Their basis is often significantly less than the current market value of their property and limiting deductions to the basis would likely cause many taxpayers to continue to hold these assets or to sell them, resulting in no gifts or a significantly lower gift to charity. Other aspects of the Joint Committee proposal would require the charity to dispose of donated property in a manner that could significantly diminish its financial value. The Panel agrees that we must have clear, consistent methods for determining the fair market value of such gifts, as well as stringent standards to assess the quality of appraisals used by taxpayers in determining the value of their gifts of property. We are studying the alternatives offered by the Joint Committee as well as other alternative approaches to address the concerns about possible over-valuation without incurring significant new costs for taxpayers or the IRS or greatly reducing incentives for taxpayers to make such contributions to charitable organizations. The goal, however, should be to end abuses, not eliminate donations of property which are important assets for religious organizations, community foundations, educational institutions and thousands of other charitable organizations.
3. Finally, we have concerns about the proposed changes to the charitable deduction for contributions of conservation and façade easements. Recent press stories have highlighted abuses by both charities and taxpayers in the valuation and treatment of such contributions, and we commend both the IRS and organizations in the conservation community, such as the Land Trust Alliance, for the actions they have taken to clarify rules, identify and penalize abusers, and prevent future abuse. There must be tighter rules and higher standards for appraisals and appraisers, and the IRS must have the resources it needs to conduct an effective review and audit program to address and correct taxpayer abuse. We are prepared to work with this Committee to determine the most effective and appropriate system for establishing reasonable procedures and requirements that must be met by both

charities and individual taxpayers to prevent or punish such abuses, but it should be done without placing barriers in the way of qualified conservation contributions that enable charitable organizations to pursue their charitable purpose.

II. Recommendations to Improve Transparency of Charitable Organizations

Effective oversight requires that regulators and the public have access to accurate, clear, timely and adequate information about the activities and finances of charitable organizations. It is also critical that donors, trustees, consumers of services, and other interested members of the public have access to such information to assure ongoing confidence in the sector's work. The Panel therefore has made three key recommendations to improve the flow of information between charitable organizations and the IRS, increase the accuracy of the information available, and make information about public charities and private foundations more readily accessible to the public.

First, the annual information returns filed by charities and private foundations with the IRS need significant improvements as this Committee heard from numerous witnesses at its hearings last June. Again, we thank Commissioner Everson and his staff for the improvements they have already made in the forms used to apply for tax-exempt status and efforts underway to improve the format and instructions of the Form 990 series returns. Last year, the IRS made it possible to file the Form 990 and 990-EZ returns electronically and they have recently made plans to require charitable organizations that file at least 250 tax returns annually to file their annual information returns electronically—a move we strongly endorse.

The Panel recommends that the IRS require mandatory electronic filing of **all** Form 990 series returns as expeditiously as possible, with all necessary adjustments for separate attachments and other changes necessary to ensure that charitable organizations of all sizes can comply with such requirements in a timely, cost-effective manner. Electronic filing will be enormously helpful in addressing concerns about incomplete and inaccurate returns. We recommend that the IRS require the highest ranking officer or trustee of the organization to sign the Form 990 or 990-PF return, thereby attesting to its accuracy and completeness. We also recommend that penalties currently imposed on income tax preparers of personal and corporate tax returns for omission or misrepresentation of information or disregard of rules and regulations should be extended to professional tax preparers of Form 990 series returns.

The Panel is in the process of reviewing the entire 990 series of returns used by charitable organizations and will be making recommendations in its final report on specific changes that would improve the utility of these forms for charities, regulators and the public.

Second, the quality of financial information on charitable organizations available to boards of directors, regulators and the public can be improved if financial statements were independently audited or reviewed according to accounting and auditing standards. The Panel recommends that all charitable organizations currently required to file a Form 990 return² and that have total

² Excluded are organizations other than private foundations with annual gross receipts of \$25,000 or less, houses of worship and specific related institutions, specified governmental instrumentalities and other organizations relieved of this requirement by authority of the IRS.

annual revenues of \$2 million or more be required to have an audit conducted of their financial statements and operations. Organizations with total annual revenues between \$500,000 and \$2 million should be required to have their financial statements reviewed by an independent public accountant. Those larger organizations required to have audited statements should also be required to file those statements with their Forms 990 or 990-PF and make them available for public inspection in the same manner as those Forms. The Panel recognizes that financial audits can be a substantial expense for a charitable organization, depending on its size, scale, complexity and location. We are continuing to assess whether our threshold figures are the right ones or whether regional adjustments might be necessary and we will report to you if we find the need to make any changes in these figures.

Third, the public and the IRS should be able to identify easily all organizations that currently qualify for tax-exemption but because organizations with annual gross receipts under \$25,000 are not now required to file annual information returns, the IRS does not know and cannot inform the public where their current offices are located or whether those organizations even continue to exist. The Panel recommends that Congress enact legislation requiring all organizations recognized under section 501(c)(3) that are currently exempt from filing an annual information return solely because their annual receipts fall below the \$25,000 threshold be required to file an annual notice with the IRS with very basic information about their current contact information, total revenues and expenditures, and current mission. In addition, the IRS should be required to automatically suspend the tax-exempt status of organizations that have been given sufficient notice from the IRS but still fail to file the required notification form for three consecutive years.

III. Recommendations to Enhance Governance in Charitable Organizations

The Panel recognizes that effective governance of charitable organizations is the key to achieving the highest standards of ethical conduct, legal compliance and charitable performance. The Panel is currently studying a number of proposals addressing the composition and responsibilities of the boards of charitable organizations and the education of board members and staff leaders to strengthen governance of our organizations. In the Interim Report, the Panel has recommended three specific actions that ***charitable organizations*** should take both individually and collectively, as a sector, to improve and strengthen governance.

First, every organization should adopt and enforce a conflict of interest policy tailored to its specific needs and its state laws. There can be many instances where board members and staff leaders have interests in other organizations and businesses that can be of great benefit to a charitable organization, but these overlapping interests can lead to inappropriate transactions if all leaders are not aware of the potential conflict of interest and how the organization manages such conflicts.

Second, boards of directors must be aware of and have the capacity to fulfill their responsibilities to ensure that all financial matters of the organization are conducted legally, ethically and in accordance with proper accounting rules. The Panel recommends that all charitable organizations ensure that they have individuals with some financial literacy on their board of directors and consider establishing a separate audit committee to assist the board in overseeing the audit process.

Third, all charitable organizations should establish policies and procedures that encourage and protect individuals who come forward with credible information on illegal practices or violations of adopted policies of the organization. Such information is critical for boards and staff managers to correct or stop wrong-doing before further harm is done to the organization.

The Panel urges the charitable sector to implement a vigorous sector-wide effort to educate all charitable organizations and encourage the adoption of these recommendations. Recognizing that such an educational effort will require significant resources, the Panel is assessing what private funds might be available and may return to Congress with a recommendation that some public funds be made available as well.

For the Panel members, this section is perhaps the most important because it addresses the way charitable organizations do their business. It is about the integrity of our work. Although the Interim Report contains no recommended actions for Congress to take at this time to improve governance of charitable organizations, the Panel is taking a hard look at areas of great concern including board compensation, board responsibility for executive compensation and travel and expense reimbursement policies. We will have further recommendations on these issues in the Final Report.

These are some of the recommendations from the initial phase of the Panel's work. Some issues discussed during phase one require further study and have been referred back to the Work Groups for further study and consideration by the Panel for its Final Report due to this Committee in the spring. The Final Report will include specific recommendations for a statutory definition of donor-advised funds, targeted rules to prevent the abuse of Type III supporting organizations and participation by charities in abusive tax avoidance schemes, and the appropriate size of penalties assessed by the IRS for violations of self-dealing rules. In addition, the Final Report will address issues of board and executive compensation, rules to address taxpayer over-valuation of charitable contributions of property, and other recommendations to strengthen governance and self-regulation of charitable organizations.

Panel Research and Field Hearings

To assist the Panel in making informed recommendations in the second phase, three research projects have been initiated. These studies will analyze:

- Models of self-regulation, accreditation and standard-setting within the nonprofit sector and other relevant areas.
- Internal Revenue Service Forms 990 and 990-PF, in order to identify recommendations for improving the value of these forms as a credible source of public information on charities and foundations.
- How targeted Americans perceive the nonprofit sector and their views of the sector's meaning and impact on their lives.

This research will be completed within the next month so that Panel members will be able to utilize the findings in their deliberations and the final recommendations will be informed by these timely results.

In addition, as part of its continuing effort to encourage the participation of the nonprofit community in its work, the Panel is holding field hearings across the country in March, April and May. These hearings offer another opportunity for thousands of nonprofits— large, intermediate and small; local, regional and national—to come together to hear directly from Panel members, share their reactions to the Interim Report and offer comments, feedback, and questions for the Final Report. Nonprofit staff, board members, consultants, and volunteers are all invited to participate in these hearings to let Panel members know about their experiences, their thoughts about additional issues that should be discussed, their questions about the final report, and any other concerns they may have. In the past two weeks I have been to Denver and San Francisco for the first two hearings; both were at capacity, as hundreds of organizations came to learn and to contribute. These have been constructive and collaborative meetings, serious conversations about how to improve the way nonprofits do business in order to retain the public trust and more effectively serve the public good. There is no doubt in my mind about the collective commitment these organizations have to reaching for the highest standards of ethics and accountability, transparency and effectiveness.

Everywhere I have been people are hungry for information and guidance. They are clamoring to learn what to do. This is reflected in the comments of a participant in our San Francisco hearing less than a week ago. Anna Marie Jones, executive director of Collaborating Agencies Responding to Disasters, a nonprofit facilitating the work of many relief organizations, said to me, “Please give us the information and the recommendations on what organizations can do now to improve practice and accountability and I will happily take them to our members today.” Over and over again I hear the need for education. The Panel, INDEPENDENT SECTOR, and many other national organizations are planning ways to bring the Panel’s recommendations to members, affiliates and other local and regional nonprofit organization. As I mentioned earlier, this effort will be demand significant resources, both human and financial. We will get back to you as our program plans become clearer.

Another message I bring to you from my travels is that many of these wonderful organizations are determined to meet higher standards and adopt recommended practices, but they are struggling with how to balance the added cost of compliance with their need to put as many dollars as possible into the programs that meet community needs. There is no easy answer to this chronic dilemma. Comments to the Panel have urged caution and asked that we take into account regional differences in costs as we make final recommendations on thresholds. A \$2-million charity in San Francisco, for instance, will not have the same funds to spend on programs as a \$2-million charity in Des Moines because its rent, personnel, transportation and other costs are so much higher. The Panel is examining options for dealing with this issue and will have more to say in the coming months.

Mr. Chairman, I am grateful to be able to be here today to represent these dedicated individuals and organizations, and I am humbled by the incredible work they do. Tomorrow I will go to New York City for a field hearing that had to be moved to a larger space to accommodate the hundreds of organizations interested in participating. Thereafter we hold field hearings in Des Moines, Minneapolis, San Diego, Dallas, Chicago, Washington, D.C., Atlanta, Detroit, Helena, and Seattle. The interest in the field in coming together to solve these problems and raise the

standard of our practice is reflective of how seriously the charitable sector takes these important issues.

Next Steps

A large part of the Panel on the Nonprofit Sector's work lies ahead. In addition to the issues held over from phase one, there are numerous other concerns related to strengthening the governance, ethics and accountability of charitable organizations that are being addressed in the second phase. A process similar to that in phase one is already underway with Work Groups drafting recommendations. The Expert Advisory Group and Citizens Advisory Group will again provide comments to the Panel for its consideration. One public conference call has been convened since the release of the Interim Report and others will take place prior to the release of the Final Report.

The Panel anticipates that there may be a need for further consideration of some issues following the release of the Final Report. Therefore, Panel members have agreed to continue to meet through the fall of 2005 and may bring some additional comments back to the Finance Committee.

Final Thoughts

Normally, when I testify before a Congressional committee, I begin my remarks with a brief overview of the nonprofit sector and the role charitable organizations have played throughout our history. Because I have testified before the Finance Committee before, and because I know that the Committee members are all aware of the work of nonprofit organizations in your states, I did not start today's testimony with facts and figures about our nation's charitable organizations. Instead, I began by reporting on the efforts we were taking before the Senate Finance Committee issued its discussion paper and those that are underway now. The Committee's hearings and the Panel process have energized our work and given the sector new determination to improve our practices and raise our standards. This work will continue to go on long after any legislative or regulatory reforms are implemented. We will work with you because our sector is committed to being worthy stewards of the public's trust and of the funds entrusted to us.

Our focus today is on areas that need improving in the nonprofit sector, but I cannot end my remarks without saying just a few words about what is right in the sector. Nonprofit organizations each day serve, educate, assist, enrich and empower millions of Americans in thousands of local communities. From the earliest colonists to tomorrow's leaders every generation has contributed to and benefited from the work of charitable organizations and by so doing has ingrained the concept of voluntarism deep into the American culture.

America's nonprofit organizations serve many functions. As proving grounds for innovative programs they pioneered many of the services we take for granted today such as public libraries and public schools, fire stations (many of which are still volunteer companies) and national parks. In these cases, the success of the voluntary efforts was so clear that governments (federal, state or local) took responsibility for them, expanding them so that all citizens could share the resources. The reverse has also been true, that is, governmental programs have benefited by

collaboration with nonprofit organizations that can appropriately tailor national services to meet the needs of individual communities and populations in need. Working in partnership with the charitable sector often enables public programs to provide even greater assistance by adding philanthropic resources to the public ones. Programs for the homeless, child care centers, health clinics and numerous other examples abound in our communities.

Philanthropic institutions are frequently incubators of ideas, sustaining research and development until such time as the ideas mature or die, but were at least given a chance to bloom. Such philanthropic initiatives enabled Jonas Salk's work that resulted in the polio vaccine, built the great museums of America, advanced rocket science research, and created the 9-1-1 emergency response system.

I could, but won't, go on and on about the invaluable work of the charitable sector. You all know what these organizations do in your states and for your communities. So I will end where the Panel began, with the principles that guided our work. The nonprofit sector must remain a vital component of American life; it must maintain its independence and creativity; it must operate with the highest standards of integrity and credibility; and it must always be responsible, accountable and transparent. Government should provide oversight and regulations for the sector to deter abuse, without discouraging legitimate charitable activity. The Panel on the Nonprofit Sector is committed to offering Congress, the IRS and the charitable and philanthropic community its best advice on how to meet those goals.

Mr. Chairman, Senator Baucus, members of the Committee, I look forward to continuing this dialogue throughout Phase Two of the Panel on the Nonprofit Sector and beyond.

APPENDIX A

PANEL MEMBERSHIP

The Panel on the Nonprofit Sector is comprised of 24 nonprofit and philanthropic leaders from a wide spectrum of public charities and private foundations from all parts of the country, reflecting diversity in mission, perspective, and scope of work. Paul Brest, president of the William and Flora Hewlett Foundation of Menlo Park, California, and Cass Wheeler, chief executive officer of the American Heart Association of Dallas, Texas, will serve as co-conveners of the group. Diana Aviv, president and CEO of INDEPENDENT SECTOR, is executive director.

Learn more about the Panel by visiting www.NonprofitPanel.org.

Co-Conveners:

- Paul Brest, President, William and Flora Hewlett Foundation, Menlo Park, Calif.
- M. Cass Wheeler, Chief Executive Officer, American Heart Association, Dallas, Texas

Panel Members:

- Susan Berresford, President & CEO, Ford Foundation, New York, N.Y.
- Linda Perryman Evans, President & CEO, The Meadows Foundation, Dallas, Texas
- Marsha Johnson Evans, President & CEO, American Red Cross, Washington, D.C.
- Brian Gallagher, President & CEO, United Way of America, Alexandria, Va.
- Kenneth L. Gladish, Chief Executive Officer, YMCA of the USA, Chicago, Ill.
- Robert Greenstein, Executive Director, Center on Budget and Policy Priorities, Washington, D.C.
- Stephen B. Heintz, President & CEO, Rockefeller Brothers Fund, New York, N.Y.
- Wade Henderson, Executive Director, Leadership Conference on Civil Rights, Washington, D.C.
- Dorothy A. Johnson, President Emeritus, Council of Michigan Foundations, Grand Haven, Mich.
- Paul Nelson, President, Evangelical Council for Financial Accountability, Winchester, Va.
- Jon Pratt, Executive Director, Minnesota Council of Nonprofits, St. Paul, Minn.
- William C. Richardson, President & CEO, W.K. Kellogg Foundation, Battle Creek, Mich.
- Dorothy S. Ridings, President & CEO, Council on Foundations, Washington, D.C.
- John R. Seffrin, President & CEO, American Cancer Society, Atlanta, Ga.
- Sam Singh, President & CEO, Michigan Nonprofit Association, Lansing, Mich.
- Edward Skloot, Executive Director, Surdna Foundation, New York, N.Y.
- Lorie A. Slutsky, President, New York Community Trust, New York, N.Y.

- William E. Trueheart, President & CEO, The Pittsburgh Foundation, Pittsburgh, Pa.
- William S. White, President, Charles Stewart Mott Foundation, Flint, Mich.
- Timothy E. Wirth, President, United Nations Foundation, Washington, D.C.
- Gary L. Yates, President & CEO, The California Wellness Foundation, Woodland Hills, Calif.
- Raul Yzaguirre, President & CEO, National Council of La Raza, Washington, D.C.

Executive Director:

- Diana Aviv, President & CEO, INDEPENDENT SECTOR, Washington, D.C.

BIOGRAPHIES OF THE MEMBERS OF THE PANEL ON THE NONPROFIT SECTOR

Co-Conveners

Paul Brest is the president of the William and Flora Hewlett Foundation in Menlo Park, California. The foundation's grantmaking focuses on education, environment, performing arts, population, and global economic development. Mr. Brest was previously a professor at Stanford Law School, where he focused on constitutional law and problemsolving/decisionmaking, and he served as dean between 1987 and 1999. He is coauthor of *Processes of Constitutional Decisionmaking* and currently teaches a law school course on *Problemsolving, Decisionmaking, and Professional Judgment*. He also was a law clerk to Judge Bailey Aldrich and Supreme Court Justice John M. Harlan, and practiced with the NAACP Legal Defense and Educational Fund, Inc., in Jackson, Mississippi, doing civil rights litigation. Mr. Brest received an A.B. from Swarthmore College in 1962 and an LL.B from Harvard Law School in 1965. He holds honorary degrees from Northeastern Law School and Swarthmore College and is a member of the American Academy of Arts and Sciences.

M. Cass Wheeler is chief executive officer of the American Heart Association, a national voluntary health agency whose mission is to reduce disability and death from cardiovascular diseases and stroke. Mr. Wheeler joined the organization at its Texas affiliate in Austin in 1973, where he became vice president for field operations and later executive vice president. He came to the National Center in Dallas in 1982 as chief operating officer, assumed the position of senior vice president for field operations in 1996, and was named CEO in 1997. Under his leadership, the association merged its 56 individual state and metropolitan affiliates into 12 regional affiliates and adopted a single corporate structure. Previously chair of the Board of Directors for the National Health Council, Mr. Wheeler is currently on the boards of Partnership for Prevention, National Center for Tobacco-Free Kids, Research!America, and the National Assembly of Human Service Organizations. He is also on the boards of INDEPENDENT SECTOR and Advisors of Discovery Health Media, Inc. and is on the Citizens Advisory Council for the Campaign for Medical Research and Advisory Council of the Campaign for Public Health. Mr. Wheeler received a bachelor's degree in business from the University of Texas at Austin in 1963, after which he served in various roles at the American Cancer Society; between 1969 to 1973, he was a stockbroker in Dallas. A native Texan, Mr. Wheeler is an elder in the First Presbyterian Church of Dallas.

Members

Susan Berresford was named president of the Ford Foundation in 1996. One of the largest foundations in the United States, Ford supports programs around the world that strengthen democratic values, reduce poverty and injustice, promote international cooperation and advance human achievement. Ms. Berresford joined the foundation's Division of National Affairs in 1970 and later became officer in charge of its women's

programs and then vice president for the U.S. and International Affairs programs. After serving as vice president in charge of worldwide programming, she was named executive vice president and chief operating officer of the foundation, a position she held until she became president. Prior to joining Ford, Ms. Berresford was a program officer for the Neighborhood Youth Corps and worked for the Manpower Career Development Agency, where she was responsible for the evaluation of training, education, and work programs. She attended Vassar College and then studied American history at Radcliffe College, from which she graduated cum laude. She is on the board of the Council on Foundations and a member of the Trilateral Commission and the American Academy of the Arts and Sciences.

Linda Perryman Evans is president and CEO of The Meadows Foundation, one of the nation's largest private philanthropies. The foundation is dedicated to enriching the lives of Texans, particularly in the areas of public education, mental health and the environment. A trustee of the foundation since 1975, Ms. Evans has held a wide range of positions since receiving her B.A. from the University of Texas. In Washington, D.C., she worked for President Ford's re-election campaign, the American Enterprise Institute, the late Senator John Heinz, and the White House Office of Media Relations and Planning for President Reagan. In Dallas, Ms. Evans was an active partner in a public relations firm before assuming her current position. She has been deeply involved in the city's nonprofit community, currently and previously serving on the boards of education, arts, and health care organizations. Her dedication has been recognized many times: in 2002, she received the Prism Award from the Greater Dallas Mental Health Association for her work in improving mental health services, and the Encomienda de la Orden de Isabel La Catholica, one of Spain's highest honors, for enhancing relations between Spain and the United States. Ms. Evans currently serves on the Legislation and Regulations Committee for the Council on Foundations, is president-elect of the Conference of Southwest Foundations, and chairs the Mid-America Foundations Task Force on Standards and Accountability.

Marsha Johnson Evans became president and CEO of the American Red Cross in August 2002. She leads an organization that annually assists the victims of more than 70,000 natural and human-caused disasters, collects six million units of blood donations, trains more than 11 million people in lifesaving skills, transmits emergency messages for military families around the globe, and provides international relief and development programs. Born in Springfield, Illinois, she graduated from Occidental College in Los Angeles and immediately began a 30-year career in the U.S. Navy. Ms. Evans retired in 1998 as a rear admiral, one of the few women to reach that rank, and soon after became head of Girls Scouts of the USA. There she led efforts to increase substantially the number of adult volunteers, and she created or expanded cutting-edge programs to enhance girls' knowledge of science, technology, sports, money management, and community service. Since coming to the Red Cross, Ms. Evans has championed the recruitment of volunteers and employees from diverse backgrounds and has developed a new strategic plan with input from 6,000 Red Crossers, community leaders, and other stakeholders. Among her many awards are the prestigious 2002 John W. Gardner Legacy

of Leadership Award by the White House Fellows Association. She lives with her husband, a retired Navy jet pilot, in metropolitan Washington, D.C.

Brian Gallagher became president and CEO of United Way of America in January 2002. He now leads the national United Way movement, which includes approximately 1,400 community-based United Way organizations, each of which is independent, separately incorporated and governed by local volunteers. Mr. Gallagher began his 20-year United Way career immediately after college, when the organization selected him as a management trainee. He most recently served as president of the United Way of Central Ohio, leading the organization as it redesigned itself from a fundraising federation to a collaborative community leadership organization focused on the region's most pressing issues. Prior to moving to Columbus in 1996, Mr. Gallagher spent nearly six years at the United Way of Metropolitan Atlanta, including two years as executive vice president and CEO. He currently serves on the board of INDEPENDENT SECTOR. Born in Chicago and raised in Hobart, Indiana, Mr. Gallagher received his bachelor's degree in social work from Ball State University and a master's degree in business from Emory University.

Kenneth L. Gladish became the national executive director of the YMCA of the USA in February 2000. Together, the nation's more than 2,500 YMCAs make up America's largest not-for-profit community service organization, working to meet the health and social service needs of 18.9 million men, women and children. Dr. Gladish entered the Y as a boy in suburban Chicago, where he first joined and later volunteered and worked at his local branch. He came to his current position following six years as executive director of the Indianapolis Foundation and William E. English Foundation and three years as president of the Central Indiana Community Foundation. Dr. Gladish has volunteered as a college trustee, Rotary Club president, elder in the Presbyterian Church, and commissioner of the Indiana Martin Luther King Holiday Commission. He currently serves on several boards, including those of American Humanics, the Association of Professional Directors, Chicagoland Chamber of Commerce, and the National Human Services Assembly. Dr. Gladish received his bachelor's degree from Hanover College in Indiana and his master's and doctorate in foreign affairs from the University of Virginia. He and his wife have two children and live in the Chicago area.

Robert Greenstein founded and is executive director of the Center on Budget and Policy Priorities, one of the nation's most respected analysts of federal and state fiscal policy and of public programs that affect low- and moderate-income families and individuals. Mr. Greenstein's expertise on the federal budget and in particular, the impact of tax and budget proposals on low-income people, was illustrated in 1996, when he was awarded a MacArthur Fellowship. He has written numerous reports, analyses, op-ed pieces, and magazine articles on poverty-related issues and is frequently asked to testify on Capitol Hill. In 1994, he was appointed by President Clinton to serve on the Bipartisan Commission on Entitlement and Tax Reform. Prior to founding the center, Mr. Greenstein was administrator of the Food and Nutrition Service at the U.S. Department of Agriculture, where he directed the agency that operates the federal food assistance programs, with a staff of 2,500 and a budget of \$15 billion.

Stephen B. Heintz joined the Rockefeller Brothers Fund in February 2001 as its fourth president. Founded in 1940 by the sons and daughter of John D. Rockefeller Jr., the RBF is an international foundation supporting social change to help build a more just, sustainable, and peaceful world. Before joining the RBF, Mr. Heintz held leadership positions in both the nonprofit and public sectors. He dedicated the first 15 years of his career to politics and government in Connecticut, where he served as Commissioner of Social Welfare and Commissioner of Economic Development. In 1988, he helped draft and secure passage by Congress of “The Family Support Act,” the first major reform of the nation’s welfare system. Between 1990 and 1997, Mr. Heintz was executive vice president and chief operating officer of the EastWest Institute, where he worked on issues of economic reform, civil society development, and international security in Central and Eastern Europe. Most recently, Mr. Heintz was founding president of Dēmos: A Network for Ideas & Action, a public policy research and advocacy organization working to enhance the vitality of American democracy and promote more broadly shared economic prosperity. He is a magna cum laude graduate of Yale University.

Wade Henderson is executive director of the Leadership Conference on Civil Rights and counsel to the Leadership Conference on Civil Rights Education Fund. The nation's premier civil and human rights coalition, LCCR encompasses over 180 national organizations, including those representing persons of color, women, children, organized labor, persons with disabilities, older Americans, gays and lesbians, civil liberties and human rights interests, and major religious institutions. Under Mr. Henderson’s leadership, LCCR has become one of the nation’s most effective defenders of civil and human rights; it currently works on election reform, federal judicial appointments, public education reform, prevention of hate crimes, criminal justice reform, and immigration and refugee policy. He graduated from Howard University and the Rutgers University School of Law (Newark) and was previously Washington bureau director of the NAACP and associate director of the Washington national office of the American Civil Liberties Union. His many awards include the Congressional Black Caucus Chair's Award; the District of Columbia Bar's William J. Brennan Award; and the Everett C. Parker Award from the Office of Communication, Inc. of the United Church of Christ.

Dorothy A. Johnson served as President of the Council of Michigan Foundations for 25 years. The Council, an association of more than 400 Michigan foundations and corporations offering grants for charitable causes, is the largest regional association of grantmakers in the nation; its mission is to enhance, improve, and increase philanthropy in the state. Ms. Johnson is currently on the boards of the W. K. Kellogg Foundation, the Kellogg Company, AAA–Michigan, Grand Valley State University, and the Corporation for National and Community Service. Her past experience was equally varied, with service on the boards of National City Bank, the Grand Haven Area Community Foundation, the Presbyterian Foundation, the Council on Foundations, and Independent Sector. Many organizations have recognized her work: the Council of Foundations named her Distinguished Grantmaker of 2000; and the Michigan Women’s Foundation gave her its Women of Achievement and Courage Award. Ms. Johnson has also been president of the Community Foundation Youth Project, a program created to develop

youth philanthropy programs. She received her BA from the University of California at Berkeley.

Paul Nelson has been president of the Evangelical Council for Financial Accountability for the last 10 years. ECFA, which is now celebrating its 25th anniversary, is an accreditation agency for over 1,100 nonprofit Christian organizations that share a common Statement of Faith. Mr. Nelson joined ECFA after serving for nine years as executive vice president and CEO of Focus on the Family, a nonprofit radio ministry founded by Dr. James Dobson. He began to work at Focus on the Family in 1985 after spending 23 years in financial management in the chemicals and oil industries. He has represented Focus on the Family and ECFA as a speaker and instructor in both national and international venues, and he has been recognized many times for his service to the nonprofit community including *The NonProfit Times* "Executive of the Year" in 1996. Mr. Nelson graduated from Adelphi College with a degree in business, and he and his wife, Elaine, reside in Winchester, Virginia.

Jon Pratt is director of the Minnesota Council of Nonprofits, an association of 1,500 organizations that sponsors research, training, lobbying and negotiated discounts to strengthen the state's nonprofit sector. Before coming to the council in 1987, he worked as attorney/lobbyist for an environmental organization (Minnesota Public Interest Research Group), as regional director for an alternative foundation (the Youth Project), and as director for a coalition formed by nonprofits to reform corporate and foundation philanthropy (the Philanthropy Project). Mr. Pratt currently co-chairs the Public Policy Committee of the National Council of Nonprofit Associations, which is made up of 39 statewide nonprofit associations with a combined membership of 20,000 organizations. He is also contributing editor of the *Nonprofit Quarterly*, a national journal based in Boston, and has been recognized several times by *The NonProfit Times* as one of the 50 most influential nonprofit leaders in the United States. Mr. Pratt has a law degree from Antioch School of Law and a M.P.A. from Harvard University. He lives in Minneapolis.

William C. Richardson is president and chief executive officer of the W. K. Kellogg Foundation. The Foundation is dedicated to building the capacity of individuals, communities, and organizations in solving challenging issues. Before becoming head of the Kellogg Foundation, Dr. Richardson was president of the Johns Hopkins University; he has also been executive vice president and provost of Pennsylvania State University and served as dean of the graduate school and vice provost for research of the University of Washington. Dr. Richardson has been active with all three sectors of society, nonprofit institutions, government, and corporations. He is a trustee of the Council of Michigan Foundations, a former chair and board member of the Council on Foundations, and a fellow of the American Academy of Arts and Sciences and the American Public Health Association. He is a member of the Institute of Medicine of the National Academy of Sciences and chaired its Committee on the Quality of Health Care in America. He serves on the boards of directors of the Kellogg Company, CSX Corporation, and The Bank of New York. Dr. Richardson graduated from Trinity College with a bachelor's degree in history and later earned an M.B.A. and Ph.D. in business from the University of Chicago Graduate School. Dr. Richardson and his wife, Nancy, have two children and live in Hickory Corners in southwestern Michigan.

Dorothy S. Ridings is president and CEO of the Council on Foundations, a national association of more than 2,000 foundations and corporations whose grants this year will total approximately \$18 billion. Before joining the Council in 1996, Ms. Ridings spent eight years as publisher and president of Knight-Ridder's *Bradenton Herald* in Bradenton, Florida. She previously served as a Knight-Ridder general executive in Charlotte and held editorial and reporting positions at *The Kentucky Business Ledger*, *The Washington Post* and *The Charlotte Observer*. Ms. Ridings was president of the League of Women Voters from 1982 to 1986, and was a member of its board of directors from 1976 to 1986. She serves as board chair of the National Civic League and of the Louisville Presbyterian Theological Seminary, and she is also a member of the boards of the Foundation Center and the Commission on Presidential Debates. Formerly a trustee of the Ford Foundation and a director of the Benton Foundation, she is currently a member of the council that accredits journalism schools. She holds a bachelor's degree in journalism from Northwestern University's Medill School of Journalism and a master's degree from the University of North Carolina, and she taught journalism at the University of Louisville and the University of North Carolina.

John R. Seffrin is chief executive officer of the American Cancer Society, the world's largest voluntary health organization devoted to fighting cancer. Prior to being named CEO in 1992, Dr. Seffrin was professor of health education and chair of the department of Applied Health Science at Indiana University. During 20 years as an ACS volunteer, he chaired the Indiana Division board of directors and, later, the national board from 1989 to 1991. Two governors of his home state of Indiana have recognized Dr. Seffrin's work, and he was awarded an honorary Doctor of Science degree from his undergraduate alma mater, Ball State University. He is a member of the board of directors of INDEPENDENT SECTOR and is currently finishing his third year as chair. He has also served numerous public service and governmental agencies, including as vice president of the American Lung Association's national board of directors and as a member of the U.S. Surgeon General's Advisory Committee on Smoking and Health. Dr. Seffrin is recognized as an international cancer control leader who has spoken on public health issues throughout North America, Australia, Europe, and Asia. In June 2002 he became President of the International Union Against Cancer, the only global NGO whose singular purpose is to advance the worldwide fight against cancer. Dr. Seffrin lives in Atlanta with his wife.

Sam Singh is the president and CEO of the Michigan Nonprofit Association, a 750-member organization dedicated to promoting an effective nonprofit sector by convening key nonprofit organizations, encouraging voluntary giving and service, and taking an active role in nonprofit public policy. Before joining MNA, Mr. Singh worked at several other nonprofit organizations, including the Volunteer Centers of Michigan, the Michigan Community Service Commission and the Points of Light Foundation. He currently serves on the Board of Directors for the Points of Light Foundation, the Capital Area Transit Authority (CATA), the Michigan Association of United Ways, and the Capital Regional Community Foundation. A graduate of Michigan State University with a B.A.

in history, he lives in East Lansing, where he was re-elected to serve a four-year term on the City Council and is currently serving as Mayor Pro Tem.

Edward Skloot is executive director of the Surdna Foundation, a family foundation headquartered in New York City that makes grants in five fields: the environment, neighborhood revitalization, youth organizing, arts, and nonprofit sector issues. The foundation's first professional employee, Mr. Skloot has built a staff of 20 and helped Surdna, which has assets of nearly \$700 million, earn a national reputation for entrepreneurial grantmaking, collaborative approaches with other funders and grantees, and aggressive solution-finding for complex problems. Mr. Skloot previously founded and ran New Ventures, a consulting firm that created the field of social venturing and nonprofit entrepreneurship; he also wrote the first article ever published on the subject, in the *Harvard Business Review* in 1983. He currently serves on the board of Consumers Union (publisher of *Consumer Reports*) and Venture Philanthropy Partners, a group of venture capitalists helping youth-serving organizations in the Washington, D.C. region. He is a member of the advisory board of the Bridgespan Group, a nonprofit consulting firm. Mr. Skloot has written and spoken widely on the subjects of nonprofit management, social venturing and sectoral leadership and is also a member of the Editorial Board of the *Stanford Social Innovation Review*. He graduated from Union College in Schenectady, New York, and from the Columbia University School of International Affairs.

Lorie A. Slutsky has been the president of The New York Community Trust, the country's largest and one of its oldest community foundations, since 1990. Though it also funds other projects, the Trust focuses on four areas: arts, education, and the humanities; children, youth, and families; community development and environment; health and people with special needs. Ms. Slutsky began at the Trust in 1977 as a grantmaker for education, housing, government and urban affairs, and neighborhood revitalization. She was appointed vice president for special projects in 1983 and executive vice president in 1987, when she assumed responsibility for strategic planning, personnel and budget management, and oversight of all departments. Ms. Slutsky received her B.A. from Colgate University, where she was a trustee for nine years, and her M.A. from New School University, where she is currently a trustee. Ms. Slutsky serves on the boards of the United Way of New York City and BoardSource and is a director of Alliance Capital Management, one of the nation's largest investment management firms. A former board chairman of the Council on Foundations and vice chairman of the Foundation Center, she also has served on the boards of Hispanics in Philanthropy, the Nonprofit Finance Fund, the Nonprofit Coordinating Committee of New York, the DeWitt Wallace Fund for Memorial Sloan Kettering Cancer Center, and the Lila Acheson Wallace Fund for the Metropolitan Museum of Art.

William E. Trueheart is president and chief executive officer of the Pittsburgh Foundation, which since 1945 has worked to improve the quality of life in its region by addressing community issues, promoting charitable giving, and connecting donors to critical needs. Dr. Trueheart has had a richly varied career with nonprofit organizations, including work at several major universities. After many years at the University of

Connecticut, including as a Dean, he moved to Harvard University, where he was associate secretary of the university and assistant dean and director of the Master in Public Administration program at the John F. Kennedy School of Government. He then moved to Bryant College in Rhode Island, serving as executive vice-president before becoming the school's first African-American president. Immediately before his current position, he served as president of Reading Is Fundamental, Inc. Dr. Trueheart has consulted with the National Park Service, the Ford Foundation, the Lilly Endowment, and the Mary Reynolds Babcock Foundation. He has extensive experience on the boards of local and national nonprofits: he has been nominated to serve as chair of Independent Sector, and he was previously chair of the Rhode Island Independent Higher Education Association, vice chair of the National Council of Presidents for the Association of Governing Boards, and a director of the American Institute of Certified Public Accountants. He earned his B.A. from the University of Connecticut, his M.P.A. from the John F. Kennedy School of Government, and his Ed.D. from the Graduate School of Education at Harvard.

William S. White is chairman, president and CEO of the Charles Stewart Mott Foundation, a private philanthropy based in Flint, Michigan, committed to supporting projects that promote a just, equitable and sustainable society. Mr. White joined Mott in 1969, became its president in 1976, and assumed the role of chairman in 1988. He currently serves on the boards of the European Foundation Centre, United States Sugar Corporation (chairman), Network of European Foundations for Innovative Cooperation, the After-School All-Stars, INDEPENDENT SECTOR, the C. S. Harding Foundation, and the Isabel Foundation. He has previously served on the boards of GMI Engineering & Management Institute (now Kettering University), CIVICUS: World Alliance for Citizen Participation; Council of Michigan Foundations; the Flint Public Trust, Council on Foundations, the Flint Area Focus Council, American Friends of the Czech Republic, American Water Works, Daycroft School, and Adventures Unlimited. In the 1980s Mr. White was a member of President Ronald Reagan's task force on private sector initiatives, and in the 1990s he served on the Carter Center's observer delegation to the Palestinian elections, on the U.S. Presidential Delegation to observe the Bosnian elections, and on a Presidential Economic and Business Development Mission to Croatia and Bosnia. He received a B.A. and M.B.A. from Dartmouth College, and is the recipient of several honorary degrees. Mr. White is married and has two children.

Timothy E. Wirth is the president of the United Nations Foundation and Better World Fund, both of which were founded in 1998 to support and strengthen the work of the United Nations. Sen. Wirth began his career in government as a White House Fellow under President Johnson and later became Deputy Assistant Secretary for Education in the Nixon Administration. In 1975, he returned to his home state of Colorado and won the first of six consecutive terms for the U.S. House of Representatives, where he concentrated on communications technology and budget policy. Sen. Wirth was elected to the U.S. Senate in 1987 and shifted his focus to environmental issues, especially climate change and population stabilization. After choosing not to run for re-election, he served as the first Undersecretary of State for Global Affairs, coordinating U.S. foreign policy on refugees, population, environment, science, human rights and narcotics.

President of the UN Foundation since its inception, Sen. Wirth has developed its mission and program priorities, which include the environment, women and population, children's health and peace, security and human rights. Sen. Wirth graduated from Harvard College, where he has since served as a member of the Board of Overseers, and holds a Ph.D. from Stanford University. He is married to Wren Wirth, president of the Winslow Foundation; they have two grown children.

Gary L. Yates is president and chief executive officer of The California Wellness Foundation, which works to improve the health of the state's people by making grants for health promotion, wellness education and disease prevention. His more than 30 years of experience in public health and education include serving as associate director of the division of adolescent medicine at Children's Hospital Los Angeles. A licensed marriage and family therapist, Mr. Yates is also assistant clinical professor of pediatrics at the University of Southern California School of Medicine. He serves on the boards of the Council on Foundations, the Foundation Consortium, and INDEPENDENT SECTOR. He has received official commendations from the governor of California, the California State Senate, the city of Los Angeles, and the Los Angeles County Board of Supervisors. Mr. Yates was also the recipient of the 1999 Hispanic Health Leadership Award from the National Coalition of Hispanic Health and Human Services Organizations and the 1998 recipient of the Los Angeles Free Clinic's Lenny Somberg Award. He received his undergraduate degree in government from American University in Washington, D.C., and his master's degree in counseling psychology from the University of Northern Colorado.

Raul Yzaguirre is president of the National Council of La Raza, the largest constituency-based national Hispanic organization and leading Hispanic think tank in America. Born in the Rio Grande Valley of South Texas, he began his civil rights career at 15, when he organized a junior auxiliary of an Hispanic veterans organization. After four years in the U.S. Air Force Medical Corps, he founded the National Organization for Mexican American Services, and a proposal he wrote for NOMAS led to the creation of what is now NCLR. Mr. Yzaguirre joined NCLR in 1974 and has spearheaded its emergence as the country's most influential and respected advocate for Hispanics. Mr. Yzaguirre has been honored on many occasions for his work: for example, he was the first Hispanic to receive a Rockefeller Public Service Award from Princeton University, and he received the Order of the Aztec Eagle, the highest honor given by the government of Mexico to noncitizens. He serves on the board of directors of numerous organizations, including Sears, Roebuck and Co., United Way of America, AARP Services, Inc., National Hispanic Leadership Agenda, and the Leadership Conference on Civil Rights; he is also a past chairman of INDEPENDENT SECTOR. Mr. Yzaguirre, who lives in the Washington area, received his B.S. from the George Washington University.

Executive Director

Diana Aviv is president and CEO of INDEPENDENT SECTOR, a nonprofit, nonpartisan coalition of approximately 600 national organizations, foundations, and corporate philanthropy programs, collectively representing tens of thousands of charitable groups in every state in the nation. Its mission is to advance the common good by leading,

strengthening, and mobilizing the independent sector. Prior to joining IS in 2003, she spent nine years at United Jewish Communities as vice president for public policy and director of the Washington Action Office. Ms. Aviv was formerly associate executive vice chair at the Jewish Council of Public Affairs, director of programs for the National Council of Jewish Women, and director of a comprehensive program serving battered women and their families. She is immediate past chair of the National Immigration Forum, is an advisory board member of the *Stanford Social Innovation Review* and the Center for Effective Philanthropy, and is a member of the Board of Governors for the Partnership for Public Service. A native of South Africa, Ms. Aviv graduated with a B.S.W. from the University of Witwatersrand in Johannesburg and received her Master of Social Work degree at Columbia University.

APPENDIX B

LIST OF ENDORSERS OF THE INTERIM REPORT

The following organizations and individuals have signed on in support of the recommendations in the Panel on the Nonprofit Sector's Interim Report. This list is current as of April 2, 2005, and is updated daily at www.NonprofitPanel.org.

Alliance for Advancing Nonprofit Healthcare
Alliance for Children and Families
Alliance for Nonprofit Management
Alliance of Nonprofits for Insurance, Risk Retention Group
Altria Group, Inc.
American Association of Retired Persons (AARP)
American Cancer Society
American Heart Association
American Lung Association
American Red Cross
American Society of Association Executives
Anti-Defamation League
Asian American Federation of New York
W. Todd Bassett, National Commander, The Salvation Army
Claude Worthington Benedum Foundation
Susan Berresford, President and CEO, Ford Foundation
Willard Boyd, Director, Waterman Iowa Nonprofit Resource Center
BoardSource
Nick Bollman, President, California Center for Regional Leadership
Brain Trauma Foundation
Pam Buckmaster, Organizational Development Consultant, Pam Buckmaster & Associates
The California Wellness Foundation
The Campagna Center
Carnegie Corporation of New York
CBM Credit Education Foundation
Center for Nonprofit Advancement
Center for Non-Profit Corporations
The Chicago Community Trust
Children's Medical Research Institute
Children's Research Triangle
The Cleveland Foundation
Close Up Foundation
Collaborative Opportunities for Raising Empowerment
Colorado Association of Nonprofit Organizations
The Columbus Foundation
Community Foundation for Monterey County
Community Foundation of Greene County, Pennsylvania

The Community Foundation for Greater Atlanta, Inc.
The Community Foundation of Westmoreland County
The Community Foundation Serving Richmond and Central Virginia
Community Human Services Corporation
Community Involvement Foundation
CompuMentor
Connecticut Council for Philanthropy
Connelly Foundation
The Conservation Fund
Council of Michigan Foundations
Council on Foundations
Demos: A Network for Ideas and Action
Des Moines Neighbors
The Donors Forum of Chicago
Easter Seals Goodwill Industries, New Haven, CT
Easter Seals Northwestern Ohio
Marcie Eberhart, Director, American Eagle Outfitters Foundation
Edna McConnell Clark Foundation
Linda Perryman Evans, President and CEO, The Meadows Foundation
FEGS Health and Human Services System
Jeannette Ferro, President, Aid for Animals, Inc.
Forum of Regional Associations of Grantmakers
The Foundation Center
The Foundation for the Mid South
Franklin McKinley Education Foundation
Girl Scouts of the USA
Kenneth Gladish, CEO, YMCA of the USA
Goodwill Industries International, Inc.
Goodwill Industries of Central Texas
Goodwill Industries of Colorado Springs
Goodwill Industries of East Central Ohio, Inc.
Goodwill Industries of El Paso
Goodwill Industries of Kanawha Valley
Goodwill Industries of Middle Georgia and the CSRA
Goodwill Industries of Middle Tennessee, Inc.
Goodwill Industries of North Central Wisconsin Inc.
Goodwill Industries of Northwest NC, Inc.
Goodwill Industries of San Joaquin Valley, Inc.
Goodwill Industries of the Valleys
Goodwill Industries of West Michigan, Inc.
Goodwill of Grand Rapids
Goodwill of Greater Washington
Goodwill Southern California
Goodwill Suncoast/Tampa, St. Petersburg, Florida
Grantmakers for Effective Organizations
The Greater Cincinnati Foundation

Anne E. Green, Vice Chairman, The Alliance for Nonprofit Governance
Florence Green, Executive Director, California Association of Nonprofits
Robert Greenstein, Executive Director, Center on Budget and Policy Priorities
Paul S. Grogan, President, The Boston Foundation, Inc.
Guardian Angels Foundation
GuideStar
Gulf Coast Community Foundation of Venice (Florida)
Walter and Elise Haas Fund
Hands On Network
Erin Hardwick, Executive Director, South Carolina Association of Nonprofit Organizations
The Harry Singer Foundation
Stephen Heintz, President, Rockefeller Brothers Fund
Wade Henderson, Executive Director, Leadership Conference on Civil Rights
F.B. Heron Foundation
William and Flora Hewlett Foundation
Ira Hirschfield, President, Evelyn and Walter Haas, Jr. Fund
Honored to Serve, Inc.
INDEPENDENT SECTOR
Indiana Grantmakers Alliance
Institute for Global Ethics
The Interfaith Alliance
International Center for Environmental Arts (ICEA)
The James Irvine Foundation
Dorothy A. Johnson, President Emeritus, Council of Michigan Foundations
Bobbi Johnson, President & CEO, Goodwill Industries of the Inland Northwest
The Joyce Foundation
Joy of Sports Foundation
JA Worldwide (Junior Achievement)
KaBOOM!
Diane Kaplan, President, Rasmuson Foundation
John S. and James L. Knight Foundation
Knowledge Exchange Center of Rhode Island
The Susan G. Komen Breast Cancer Foundation, Inc.
Charles W. Lamb, President and CEO, Air Force Village West, Inc.
Land Trust Alliance
Carol S. Larson, President and CEO, The David and Lucile Packard Foundation
Laurel Foundation
The Leighty Foundation
Lucent Technologies Foundation
Lutheran Services in America
The John D. and Catherine T. MacArthur Foundation
March of Dimes
Marilyn Klenck, President and CEO, Community Foundation Alliance
John E. Marshall, III, President and CEO, The Kresge Foundation
Maryland Association of Nonprofit Organizations

Massachusetts Council of Human Service Providers, Inc.
Katherine Mabis McKenna Foundation
Mental Health Association in Jefferson County (Texas)
Oliver B. Merlyn Foundation
Michigan Nonprofit Association
Ricardo Millett, President, Woods Fund of Chicago
Minnesota Council of Nonprofits
Mississippi Center for Nonprofits
Monterey Peninsula Foundation
Mortar Board, Inc. & Mortar Board National Foundation
Risa Lavizzo-Mourey, President and CEO, The Robert Wood Johnson Foundation
MPA Program in Nonprofit Organizations, High Point University
National 4-H Council
National Architectural Trust
National Association for Visually Handicapped
National Center on Nonprofit Enterprise
National Conference for Community and Justice
National Medical Fellowship
The Nature Conservancy
Paul Nelson, President, Evangelical Council for Financial Accountability
New Hampshire Center for NonProfits
New Hampshire Charitable Foundation
New Hampshire Community Action Association
Nonprofit Coordinating Committee of New York
Non-Profit Leadership League
Nonprofits' Insurance Alliance of California
North Carolina Center for Nonprofits
Northern California Grantmakers
Pacific Salmon Conservation Foundation
Peninsula Community Foundation
Pennsylvania Association of Nonprofit Organizations
The Pew Charitable Trusts
The Dr. P. Phillips Foundation
The Pittsburgh Foundation
Public Agenda
Public Radio International
Rainbow Center, Inc.
Bart Rauluk, Treasurer, Pittsburgh AIDS Task Force
Research!America
William C. Richardson, President and CEO, W.K. Kellogg Foundation
Riverside Community Health Foundation
Rochester Area Community Foundation
The Rockefeller Foundation
Rose Community Foundation
Seventh-day Adventist Church

The Harry Singer Foundation
The Skillman Foundation
Skoll Foundation
Lorie Slutsky, President, New York Community Trust
Richard and Susan Smith Family Foundation
Robert G. Smith, President and CEO, Goodwill Industries of Lower South Carolina
Adam M. Solender, Executive Director, Jewish Federation of Greater Manchester
Sonora Area Foundation
Tracy Souza, President, The Cummins Foundation
Surdna Foundation
Szekely Family Foundation
Take Charge America, Inc.
Tickets for Kids Foundation
Tides Center
Transatlantic Partners Against AIDS
Travelers Aid International
United Way of America
Joseph Valentine, Executive Director, Morris Stulsaft Foundation
Valley Care Association
Verizon Foundation
Steve Vetter, President, Eureka Communities
Volunteers of America
Waitt Family Foundation
Wallace Alexander Gerbode Foundation
Washington Grantmakers
The Watertown Family YMCA
The Wesley Institute
West Loch Elderly Association
William S. White, President, Charles Stewart Mott Foundation