

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

### Minutes of the Roundtable

#### **Seated at the moderated discussion table:**

1. Secretary of State Sam Reed
2. Rebecca Sherrell, *OSOS Charities Program Manager*
3. Mike Ricchio, *OSOS, Director of Corporations*
4. Shane Hamlin, *OSOS, Legislative Liaison*
5. Cindy Algeo, *Spokane Low Income Housing Consortium*
6. Cat Carrel, *Spokane AIDS Network*
7. Bruce Eldredge, *Northwest Museum of Arts and Culture*
8. Jean Farmer, *Northeast Community Center Association*
9. Sandy Gill, *Northwest Nonprofit Resources (Moderator)*
10. Ann Glynn, *North Central Washington Regional Support Network (NCWRSN)*
11. Dana Harbaugh, *Spokane Arts Commission*
12. Karl Hollander, *Spokane Art School*
13. Paula Nordgaarden, *Wishing Star Foundation*
14. Carlton Oakes, *Spokane Masonic Center*
15. Char Parsley, *Eastern Washington Service Center for Deaf and Hard of Hearing*
16. Kathleen Thamm, *Community-Minded Enterprises*
17. Kevin Ulrich, *Batty, Earlksen, and Associates*
18. PJ Waters, *Foundation Northwest*
19. Bill Simer, *Washington Society of CPAs*
20. Fred Peck, *Fred Peck Consulting*
21. Julie Griffith, *Community-Minded Enterprises*
22. Cynthia Hamilton, *Chase Youth Foundation, HYPER-Formance, Kiwanis*
23. Brenda Lippert, *City of Deer Park Arts Commission*
24. Jane Marek, *I CAN Horse Co-Op*
25. Carlene Schwab, *Rural Arts and Culture Association*
26. Kerry Wilzius, *South Hill Senior Center*
27. Shawn Mosey, *YMCA*

#### **Roundtable convened.**

**Sandy Gill (Northwest Nonprofits)** makes opening comments. Thanks all attendees for coming and the Office of the Secretary of State for coming as well. She asks attendees to please sign in and explains some of the materials and resources that are available at the roundtable.

*Floor is given to Secretary of State Sam Reed.*

**Secretary of State Sam Reed** thanks Sandy Gill and Jean Farmer for coordinating the roundtable and hospitality. He explains that roundtables occurred in Bellingham, Tacoma, Seattle, Vancouver, and the Tri-Cities; Spokane is the last roundtable.

He offers some background on the legislation. He comments that a few years ago, there was attention brought to organizations soliciting from the public. The tragedies of September 11<sup>th</sup>, Hurricane Katrina, and unfortunate media attention to those misrepresenting charitable intentions

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

### Minutes of the Roundtable

raised a heightened awareness from the public about where donor moneys are spent. He comments that in Congress, Senator Grassley took interest and commissioned the Independent Sector to write a report about the condition of the nonprofit sector nationwide. The Report noted that accountability is essential to the credibility of the sector.

Secretary Reed quotes a part of the nonprofit sector report, “Accountability is crucial to our sector. Charitable organizations are an indispensable part of American society, offering relief from disasters, nurturing our spiritual and creative aspirations, caring for vulnerable people, protecting our natural and cultural heritage, and finding solutions to medical and scientific challenges. But they can fulfill these missions only by maintaining the trust of the public. Meeting the ethical standards that will justify this trust requires a series of ongoing commitments: from each charity and foundations which must set standards and implement practices that manifest its dedication to transparency and governance, from the charitable community as a whole, which must share recommended practices and educate its members; and from the government which must strengthen the law and dedicate the resources necessary to enforce it.” (Page 1; Executive Summary, “Strengthening Transparency, Governance and Accountability of Charitable Organizations”).

In an effort to be a leader among states on this issue, Secretary Reed notes that his office met with the Washington State Bar Association, Washington State Society of CPAs, and legislators, to draft this legislation. Having leadership in the states might prevent the federal government from creating more draconian federal measures.

He notes that the main goal of the legislation is to encourage people in Washington State to continue to give and avoid any chilling effect on donations to the sector. His office introduced the bill in what was thought to be a consensus, but the office quickly learned that there was not much consensus within the sector at all. He notes that this legislation is something that the Office of the Secretary of State is trying to work with nonprofit organizations on, not “do to” organizations.

Secretary of State Sam Reed asks Shane Hamlin, Legislative Liaison, OSOS, to explain how the roundtable will proceed.

*Floor is given to Shame Hamlin, OSOS.*

**Shane Hamlin (OSOS)** thanks Sandy Gill and Jean Farmer for organizing the meeting. He encourages open and frank dialogue about the legislation and for attendees to share insights and thoughts about things not in the bill to help build sustainable public trust. He notes that all minutes will be posted on the website; following the roundtables, there will be a task force to review the major findings from the roundtables, and then introduce the legislation in the coming legislative session.

**Minutes of the Roundtable**

**Mike Ricchio (OSOS)** comments that he is happy that all attendees could be here; he notes that the Office of the Secretary of State is really benefiting from all the comments made at the roundtables.

He clarifies the difference between RCW Chapters 19.09, 24.03, and 11.110. Chapters 19.09 and 24.03 address nonprofit corporations and any entity soliciting from the public for a charitable purpose. Chapter 11.110 addresses charitable trusts. He explains that 24.03 deals with all nonprofit corporations and explains that the legislation does not focus on all nonprofit corporations. The legislation focuses on organizations that solicit from the public in excess of \$25,000; the legislation discusses groups, not just corporations that solicit from the public.

He explains that the bill aims to do a couple of things:

1. Streamline the registration requirements. When the Office of the Secretary of State was reviewing its computer system a few years ago, the office found that there were pieces of information that were required which is not used; similarly, there was information that the office did not collect that would be helpful if it was collected.
2. Clarify definitions, notably the definition of religious activity to make clear which organizations are exempt and which are not.
3. Improve transparency and accountability through the audit requirement and a board review of financial statements.
4. Attempt to develop a revenue stream for the Attorney General's Office for enforcement.

Mike Ricchio begins discussing the provisions of the bill:

Page 4, Line 13: Definition of Religion Activity

He notes that the Office of the Secretary of State is not trying to make an impact on how religion is practiced; rather, the office is attempting to mirror what the IRS has done. He notes that the IRS definition tends to qualify a church solely dedicated to promoting religion to be exempt from reporting. If charitable work is being done, and funds are solicited from the public, the organization is subject to 19.09 as a charitable soliciting organization.

**Sandy Gill (Northwest Nonprofits)** clarifies the definition with an example: Lutheran Homeless Shelter is affiliated with a church, but conducts charitable work that is not strictly religious, so this means that the organization is a charitable organization.

**Mike Ricchio (OSOS)** notes, that most of the time, the confusion is about whether or not the organization needs to register. However, the office also sees organizations that claim a religious purpose to avoid registration. He notes that if the organization is solely advancing the faith, it is exempt. He asks if the bill makes that clearer, and how well it sits with attendees.

**Bruce Eldredge (Northwest Museum of Arts)** comments that the definition does not sound very clear. He suggests having an example in the legislation or wording the definition to be something like 'if you're a religious organization that is doing work that is not related to your religion, you're not exempt.'

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

### Minutes of the Roundtable

**Audience Member** asks if the language could just be written in plain language.

**Mike Ricchio (OSOS)** notes that the office tried one time to do that, but it was very difficult.

**Shane Hamlin (OSOS)** comments that one thing the office has heard is that the language used in the legislation is consistent with the language used by lawyers for faith-based organizations regarding labor policies.

**Mike Ricchio (OSOS)** moves the discussion to the audit. He explains that this section came from the recommendations in the Independent Sector Report.

**Secretary of State Sam Reed** reads a summary of that section of the report: “Congress should require charitable organizations with at least \$1 million or more in annual revenues to conduct an audit and attach audited financial statements to their IRS Form 990 series returns, and those with annual revenues between \$250,000 and \$1 million to have their financial statements reviewed by an independent public accountant.” (Pg. 5, number 4).

**Mike Ricchio (OSOS)** notes that the office has come to realize that the term “audit” is a term of art and the Office of the Secretary of State needs to be more explicit about the intention and definition of the audit.

He also notes that, through the roundtables, the office has heard considerable concern over the total revenue aspect of the audit threshold. He notes that the office is closing in on total solicited dollars from the public, instead of total revenue. He explains that what the office is looking for is an independent third party review. Most organizations that have \$1million or more in total revenue are already conducting an audit. He notes that with the threshold at \$1 million for revenue, there are about 2,000 organizations in the state affected; if the threshold gets moved to \$2 million in total revenue, there are about 1,500 organizations affected.

**Secretary of State Sam Reed** notes that one of the reasons behind using total solicited funds is that so many organizations receive grants, which is hard to parse out. He notes that the real interest of the Secretary of State is in solicited funds from the public.

He mentions that at the Tri-Cities roundtable, there was a discussion about a tiered system, where lower levels of solicited dollars have a financial review, and even lower amounts of solicited dollars have a CPA complete the IRS Form 990.

**Audience Member** asks what the levels would be.

**Secretary of State Sam Reed** explains that the office will have to run the numbers on which thresholds will work best.

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

### Minutes of the Roundtable

**Bill Simer (WSCP)** agrees that the term “audit” is a term of art. He notes that the public expectation of an audit is sometimes different than what an audit really is. He comments that the responsibility lies back at the board of an organization and the staff of an organization that reviews financial statements. He also comments that the uniformity of what an audit is, is critical to the professional standards of CPAs.

**Sandy Gill (Northwest Nonprofits)** asks what the common public misconceptions of an audit are.

**Bill Simer (WSCP)** suggests that an audit is not a “good housekeeping seal of approval” because an audit does not look at every transaction of an organization. An audit only looks at a sampling of transactions as a test of credibility.

**Secretary of State Sam Reed** notes that an audit does not necessarily catch fraud either. Regardless, it is important to have a third party review the finances of an organization.

**Bruce Eldredge (Northwest Museum for Arts and Culture)** supports large organizations having an audit. He also supports having a review for organizations that raise more than \$500,000. He cautions attendees about the danger that the sector is in because of the abuses that are heard about everyday. He encourages clear lines about what is necessary in a review or audit.

**Bill Simer (WSCP)** reiterates his point about the board’s responsibility to the organization to look at the finances of the organization and to review the finances with a level of scrutiny.

**Audience Member** comments that if the board is not financially savvy, the finances are usually reviewed by the finance officer of the organization.

**Bill Simer (WSCP)** comments that if the board members are not financially savvy, then the organization should work hard to recruit board members that are financially savvy and familiar with good business practices.

**Secretary of State Sam Reed** notes that the other part of the audit requirement is having the board look at and sign-off on financial statements. He comments that there is a need for good governance and that he has heard that there is a real need for organizational education.

**Audience Member** suggests having laws about board responsibility.

**Secretary of State Sam Reed** notes that his office really believes in education. One suggestion heard at previous roundtables is to increase registration fees and have the legislature earmark the funds for education.

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

### Minutes of the Roundtable

**Ann Glynn (NCWRSN)** comments about the education component. She suggests that what has worked best for her organization is putting education materials on-line. She also suggests using the small business centers as a good place and resource for housing regional trainings. She has found that having materials downloadable provides access to all organizations, regardless of location and financial ability to send board members or staff to regional training. She has found that people like being trained at a desktop as much as being trained live. She also notes that physically traveling to training may be tough for smaller community groups.

**Cynthia Hamilton (CYF)** comments the more information available on-line, the better. She notes that once things are printed, even on DVD, they are outdated.

**Bruce Eldredge (Northwest Museum for Arts and Culture)** supports the idea of on-line training. He asks if there is a way to come up with a number or percentage of a board that would be required to obtain certification, rather than working to have the entire board certified.

*General agreement to this idea.*

**Audience Member** notes that the \$1 million threshold may not catch dishonesty in the sector. He suggests that much of the dishonesty is happening at lower levels of solicitation.

**Secretary of State Sam Reed** asks Bill Simer how much it would cost for a very small, basic nonprofit organization to have a professional accountant fill out the IRS Form 990.

**Bill Simer (WSCP)** suggests that it would cost \$300-500 to complete the IRS Form 990 for a simple organization with good records.

**Carlton Oakes (Spokane Masonic Center)** notes that this fee [mentioned above, \$300-500], is only accurate if all of the finances and paperwork of the organization are in order.

**Secretary of State Sam Reed** notes that not having paperwork and finances in order is something else that the board and the public need to know about.

**Carlton Oakes (Spokane Masonic Center)** notes that it is a challenge for organizations sometimes to keep finances in order because of staff transitions and the cost of investing in proper maintenance of financial books.

**Cynthia Hamilton (CYF)** asks if there is data about where the “bad apples” [dishonest organizations] are. She asks if most of these organizations are soliciting \$1 million.

**Minutes of the Roundtable**

**Mike Ricchio (OSOS)** notes that there is no data. He comments that dishonest organizations span the whole spectrum; there are many organizations in the state that should be registering and are not.

**Karl Hollander (Spokane Art School)** suggests that the intention of the legislation is to improve transparency and accountability, not to find the bad guys.

**Mike Ricchio (OSOS)** notes that there is an enforcement component, but the real focus is to improve transparency.

**Karl Hollander (Spokane Art School)** asks if a church can differentiate its general operating fund for advancing religion from its funds for charitable purposes, can other organizations do this too.

**Rebecca Sherrell (OSOS)** notes that there are organizations that exist right now that do not want to separate their bookkeeping methods. She notes that the practice of determining whether an organization is exempt (or not) from registration will depend on its activities.

**Mike Ricchio (OSOS)** notes that an organization cannot just decide to file separately to avoid the audit; it depends on how your books are kept.

**Bill Simer (WSCP)** comments that the statute does define membership; it comes down to whether or not an organization solicits funds from the public.

**Mike Ricchio (OSOS)** notes that there have been suggestions at previous roundtables to stagger the audit or review. He suggests the staggering would be “audit, review, review.” He asks if this would be easier or harder for organizations.

*General agreement that it would be harder for organizations.*

**Fred Peck (Fred Peck Consulting)** notes that staggering an audit does work for his publicly traded organization [where he works as a CPA].

**Bill Simer (WSCP)** notes that there is a big difference between a publicly traded company and a nonprofit organization.

**Carlton Oakes (Spokane Masonic Center)** comments that a lot of organizations receive grants and that to receive a grant, there is a lot of accountability that is built into the process. He suggests that some of the bill is redundant. He comments that most granting organizations already ask for all the financial figures for an organization and want to know where the grant money is spent.

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

### Minutes of the Roundtable

**Mike Ricchio (OSOS)** notes that the intention is not to create additional layers of regulation or burdens for nonprofit organizations.

**Carlton Oakes (Spokane Masonic Center)** asks if the \$1 million threshold is cash or does donated land and in-kind donations count towards the \$1 million of solicited funds.

**Rebecca Sherrell (OSOS)** notes that this is a concern she has been heard from other roundtables as well and the Office of the Secretary of State is aware that it needs to define “solicited funds” better.

**Karl Hollander (Spokane Art School)** asks if the Office of the Secretary of State is looking at asking if organizations have preventative policies, like conflict of interest. He asks if these policies, should the organization have a policy, could be reported to the Office of the Secretary of State for public information to aid in the organization’s transparency.

**Rebecca Sherrell (OSOS)** notes that the office is looking into that, but the office is not interested in collecting policies to place on file. The requirement would be more like a check-box acknowledgment that organizations would use to indicate if they have such policies. It would be a way for the office to refer the public to the organization’s policies.

**Anny Glynn (NCWRSN)** cautions attendees that there will be lots of new organizations that try to have nonprofit organizations join their accreditation system.

**PJ Waters (Foundation Northwest)** expresses concern about the definition of what soliciting organizations do not include (section is on the bottom of page 4).

**Rebecca Sherrell (OSOS)** clarifies that right now the law reads that if a family collects money to help with medical costs, the office would spend time trying to register the family. The intent is not to register individuals.

**PJ Waters (Foundation Northwest)** raises concern about earmarking money. She is concerned about people donating through her organization to give money to a certain person. She sees a lot of problems about earmarking funds; she suggests that this section needs a reference to the IRS rules on earmarking funds.

**Secretary of State Sam Reed** asks if there are other ideas about this topic. He moves the discussion to enforcement.

**Mike Ricchio (OSOS)** notes that right now the Attorney General has independent authority to investigate consumer protection complaints. The system is designed so that recoveries flow through to the general fund to continue enforcement. However, there is

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

### Minutes of the Roundtable

nothing like that for violations of the charitable solicitations or charitable trust acts. The aim of the enforcement section is to have a revenue stream so that enforcing violations of these acts can be a funded priority for the Attorney General's office.

He suggests that intent of the section is fairly straightforward, but he wants to ensure that there are no questions because the wording of the section is a bit complicated.

**Karl Hollander (Spokane Art School)** suggests having a percentage of the funds go toward education. Enforcement is not as important as prevention.

**Mike Ricchio (OSOS)** notes that the office is looking into the education idea because it would need to be funded. Currently all the funds collected through enforcement stay with the Attorney General's office.

**Carlton Oakes (Spokane Masonic Center)** asks how to ensure in the bill that the funds for education are not going to be siphoned away.

**Mike Ricchio (OSOS)** notes that even the best shepherded bill can't be totally protected.

**Secretary of State Sam Reed** states that he does think that the education piece needs to be a component and fought for in the legislature so that the fees are being increased for a reason.

**Carlton Oakes (Spokane Masonic Center)** suggests that if there is to be transparency in the nonprofit sector, there should be transparency from the government and the legislature.

**Ann Glynn (NCWRSN)** asks if "PST" can be added to the times that soliciting phone calls can be made [between 8am and 5pm].

**Sandy Gill (Northwest Nonprofits)** asks if transparency wouldn't be more effective if it included all 501 (c) 3 organizations, not just charitable solicitations.

**Mike Ricchio (OSOS)** notes that this legislation has always been seen as a starting point and that there is nothing in the legislation that would limit its expansion.

**Anny Glynn (NCWRSN)** suggests that the training be focused on three categories: organizations that are in order [financially], organizations that are getting in order, and organizations that are not in order. This system of categories worked for the educational component from her organization.

**Sandy Gill (Northwest Nonprofits)** asks if there is anything else to discuss here.

Spokane Nonprofit and Charities Roundtable  
Thursday, 3 August 2006, 3:00 pm -5:00 pm

**Minutes of the Roundtable**

**Secretary of State Sam Reed** asks for additional comments to be sent to the office via email and the link on the web site.

**Sandy Gill (Northwest Nonprofits)** asks attendees to spread the word to others who were not able to make the roundtable. Thanks all for attending.

**Cynthia Hamilton (CYF)** asks if the attendees are self-selecting for the task force to be convened following the roundtables.

**Shane Hamlin (OSOS)** asks for those interested in being on the task force to let the office know. He hopes to keep the number manageable, so that the group can effectively make decisions.

**Secretary of State Sam Reed** thanks all for attending.

**Roundtable adjourned.**