

Charities Advisory Council
February 22, 2019 Meeting Minutes
The Coast Gateway Hotel

Present: Howard Donkin, Steve Wilmes, Mike Plymale, Stuart Grover, Moonwater, Mike Forness, Anna Sayre (for Patty Belmonte), Darin Christensen, Patrick Reed, (SOS), Dave Horn, (AGO) Scott Douglas (SOS), Rebecca Sherrell, (SOS) and Teresa Glidden (SOS).

Present By Phone: Jenifer O'Bannan

Absent: Mary Kay Gugerty and Marta DeLeon (AGO)

Agenda Item #1: Call to Order

- Welcome, Howard Donkin, Council Chairman

The chair called the meeting to order and welcomed the members of the Charities Advisory Council. Howard reminded the members the purpose of the council. The council meets twice a year to discuss issues from our respective areas of the state and ways to assist the Secretary of State's Office to meet those needs.

Rebecca introduced the council's three new members.

- Darin Christensen, Big Brothers Big Sisters of Inland Northwest
- Peter Smith, Seattle Law Firm
- Ann Sayre, Hands on Children's Museum, attending for Patty Belmonte who couldn't be here today.

Agenda Item #2. Individual Councilmember Introductions

Each councilmember was asked to introduce themselves, the organization they're with, its purpose, and the community they serve.

Agenda Item #3. Elect Council Chairperson

Howard has served as Chairperson for the last year and it's time to elect another chair. Following a brief discussion,

A motion was made to elect Howard to serve another term as chair.

Motion was seconded.

Votes were cast and the motion carried.

4. Agenda Item #4 Old Business

- Review of June 11, 2018, meeting minutes
- Review of Action Items

The following corrections were brought to the council's attention:

Page 2, last paragraph, last sentence, after "Nonprofit Act will" insert "not."

*The sentence should read: "Scott is confident the revised Nonprofit Act will **not** be introduced to the 2019 Legislative Session.

It is at this time, councilmembers asked for a status of the revised Nonprofit Act. Scott described that the committee has been fine tuning some of the language. We've also been finalizing the Executive Summary which is pretty substantial since this is a major piece of legislation. The committee is moving forward. Scott believes there is a hope that this will still be introduced in the second year of the biennium (2020).

Page 3, Agenda Item #4, 3rd paragraph: After "including grants," delete "is" and insert "**are.**" After "then it is exempt, if the" delete "nonprofit" insert "**donor.**" After "is not receiving" delete "donation or grant" and insert "**goods or services.**"

*The sentence should read: If it's truly nonprofit and the donations, including grants, are 100% gratuitous, then it is exempt if the donor is not receiving goods or services in return for the donation or grant.

Page 3, Agenda Item #4, 9th paragraph, first sentence: After "Federal Grants are" insert "**typically**" and after "from" delete "sales" and insert "**B&O**".

*Sentence should read: "Federal Grants are typically exempt from B&O tax."

A motion was made to approve the June 11, 2018, meeting minutes as amended. The motion was seconded. Votes were cast and the motion carried.

- **Review of Action Items:** No Action Items to Review

Agenda Item #5 Presentation, Nancy Bacon, Washington Nonprofits

Rebecca introduced Nancy Bacon with Washington Nonprofits. Washington Nonprofits (WNP) is the state association of nonprofits, as well as the organization the Secretary of State contracts with to provide education to nonprofit and charitable organizations across Washington State.

Nancy started by explaining that Washington Nonprofits (WNP) is the Washington State Association of nonprofits and believes that nonprofits are doing absolutely everything important in the communities. WNP offers ways to connect with each other, ways to learn, or have a helpful ear when things get stressful. While WNP has approximately 700 members, they strive to assist all Washington nonprofits. They want every nonprofit to stay strong, connected with other nonprofits, and focus on the issues that matter.

Nancy commented that she lives in the world where learning and nonprofits intersect and the council should get a sense of that today.

Nancy began by stating she was going to tell the council, "Why we do what we do, what we do, and where we do it." Nancy doesn't want this to be a lecture, she wants it to be interactive, and people to ask questions.

WHY does WNP do what they do? → Because nonprofits really matter. Nonprofits that are strong, connected and focused on the issues that matter, can really make Washington the best place in the world to live, work and play.

In terms of adult learning, behavior change, and ACTION, so our nonprofits have what they need to be connected and focused on the issues that really matter. So the "why" is really about adult learning and how we engage people in change.

We need to change how we engage people so they are more likely to change. We need to set them up for success so they are more likely to do the things we need them to do, in order to lead our communities.

That is the start of the bigger **WHY** we do what we do.

Those big bold actions we want people to take – Nancy thinks in terms of, “How do we get to the top of Mt. Rainier?” This metaphor could well mean, “I need this board member to understand nonprofit finance; I need this board member to do all the right things in terms of compliance with the state.

Nancy engaged the council members in an exercise. “Head, Heart and Hands.” What do they know, how do they feel, and what can they do?

A few councilmembers shared their exercise experiences.

What did you originally say you need this person to do?

Why is she refusing?

Head: They know what they want the staff to do as far as tasks

Heart: They want to set the staff up for success

What they can do: They can show the staff that don't have a good system or tools, to get some training and reinforced training over time.

Do you have a very clear sense of what you would see or hear that would tell you that person is successful?

{Next Exercise} Describe what you would see or hear to know that your board member is successful.

Any barriers? What is holding that person back? There are four categories of barriers and they start outside your body and moves deep, within your body.

Environment: It could be the culture doesn't allow them to do it, the time structure, the job description doesn't give them time, or organization chart doesn't give them the authority to do something. The Environment which is far outside your body and theoretically outside of your control.

Tool: It comes closer to your body in a tool. It could be a template, a directory, a phone number, a sample document, it could be any type of thing that is a tool that helps you to do something.

Knowledge and Skills: Do you know how to do it? Do you have the skills to do it? Do you have the knowledge about the organization to have that conversation?

Your Emotions: How do you feel deep in your body about that task? Do you feel confident or empowered? Do you feel like you can actually make this thing happen? Do feel that people support you?

There are four categories of barriers that hold people back. The more we can address and remove those barriers, the faster we get people to act.

The second tier is the “Accelerators of Success.” Research shows you need three things.

Focus- The Goal

Team – Do you have the people that are going to make sure you’re going to achieve your goal?
{Accountability}

Reflection Time – That time when you take the book learning knowledge and what you’re actually seeing and it’s that oscillation between what you know and what you’re experiencing.

What are your barriers and what are some of the accelerators that you could leverage to ensure success?

Barriers	Accelerators	Reflection
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They deliver trainings and not thinking about what they learn will be immediately forgotten. Or, will the learning keep going after the learning experience? WNP works to make sure they’re on top of the learning curve. Many people think that the learning ends when the training ends.

Nancy also thinks about habits. We know that the habit with finance is this: Finance comes up on the board agenda, most people make their body really small, and there is a direct correlation that the closer your nose is to the paper, the more you’re studying numbers!

Agenda Item #6: Update on the Division’s Online Filing System

The OSOS has completed its warranty phase of the new system. Most of 2018 we were still building the system while operating in it, which proved to be somewhat challenging at times. After providing a year of online filings, we are currently running an 89% adoption rate.

The only process that requires human touch is the name review. There is no algorithm that will match with Washington State’s distinguishable upon the record law. Scott noted mergers and conversions must also come-in-house for review due to their complexity.

The main scope of work is completed and closed out and what we’re on now is a secondary enhancements contract. With that rollout, something that will effect this group and the organizations with which we work, we are going to be updating our Washington Administrative Code (WAC) that govern what fees are charged.

While the changes to the WAC has yet to take place, we were able to remove the \$20 processing fee for charities. Charity mail is 25% of incoming USPS mail, we expect to see a big drop in postal mail and an increase in the adoption rate.

Update on Education and Outreach

Teresa provided an update of upcoming events.

March 3-9 is National Consumer Protection Week. Teresa will be on the road during Consumer Protection Week giving GiveSmart presentations and an intro to Consumer Protection Washington.

Teresa will be in Spokane next week (week of Feb. 25) to be on a white collar crime roundtable talking about scam issues. Washington Nonprofits has their conference coming up in May. Teresa encouraged council members to follow the Consumer Protection Washington’s Facebook page and the Corporation and Charities Facebook page. Teresa asked members to share any newsworthy items.

ACTION ITEM: Teresa will send council updated schedule of education and outreach events when completed.

Agenda Item #7: Update from the Attorney General's Office

In July, we announced a sweep of cases involving fraud by organizations that help veterans, or claim to help veterans. The Federal Trade Commission and all 50 states participated in the sweep. More than 100 enforcement actions were filed. There was also a public education component and the Secretary of State's Office participated in the education portion and also supported the Attorney General's Office in doing the enforcement.

Washington filed two cases in the sweep. One was Healing Heroes Network. They are no longer doing business, but that was a nonprofit doing business outside Tampa Florida. They promised to use donations to provide medical services to injured veterans from the wars in Afghanistan and Iraq. They existed for about 10 years and raised approximately 28 million dollars. In the last two calendar years of their existence, they spent less than 1% of what they raised on medical services for veterans. The vast majority of the money went to fundraising companies. They also committed a number of misrepresentations in their solicitations. They greatly exaggerated the number of their medical providers. They sent out sweepstakes letters which said, "You have already won!" with many references to a grand prize of \$10,000. The letters were clearly designed to make people think they had already won \$10,000. Of course, a lot of those people turned around and donated money.

The Attorney General's Office sued them and they converted to a for-profit entity with virtually no change in what they were doing. They were selling patches and decals on the Internet. Washington shut down what was left of their business and we are still in litigation with them.

The second person sued was Michael Friedmann, out of Spanaway. He had a web site called, "Fallen Hero Bracelets" and he used a number of other websites, "3Charlie.com." He sold bracelets, hats, pins, engraved bullets, all sorts of things, and said he was helping veterans and veteran's charities and he had a list of 40 veteran organizations. None of which had ever received a dime from him.

He might have gone on doing this for a while except that he had a unique approach to customer service. For example, when a customer would order a hat, typically, a month or two would go by and they wouldn't receive their hat. So, the customer would complain. If they would complain to him he would either swear at them or chew them out over the phone or he would send them emails that were abusive and threatening. If they complained to a third party, such as the AGO or the BBB, or PayPal, then he would really go in high gear - he would threaten to sue them, he would turn them over to collection agencies and claim that they owe him a bunch of money. It looks like the way he made money was by those law suits and collection efforts.

The AGO obtained two preliminary injunctions against Mr. Friedmann in November 2018, essentially shutting down the illegal parts of his operation. That case is still pending.

Those of you on the council heard the report last spring that we had intervened in the affairs of Maryfest, the organization that puts on the Marysville Strawberry Festival. Their board was taken over by people who did a lot of harm to the Festival. The lead person was Mark Bergeson, who also goes by the name Mark Jensen. Dave reports that this has been settled.

Mark Bergeson also took over a branch of the Seafair Pirates several years back, changed the name to Holiday Treasure Chest. His claim was that his charity would give toys to sick kids at holiday time. On his website he has pictures of himself with sick kids and teddy bears.

The AGO got the bank records and it turns out there were vast quantities of cash that had disappeared – he was basically living out of the nonprofit's checking account buying his groceries and paying for a page on the Internet (Tinder, Matchbook.com). The organization has been dissolved, but the case is still pending.

Another case that was filed earlier, but has accelerated the last few months, was against a family – the Haueters. Roy Haueter and his wife lived in Leavenworth, actually moved to Idaho in the middle of this litigation. They raised money under the name of five different charitable organizations, all to benefit children. There was virtually no charitable activity. One of the groups would buy a bunch of Walmart cards and go to the mall a week before Christmas and hand them out. Going back some years, they raised one million and a half dollars and the vast majority ended up in the pockets of the Haueter family.

Last fall, we filed a case against a man named Hosang. He had created six nonprofits in Washington with names very similar to real nonprofits. For instance, instead of the American Cancer Society, he would use, the American Cancer Society of Seattle. The individual had previous criminal convictions and in those criminal convictions it was alleged that he was a member of organized crime on the east coast. Mr. Hosang was creating organizations all over the country, but Washington was the first state to shut him down.

The AGO continues to be in litigation with Value Village over alleged misrepresentations made to people who donate to them. Now we are in discovery and that may be headed for trial.

Agenda Item #8: For the Good of the Order

Howard suggested creating tips on "How You Budget for a Nonprofit Organization." Perhaps some ideas on how to get started or develop a checklist for nonprofits to use.

One councilmember stated if there is a checklist, it's about the mission of the nonprofit and what you're going to accomplish first, then they backtracks from there. He considers his organization luckier than some, because they're almost able to drill down specifically a cost of any one child. Much of the income is from grants, the remainder of income is very diverse.

Another councilmember stated, while developing the budget through committees, we never see what the bottom line is until we've beaten both sides of the ledger so we're not finding what to fill.

A suggestion was made to make sure that everyone has buy-in on that number.

A councilmember thought before you open the budget discussion, what are the organization's priorities and what direction do they want to go in the short, medium and long term. Then you can build the program goals from there. When you have your priorities in alignment, then there is justification for why you're building the budget in the way you are. And organizational buy-in at the program and leadership level. So that's before you even start playing with numbers. It's what we care about and what we want to fund, and how are we going to be able to accomplish our mission in short and long term.

Things to consider and pay attention to; the amount of unrestricted dollars that an organization is bringing in and the amount of restricted dollars. Is the board savvy enough to be able to look at a budget and is the

template for the budget created so it's easy and readable to see that the organization is tied to 90% restricted dollars, which leaves very little capability to play with because everything is tied to a specific programs or, if they go away, the organization could sink.

There's actually a way of setting up a budget template that gives that information to the staff and board in an easy way to read.

Looking at history and projections and putting a template in place so you can actually see and you're monitoring on a regular basis what your revenue is on a quarterly basis related to what you're projecting. Your leadership can monitor that alongside your finance committee.

Also, something a lot of nonprofits don't do is build a line item for building a reserve fund. (A minimum of 3-months of operating expenses in reserve fund. Ideally, every organization should have 6-months of operating expenses is reserve fund.) There seems to be a misconception that nonprofits shouldn't do that, because it's considered making a profit, but it's not, it's going right back to the organization.

Planning, setting your goals, your billing program, creating a budget in line with those goals, and evaluating that. Having the budget as a working document is not something to be afraid of, but setting it up as a useful tool, helps the organization assess how well it's meeting its mission.

One councilmember suggested also building a line item in the budget for a capital reserve fund and if possible, an operating reserve fund.

ACTION ITEM: Howard asked councilmembers to send any templates or documents they may use to help them with budgeting. Howard will review the material and information to see if some type of information sheet for nonprofits.

Rebecca inquired if anyone on the council noticed if the new tax law affected the donors?

One member noticed no impact until the last quarter of the year. Multi-year gifts that were already pledged, they noticed a little less than a 10% back out rate. The real impact was felt at the end of the year when people donate once a year, at the end of the year, for tax purposes. This was down about 25%. They are planning to do their audit this month for last year and then he'll know for sure.

Another council member acknowledged no impact, even through the fourth quarter. They hadn't really experienced a decrease, but considers to be looking at the data early.

Agenda Item #9: Next Meeting

- Most council members have tentatively reserved June 7, 2019

With no further business the February 22, 2019, meeting was adjourned.

Respectfully submitted,
Rebecca Sherrell