Spring 2008

# GG+A Quarterly Review

GG+A
Grenzebach Glier and Associates

*Philanthropic News & Analysis*

## Under the Microscope

Growing Scrutiny of Nonprofits Forces Greater Accountability

American nonprofit institutions are entering an era of oversight and regulation unmatched in recent memory. From the Internal Revenue Service to the U.S. Senate to major donors, the public and private sector alike are questioning how gift support is spent and invested, and how much goes to intended beneficiaries. Politicians and regulators are closely reviewing many aspects of nonprofit operations, pressuring them for equivalent, or even greater, fiscal responsibility and accountability than their for-profit counterparts must demonstrate.

This issue of *GG+A Quarterly Review* offers an overview of accountability issues and regulatory reforms under discussion in the halls of Congress and in nonprofit boardrooms and development offices. Paul C. Light, an expert in nonprofit management, comments on the erosion of public confidence in nonprofits, and the *Review* provides suggestions for fundraisers who must carry out their work in a climate of scrutiny and skepticism.

### Complying with Sarbanes-Oxley, Preparing for Government Changes

The Sarbanes-Oxley Act of 2002 established corporate disclosure standards for public companies and their management. Not legally bound to comply with most regulations, many nonprofit organizations, including hospitals, have adopted Sarbanes-Oxley policies as best practice, particularly in the areas of financial reliability, transparency, and board accountability.

In its fifth annual National Board Governance Survey for Not-for-Profit Organizations, Grant Thornton LLP polled 603 U.S. nonprofit executives and board members throughout the country regarding response to Sarbanes-Oxley ("87% of Not-for-Profit Organizations Have Made Governance Policy Changes," *Business Wire,* December 3, 2007). The survey found a huge increase in the number of nonprofits that

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## In this Issue



## Congress Takes Aim at Largest College Endowments

College endowments posted an average investment return of 16.9 percent in fiscal year 2007, according to a study by Commonfund, a Wilton, Conn., firm that manages institutional funds. The study also found that on average colleges spent only 4.4 percent of their endowments, slightly less than the year before ("College Endowments Post 16.9% Gain," by John Hechinger, *The Wall Street Journal,* January 17, 2008). Spending rates varied only slightly by size of endowment, from 4.4 to 4.8 percent, and between public (4.5 percent) and private (4.7 percent) institutions.

Those spending policies are raising questions from the U.S. Senate Finance Committee and its chairman, Sen. Charles Grassley (R-Iowa), who wants the IRS to consider broad *new* reporting requirements for many nonprofit organizations and to include college endowments in the provisions. The proposed financial statement disclosures include greater detail about endowment spending and investment policies, as well as an

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# Under the Microscope

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implemented new accounting policies and procedures in 2007— 92 percent of respondents, as compared to 59 percent in 2006. More than 68 percent of respondents reported updating their gift acceptance policies, compared to 32 percent in 2006, and almost nine out of ten organizations (89 percent) affirmed they have conflict-of-interest policies, although the policies apply variously to board members and executive management.

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An international leader in philanthropic management consulting, Grenzebach Glier and Associates, Inc. (GG+A) has more than 45 years of experience with educational, cultural, medical and other nonprofit institutions. The goal of the *Review* is to provide timely information about issues and events that are relevant to philanthropy.

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## Conflict-of-Interest Politics

Colleges and universities, in particular, are being warned to pay greater attention to their policies on conflicts of interest and codes of conduct. In an article in *The Chronicle of Higher Education,* Kathleen Santora, executive director of the National Association of College and University Attorneys, says that many colleges now find themselves caught between increasing financial pressure to expand their commercial relationships and increasing public scrutiny of some of those very relationships (“For Conflict-of-Interest Politics, The Time is Now, Private-College Leaders are Told,” by Goldie Blumenstyk, February 5, 2008). Colleges are advised to have clear policies about to whom conflict-of-interest policies apply and how they are enforced; publicize the policies on campus Web sites to raise employee awareness; and ensure that mechanisms are in place to promote employee and officer compliance.

## IRS Posts New Requirements

This year, nonprofits face another compliance challenge: a redesigned Form 990, the primary document that charities file each year with the government. The first major overhaul of the form in 25 years, the new Form 990 consists of an 11-page document—what the IRS calls the core form—that all nonprofit organizations must complete. The form also has 16 supporting schedules, although the IRS said most charities probably would have to fill out only three of the schedules. Major changes include a front page summary listing revenues and expenses over a two-year period. The next page requires details on a charity’s accomplishments during the past year, moving that information closer to the front of the form. Other sections ask charities to provide detailed information about fundraising, governance, and compensation for top executives and trustees, including whether they receive first-class air travel, expense accounts, housing allowances, and personal security or legal services, among other perquisites (“New IRS Rules Help Donors Vet Charities,” by Mike Spector, The Wall Street Journal, May, 29, 2008).

In addition, if a charity reports more than $15,000 in gross income from fundraising events or spends more than that amount soliciting donations, the new form triggers a laundry list of disclosures, including the group’s fundraising methods and whether anyone is paid $5,000 or more to solicit donations for the group.

The IRS accepted public comment on draft instructions for the form through June 1. ❖

### Growth of U.S. Nonprofit Organizations, 1995-2005

| | 1995 | 2000 | 2005 | Percentage change 1995–2005 | Percentage change 1995–2005 (adjusted for inflation) |
|---|---|---|---|---|---|
| Charitable nonprofit organizations | 572,660 | 690,326 | 876,154 | 53.0 | — |
| Reporting charitable nonprofit organizations* | 187,038 | 245,749 | 310,683 | 66.1 | — |
| Revenues | $573 billion | $811 billion | $1.1 trillion | 99.5 | 56.6 |
| Expenses | $530 billion | $731 billion | $1.1 trillion | 98.7 | 56.0 |
| Assets | $843 billion | $1.4 trillion | $2.0 trillion | 134.3 | 83.9 |

*Includes only nonprofit organizations with $25,000 or more in annual expenses.

*Source: 2008 Nonprofit Almanac*, Urban Institute Press

## Nonprofit CEOs Take Note

Compensation for leaders of the largest U.S. nonprofit organizations rose at more than twice the rate of inflation last year, even in the face of intensifying public and government scrutiny, according to *The Chronicle of Philanthropy's* 15th annual survey of executive compensation and benefits. The chief executives at the nation's biggest charities and foundations received a median pay increase of 4.6 percent in 2006, a year in which the inflation rate was two percent ( "Executive Pay Rises 4.6%," by Noelle Barton and Peter Panepento, *The Chronicle of Philanthropy,* September 20, 2007).

This growth at the highest end of the pay scale comes as the IRS escalates its crackdown on excessive compensation and as the leaders of some high-profile nonprofits are publicly criticized for their perks. In March 2007, the IRS assessed $21 million in excise taxes to 25 nonprofits for excessive compensation packages involving 40 executives. The IRS also found more than one-third of the 780 charities and foundations it reviewed improperly reported executive pay on their tax forms. As a result, the tax agency issued new guidance on the proper reporting of retirement payments to top executives, writes Barton and Panepento.

"It's crucial that nonprofit boards now more than at any other time in the past make sure they are paying their executives reasonable compensation and that they have followed all of the appropriate procedures that the IRS has laid out," Karl Emerson, a Philadelphia lawyer representing nonprofit clients and former director of Pennsylvania's Bureau of Charitable Organizations, told *The Chronicle of Philanthropy*. "The IRS has sent a very clear signal that this is an area that they are going to put a lot of effort into." ❖

## Congress Takes Aim at Largest College Endowments

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endowment reconciliation that shows cumulative investment returns in permanently restricted net assets and delineates clearly the distinction between donor-restricted endowments and board-designated endowment funds ("FASB Proposes Significant Endowment Reporting Changes," Federal Accounting Standards Board, February 22, 2008).

Committee leaders claim the public needs a better understanding of where institutions spend their money, the amount and percentage of assets spent, how the assets are invested, funds earmarked for specific purposes, and the cost of managing the funds. ("2 Senators Recommend Broad New Disclosure Requirements for College Endowments," *The Chronicle of Higher Education,* May 30, 2007).

Writing in *The Chronicle of Higher Education* ("Wealthy Colleges Must Make Themselves More Affordable," May 30, 2008), Grassley noted, "I don't want to tax colleges. But I do want to know more about how they are maximizing their tax-exempt status to fulfill their charitable mission of educating students."

### Achieving a Balance

The unprecedented growth of endowments at higher education institutions has skewed the balance sheets, encouraging some to change their spending habits. The $1.2 billion in revenue drawn from **Yale University**'s endowment represents roughly 45 percent of its yearly budget, and the university recently decided to raise the amount of money it draws from the endowment by more than $300 million. **Princeton University** has also begun to reach into its endowment coffers, with plans to spend more of its endowment returns for expansion, financial aid, and research ("Endowments Widen A Higher Education Gap," by Karen Arenson, *The New York Times,* February 4, 2008).

Earlier this year **Northwestern University** President Henry S. Bienen said in his report to the university community, "I can assure you that Northwestern is using a great deal of its endowment earnings to provide financial assistance for both undergraduate and graduate students, and we plan to do even more starting next fall" ("President Bienen Reports on State of University," *US Fed News,* February 21, 2008). Northwestern, like a growing number of colleges and universities, has revised its financial aid policies to provide grants, rather than loans, to the neediest undergraduate students, and, starting next fall, will increase the financial support provided to graduate students.

But, according to a number of educational leaders, universities need to balance spending with saving. "The last 30 years have seen an unprecedented growth in wealth," Princeton University President Shirley M. Tilghman told *The New York Times*. "If we were to begin to spend more in the belief that there will be another 30 years like the last 30 years, that would be irresponsible," she added.

One solution proposed by the Senate Finance Committee would force institutions with the largest financial endowments to pay out at least five percent of those funds a year, ideally spending more money on students with financial need. Some 136 colleges and universities with endowments of at least $500 million were asked last

> "If we were to begin to spend more in the belief that there will be another 30 years like the last 30 years, that would be irresponsible." Princeton University President Shirley M. Tilghman

year to provide Senate Finance Committee members with information about their endowments, financial aid, and other practices, which the committee is still reviewing.

In response to that request, the **University of Michigan** wrote to committee leaders that "$1.4 billion, or about 20 percent of the endowment, is currently marked for student aid, with half of that restricted for undergraduate financial aid and half for graduate student aid" (" 'U' Defends Financial Aid Endowment Spending," by Andy Kroll, *The Michigan Daily,* March 3, 2008). The university posted its response to the Senate on its Web page, noting a deep commitment to maximizing both the quality and accessibility of a Michigan education through aggressive fundraising, prudent investment policy, careful stewardship of endowment funds, and ongoing operational cost-cutting measures.

> "It's simply not sound public policy for the government to intervene at that level of institutional management."
>
> Charles Miller, chairman of the Commission on the Future of Higher Education

### Minimum Payout Debated

At a recent American Enterprise Institute forum, Charles Miller, chairman of Secretary of Education Margaret Spellings' Commission on the Future of Higher Education, opposed the creation of a minimum endowment payout. "It's simply not sound public policy for the government to directly intervene at that level of institutional management," said Miller ("Should Colleges Be Required to Spend More From Their Endowments?," *The Chronicle of Higher Education,* March 14, 2008).

An annual survey released in January by the National Association of College and University Business Officers showed that 76 college endowments now exceed $1 billion, up from 39 in 2004. Yet many endowments include a high number of restricted funds, so requiring a minimum payout may not achieve the goals of policy makers, Terry Hartle, of the American Council on Education, told the forum. In addition, endowments at public universities are "creatures of state governments," forcing Congress to dictate policy not to university administrators but to state officials ("The 5% Non-Solution," by Doug Lederman *Inside Higher Ed*, February 4, 2008).

In his *Chronicle of Higher Education* article, Grassley questioned the "chicken and egg argument," writing "…don't some colleges cite excessive restrictions as an excuse to hoard rather than spend money? Say a donor wanted his million dollars used for music appreciation. The institution could offer scholarships for low-income music majors."

Inviting more questions and analysis of pricing and affordability, Grassley says, "Some institutions seem to make their finances—including tuition policies, student-aid options, and endowment-spending rates—opaque for students, parents, and Congress alike."

### State Laws Make Endowment Spending Easier

New state laws, which allow spending from donor-restricted endowments even if investment losses have caused the value of a fund to drop below the original ("book") value, are making it easier for nonprofit groups to tap into endowed funds. Lederman reports that the laws, adopted in 14 states, are expected to be ratified in most other states over the next few years. The new rules may push federal lawmakers to step up pressure on universities and other charities to spend more money from their endowments.

All of this debate, combined, is likely to leave the reading public even more confused about the value of endowments to higher education. ❖

# Fundraising Activities are Monitored Worldwide

The United States is not the only country in which the activities of private foundations and nonprofits are closely monitored. In its 2007 budget, the Canadian government introduced a ruling on excess business holdings to address concerns that individuals connected with private foundations might be exercising undue influence for their own benefit. The ruling places limits on account holdings of individuals "not dealing at arm's length" with a foundation, and requires private foundations to divest shares in excess of the specified limit. Foundations are also required to comply with certain disclosure requirements ("Measures with Implications for Voluntary Sector" *Canadian Fundraiser,* March 15, 2008).

> "The new legal definition of charity…will give charities the platform to explain their good work and help the public see their true value." Third Sector Minister Phil Hope

### New Regulations in Scotland

Earlier this year, the Scottish government approved regulations that govern how charities refer to themselves on certain documents. The new regulations are designed to allow the public to recognize charitable organizations more easily. For example, any correspondence, brochure, or campaign materials must clearly state the charity's full registered name, any other name it is known by, and its registration number with the Scottish Charity Register. If the words *charity* or *charitable* are not part of its name, an organization must state the fact that it is a charity ("New Regulations Take Effect," Office of the Scottish Charity Regulator, March 31, 2008).

### Charities Must Show Public Benefits

New rules in the UK, part of the Charities Act of 2006, require organizations involved in poverty relief, religion, and education to prove that they have a charitable purpose and exist for the public benefit—something they did not have to do before.

"As society has progressed, so too have charities," says Phil Hope, minister for the Third Sector. "The new legal definition of charity, and the public benefit requirement, will give charities the platform to explain their good work and help the public see their true value ("Public Benefit and Fundraising Rules Kick In," by David Ainsworth, *Third Sector,* April 3, 2008).

Push has come to shove, particularly over the £100 million in tax relief provided to independent schools each year. The Charity Commission, a watchdog agency, has warned that private schools will be stripped of their charitable status if they are found to be operating as "exclusive clubs" for the rich. Private schools, more than half of which are registered charities, must prove that children who cannot afford their services also have access. ("Do More for Poorer Children or Lose Your Charitable Status, Private Schools are Told," by Polly Curtis and David Brindle, *The Guardian,* January 16, 2008).

### UK Requires Salary Disclosure

In addition, charity staff and trustees who are raising money must now explain to donors their relationships with the charity, whether they are paid and, if they are raising money for more than one charity, what proportion of money goes to each. The law will mean more work for all involved, arguably even donors whose decision to give might be affected by the knowledge of what a fundraiser is making, which is hardly the best measure of fundraising efficiency ("Telling the Public What Fundraisers Earn is Fine, But We Must Say Why," by Emma Maier, *Third Sector,* February 27, 2008). ❖

# Hospitals Post Profits, Tax Breaks Are Questioned

Nonprofit hospitals, originally established to serve the poor, are now among the most profitable hospitals in the country, and that is causing some heads to turn on Capitol Hill. The combined net income of the 50 largest nonprofit hospitals jumped nearly eight-fold to $4.27 billion between 2001 and 2006, according to a *Wall Street Journal* analysis of data from the American Hospital Directory (AHD), an information service company that compiles hospital reports to the federal government ("Nonprofit Hospitals, Once for the Poor, Strike it Rich," by John Carreyrou and Barbara Martinez, *The Wall Street Journal*, April 4, 2008). While 77 percent of the 2,033 U.S. nonprofit hospitals operate in the black, compared to 61 percent of for-profit hospitals, according to AHD data, some nonprofit hospitals, particularly those in inner cities that handle large numbers of uninsured patients, remain under financial strain and are struggling to keep their doors open.

> “There is a new golden rule for charitable organizations: Do unto yourselves before Congress does unto you. Board members and senior executives need to understand that they are only one story away from being a celebrated example of failed leadership.”
>
> Paul C. Light, Paulette Goddard Professor of Public Service, New York University

The IRS' new Form 990 also requires new details on hospital finances and asks boards to certify expenses. Hospitals, which account for more than 40 percent of nonprofit spending, must file a new Schedule H, documenting community benefits and revealing the details of joint ventures established by executives and physicians with for-profit enterprises. Separately, the IRS is in the midst of a national survey of nonprofit hospitals' executive pay and the charity care they provide. In a speech to nonprofit leaders, Steven T. Miller, the IRS commissioner for tax-exempt and government entities, warned "of an increasingly skeptical environment," and the government's concern over blurring lines between for-profits and nonprofits in the health care field ("Examining Hospitals," by Elizabeth Moore, *Newsday,* January 28, 2008).

### The Community Benefit Question

Additional changes in Form 990 include a separate questionnaire for nonprofit hospitals that would set a nationwide standard for community benefits, including free and discounted care, and how it can be valued. Nonprofit hospitals receive tax relief in return for providing a "community benefit," a loosely defined requirement whose most important component is charity care.

Existing state laws vary greatly regarding how tax-exempt hospitals give back to their communities. For example, one nonprofit hospital system counts the salaries of its employees as a community benefit, says *The Wall Street Journal*. At least 22 states have voluntary or mandatory community-benefit reporting efforts, a recent analysis by the Minnesota Department of Health found. But ongoing scrutiny of nonprofit hospital operations, and pressure to improve access and care for needy or vulnerable patients, have prompted some states, like Pennsylvania, to take a closer look at what hospitals give back to communities in exchange for current tax advantages. Once they are able to quantify hospitals' community benefits, policymakers may ask whether it's enough to justify tax exemptions ("Caution: More Scrutiny Ahead," by Melanie Evans, *Modern Healthcare,* November 12, 2007).

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## Hospitals Post Profits, Tax Breaks Are Questioned

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In the State of Washington, a legislative audit committee urged lawmakers to scrutinize the property tax exemption for nonprofit hospitals closely, according to *Modern Healthcare*. If tax breaks are intended to help offset nonprofit hospitals' disproportionate care for low-income and needy patients, then lawmakers should tie exemptions to a threshold for charity care, auditors recommended, though they did not suggest a formula or percentage.

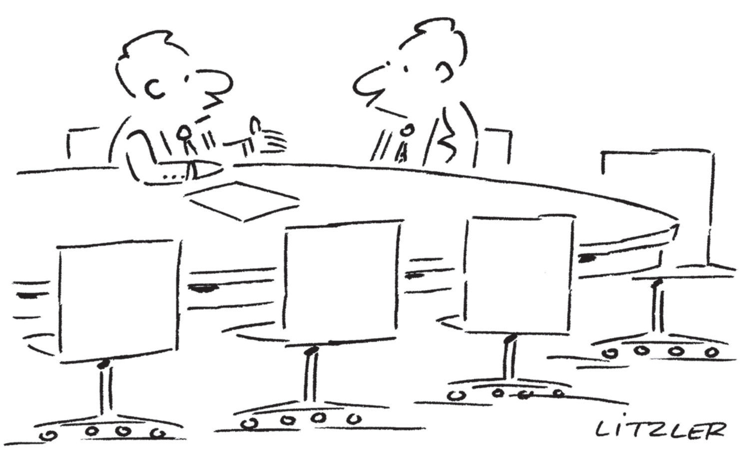
### Roles Broaden for Hospital Board Members

Gone are the days when hospital board members served only as honorary fundraisers. Today, smaller, more diverse groups of individuals with wide-ranging expertise are using data with great sophistication and exercising greater management oversight, according to Jeffrey Alexander, the Richard Carl Jelinek Professor of Health Management and Policy at the University of Michigan's School of Public Health ("The Latest Board Games," by Cindy Becker, *Modern Healthcare,* October 15, 2007). Some boards operate independently, a few compensate themselves for their time and effort, and some are reaching beyond market areas to recruit directors. But all seem to share a drive toward transparency and greater accountability, prodded to some degree by federal and state regulators.

Samuel Wallace, president and CEO of **Iowa Health**, told *Modern Healthcare* that as much as 50 percent of his board's time is consumed by strategy, a departure from the financially focused boards of recent years. Susan Boren, partner at executive search firm Spencer Stuart in Minneapolis, notes a trend among nonprofit hospitals toward more corporate governance structures. Nonprofit hospitals want to act responsibly and seek directors who are more independent, "finding very large boards unwieldy," Boren says.

According to *Modern Healthcare,* one exception to that trend is the **University of Pittsburgh Medical Center (UPMC)**, which claims to be the first nonprofit healthcare organization in the nation to become compliant with the Sarbanes-Oxley Act, yet maintains a board of 57 members. The 12-hospital UPMC complies with the law in all respects, including an audit committee made up of completely independent members, says Michele Jegasothy, UPMC's corporate secretary and assistant counsel. The board is "one connection to the community, and that, I think, is the driving factor for not changing the board size at this point," she says.

Looking ahead, Donald C.Wegmiller writes in *Healthcare Executive* that regulators are highly attuned to potentially self-serving interests of board members. Boards that do not practice formal board member succession planning will face increased scrutiny, and board membership selection practices will be questioned. ("Accountability and CEO Behavior: Moving Beyond Sarbanes-Oxley," November 2007–December 2007). ❖




"We've been pushing the transparency issue with our board members, but I think they've taken it a little too far."

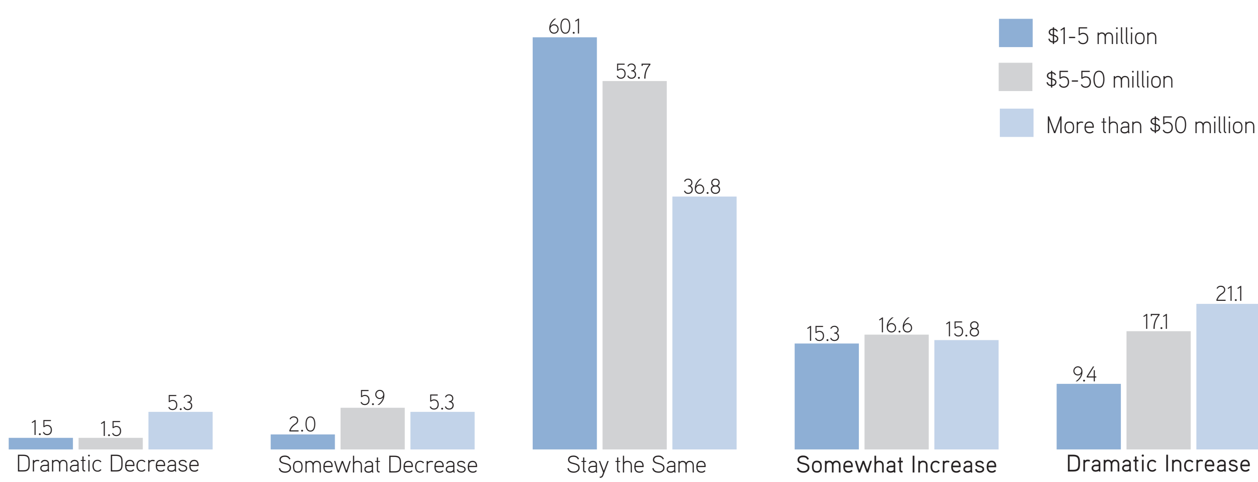
# Uncertain Future for Estate Tax

While the future of the federal estate tax remains uncertain, its repeal could take a toll on the bottom lines of many charities and foundations. Diana Aviv, president of Independent Sector, which represents about 600 large charities and foundations, told the U.S. Senate's Committee on Finance that the tax is vital in encouraging the nation's rich to give money to charity ("Estate-Tax Repeal Could Hurt Charity Fund Raising," by Peter Panepento, *The Chronicle of Philanthropy,* April 17, 2008).

A 2001 law removes the estate tax in 2010 but has it re-emerging in 2011 with a $1 million individual exemption and a 55 percent tax rate. Proposed amendments have raised the exemption amount and lowered the tax rate. Independent Sector is also urging Congress to close estate tax loopholes to prevent unscrupulous donors from using nonprofits as tax shelters, reports Panepento.

"The estate tax debate has shifted significantly over the last two years to focus on more responsible and reasonable reform options," according to Adam Hughes, director of fiscal policy at OMB Watch, a Washington-based nonprofit that monitors federal spending and policy ("The Estate Tax: It Just Won't Die," by Mark Hrywna, *The NonProfit Times,* March 17, 2008). "These options seek to retain more revenue for important federal investments while instituting a fiscally responsible reform of the tax. Ideally this shift will continue until Congress arrives at a permanent, revenue-neutral reform." Hughes remains unconvinced that estate tax reforms will even be considered this year, much less acted upon. ❖

## Percentage of High Net-Worth Households by Wealth Level Reporting a Change in the Amount Left to Charity in an Estate Plan if the Estate Tax Were Repealed




*Note: Total does not equal 100% as some respondents did not know or refused to answer.*

*Source:* Bank of America Study of High Net-Worth Philanthropy, Portraits of Donors, Bank of America, December 2007

# Donor-Advised Funds: With Popularity Comes Oversight

Assets in donor-advised funds (DAFs) climbed 24 percent to $21.65 billion in 2006, making these funds the fastest-growing charitable vehicle, according to the National Philanthropic Trust, an independent public charity that promotes charitable giving. The trust predicts that by 2010 donor-advised funds will be the most popular charitable-giving tool in the United States, holding more assets than pooled income funds, charitable remainder trusts, and charitable lead trusts combined ("Donor-Advised Funds Are Seen Becoming More Popular," by Lisa Shidler, *Investment News,* September 17, 2007).

Legislators are expressing concern that donors and their relatives may be receiving benefits from DAFs, such as compensation for services or loans, and about donors directing investments or influencing what charity receives their money ("Donor-Advised Funds: Preparing for Closer Scrutiny" by Nick G. Tarlson, *Journal of Accountancy,* January 1, 2008). In changes that took effect in 2007, the Pension Protection Act eliminated income tax deductibility for DAF contributions to certain types of organizations, specified how organizations that sponsor DAFs to support other organizations must be related, and increased requirements for substantiating contributions.

One of the most significant issues relating to DAFs is how long an asset should be "parked" in a fund before the donor receives a tax deduction and the charity receives the benefit. Although DAFs seem to be distributing more than the 5 percent of the fund assets proposed by the Tax Relief Act of 2005, some individual funds may be distributing less and would be adversely affected by such a distribution requirement, according to the *Journal of Accountancy*. Even though not currently required to do so, Tarlson suggests that donors recommend a significant amount of fund assets be paid to charities each year. (See *GG+A Quarterly Review,* Spring 2007 for related articles on DAFs.) ❖

## Donor-Advised Fund Market

| | 2005 | 2006 | Percent Increase |
|---|---|---|---|
| Assets Under Management | $17.53 billion | $21.65 billion | 24.0% |
| Contributions | $5.11 billion | $6.60 billion | 29.0% |
| Grants | $3.67 billion | $4.95 billion | 35.0% |
| Number of Accounts | 100,673 | 107,250 | 7.0% |
| Average Account Size | $174,128 | $201,865 | 16.0% |

*Source: Donor-Advised Fund Market: An analysis of overall market and trends,* compiled by National Philanthropic Trust, November 2007

# Restoring Public Confidence in Nonprofits

## An Interview with Paul Light

Paul C. Light, Paulette Goddard Professor of Public Service at **New York University**'s Robert F. Wagner Graduate School of Public Service, is a founding principal investigator of the school's Organizational Performance Initiative, which conducts an annual survey measuring public confidence in charitable organizations. Previously, Light served as the Douglas Dillon Senior Fellow at the **Brookings Institution**, founding director of its Center for Public Service, and vice president and director of the Governmental Studies Program. He is a former director of the Public Policy Program at the **Pew Charitable Trusts** and associate dean and professor of public affairs at the **University of Minnesota**'s Hubert Humphrey Institute of Public Affairs. Light talked to *GG+A Quarterly Review* about the current decline in public confidence in nonprofits and how nonprofit leaders can address it.

*What factors are contributing to this downswing in public confidence?*

"Americans believe charitable organizations have the right priorities. They believe in the basic mission of the charitable sector. What they are not sure about is if their dollars are making a difference in improving real lives. What does $10 given to a charity actually do in terms of making a problem better? This is a difficult conversation for many organizations to have with donors, because they don't know.

Charitable organizations can tell you how many trees they have planted in a nature trust, or how many beds they filled in a shelter, but they can't tell you if the ecosystem is improved or whether the children they have helped will have better lives. The assumption is there, but charities' inability to talk about actionable, measurable results undermines donor confidence."

*How can development officers and senior management help build confidence?*

"A big driver in building confidence is spending money wisely. We know that donors and volunteers feel charities are weak in terms of how they actually spend the dollars raised. That really complicates a fundraiser's challenge. How do you reassure donors that their dollars are wisely used?

When I advise donors about making a gift, I always take them to an organization's Web site. I want to see how transparent an organization is in revealing its finances. If I don't see an easily available link to the annual financial report and the Form 990, then I instantly have questions about that organization's operation. Be transparent about what you spend, particularly on fundraising and administration."

*Is the current era of increased scrutiny a passing trend?*

"After September 11, 2001, lots of people in the charitable sector, including foundations, felt a decline in confidence due to problems with the Red Cross and other problems with the distribution of September 11 funds, but many felt it was just a passing moment. Almost seven years have passed since September 11. We haven't seen a rebound in confidence, but continue to see these troubling declines. The sector is doing nothing as a whole to reassure the public.

Who knows what might affect giving tomorrow? Who knows whether the Obama campaign with its enormous success in fundraising may have sucked away some of the giving to food pantries? We just don't know."

*How can nonprofits best prepare for the future?*

"The great advantage of fundraising is the distinctive value proposition: here is why we are different from others in the area. Show how you are transparent, agile, adaptive, results-oriented.

Set aside a reserve fund for defending yourself or invest your dollars in the kinds of systems that allow you to reassure donors about your performance. That is where fundraisers have a very powerful voice. The donor intent movement is well underway and fundraisers can sit at the board table and explain why organizational improvement and transparency are important for bringing in dollars. That's the kind of thing that board members listen to." ❖

## Be Prepared for Donor Scrutiny

Development officers must be prepared to respond in a forthright manner to questions about the operations and governance of their institutions. *GG+A Quarterly Review* offers the following practical suggestions:

- Do your homework. Review your institution's Form 990 and the information published on Guidestar, Charity Navigator, and other publicly available sources of information about nonprofit institutions.
- Work with your chief financial officer to develop a set of "Frequently Asked Questions" about your institution's finances and operations. Whether shared with prospective donors, or used to inform annual and major gift officers, a consistent description, presented in lay language, will help to dispel donors' concerns.
- Use routine publications to educate constituents about endowment management, spending policies, and the impact of endowment income on the operating budget. Use charts and graphs to communicate the value of a healthy endowment.
- Use a strong financial position as the foundation for fundraising, making the case that philanthropic support enables important programmatic growth and improvement otherwise not possible.
- The case for support—whether used in a broad-based annual giving appeal or a highly specific proposal for a transformational gift—must demonstrate the specific, tangible impact of the funds requested. Emotive and/or general language will not be sufficient to convince the donor that the gift is essential.

### Keeping Watch

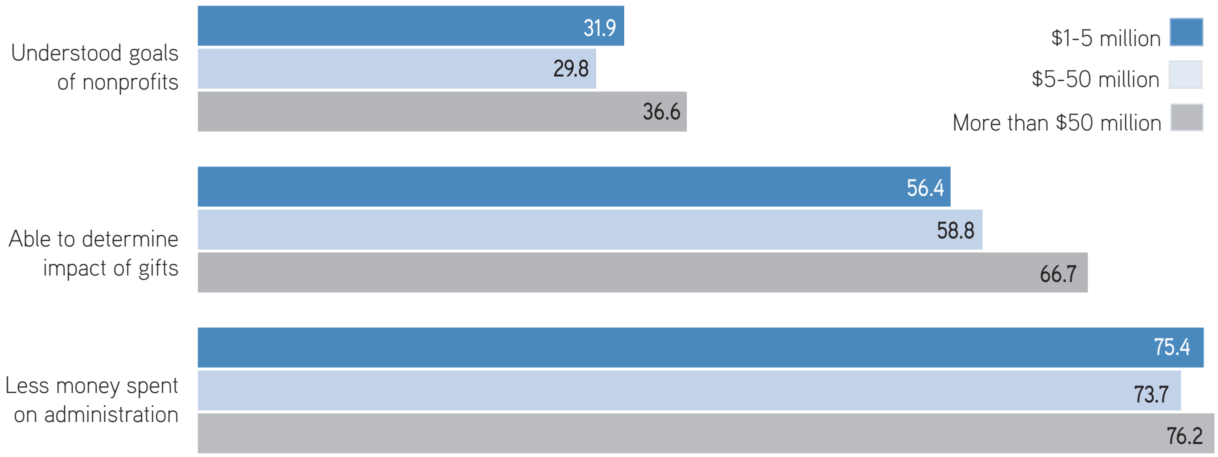
The following organizations offer information that is easily accessible on the Web to help donors make the best possible philanthropic decisions.

**Guidestar** (www.guidestar.org) provides quick access to recent 990 forms and guides to tax reporting rules for charities.

**Charity Navigator** (www.charitynavigator.org) evaluates the financial health of more than 5,300 of America's largest charities.

**Better Business Bureau Wise Giving Alliance** (www.give.org) provides a full alphabetical listing of all charity reports according to its Standards for Charity Accountability.

## Percentage of Donor Households Reporting by Wealth Levels They Would Give More to Charity if the Following Occurred




*Source:* Bank of America Study of High Net-Worth Philanthropy, Portraits of Donors, Bank of America, December 2007