



Statement of the National Council of Nonprofits

**Before the
Subcommittee on Oversight
House Committee on Ways and Means
Hearing on Tax Exempt Organizations**

May 16, 2012

The National Council of Nonprofits welcomes the Subcommittee's inquiry into the nonprofit community's efforts to design and implement good governance standards.

America's community-based charitable nonprofits have long been dedicated to earning and maintaining public trust. They understand that whether people are seeking assistance from nonprofits or contributing their time or money to them, the public feels more comfortable supporting nonprofits that demonstrate principles of sound and ethical practice. As the Subcommittee will learn during this hearing, the story of the sector's commitment to earning and maintaining public trust is remarkable.

At the outset, we note that while the Subcommittee has invited testimony from large institutional nonprofits such as hospitals and universities, the vast majority of America's charitable nonprofits are small to midsized local community-based groups. More than 95 out of 100 (95.9%) of charitable nonprofits have income under \$5 million, and almost 9 out of every 10 charitable nonprofits (89.1%) have income of less than \$1 million.¹ That same 95.9% of these community-based charitable nonprofits took in less than 10% (9.5%) of the entire revenue for charitable nonprofits. By comparison, only 2.5% of charities had income of more than \$10 million each.

The types of organizations among the vast majority of charitable nonprofits with revenues less than \$5 million cover a broad spectrum of activities at the local level in communities in every congressional district. They range from domestic violence shelters, community theatres, and recreational groups, to religious congregations, food banks, and preschool programs. They include independent groups, as well as local chapters and affiliates of large national organizations, be they Boys & Girls Clubs, Girl Scouts, Habitats for Humanity, Junior Leagues, PTAs, United Ways, YMCAs, and countless others.

¹ IRS Exempt Organizations Business Master File, as posted by The Urban Institute, National Center for Charitable Statistics, <http://nccsdataweb.urban.org/> (Number of Organizations Filing Form 990).

The commitment to earning and maintaining public trust is exhibited daily by the State Associations of nonprofits. Each of the State Association members of the National Council of Nonprofits maintains written conflict of interest policies for their volunteer board and staff and are committed to modeling good governance in all other ways for their more than 25,000 charitable nonprofit members. As members of the National Council of Nonprofits, each State Association also agrees as a condition of membership to adhere to the governance practices referenced on the IRS Form 990 or to the even higher standards or principles of practices adopted by that State Association for use by nonprofits in its state. Additionally, integral to their role as leaders and resources for charitable nonprofits in their state, the State Associations of nonprofits offer extensive training throughout the year to volunteer board members and nonprofit employees on topics that reinforce good governance practices.

Starting in 1994 with the adoption of the initial edition of [Principles and Practices for Nonprofit Excellence](#) by the Minnesota Council of Nonprofits, a movement began among nonprofit State Associations to identify and promote principles of sound and ethical practice for the nonprofit community, state by state. Over the past two decades, 19 of our State Associations of nonprofits have embarked on a thoughtful process, in conjunction with nonprofit leaders in their states, of identifying and recording guidelines and principles by which nonprofits in their state should operate. Some State Associations have adopted not only principles of practice, but also workbooks and training curricula for use in raising awareness among board and staff members about the principles for good governance that apply to nonprofits in their state. All 37 State Association members of the National Council of Nonprofits offer training throughout the year, in-person and via internet-based technologies, for volunteer board members and paid staff on topics addressing legal, sound, ethical, and accountable operations. Through the State Association's leadership role and work to "build the capacity" of charitable nonprofits in their states, these principles of practice, and associated training programs and other resources are available to countless nonprofits, just as they are to anyone who visits the websites of the State Associations or searches for the phrase: "nonprofit principles and practices."

The following State Association members of the National Council's Network have developed principles and practices programs for the nonprofits in their states²:

- Alabama | [Standards for Excellence®](#)
- Arkansas | [The Arkansas Diamond Standards™](#)
- Colorado | [Principles and Practices for Nonprofit Excellence in Colorado](#)
- Connecticut | [Principles and Practices for Nonprofit Excellence in Connecticut](#)
- Delaware | [Standards for Excellence®](#)
- Illinois | [Illinois Nonprofit Principles and Best Practices](#)
- Iowa | [Iowa Principles and Practices for Charitable Nonprofit Excellence](#)
- Kentucky | [Principles & Practices for Nonprofit Excellence in Kentucky](#)
- Maine | [Guiding Principles & Practices for Nonprofit Excellence in Maine](#)

² Links to these and future postings of principles and practices can be found at <http://www.councilofnonprofits.org/resources/resources-topic/principles-and-practices>.

- Maryland | [The Standards for Excellence®](#)
- Michigan | [Principles and Practices Guide for Nonprofit Excellence in Michigan](#)
- Minnesota | [Principles and Practices for Nonprofit Excellence](#)
- Mississippi | [Principles and Practices for Nonprofit Management Excellence](#)
- Montana | [Principles and Practices for Nonprofit Excellence in Montana](#)
- Nebraska | [Guidelines and Principles for Nonprofit Excellence in Nebraska](#)
- North Carolina | [Principles & Practices for Nonprofit Excellence](#)
- Oklahoma | [Standards for Excellence®](#)
- Pennsylvania | [Standards for Excellence®](#)
- South Carolina | [Guiding Principles and Best Practices](#)

In addition to the body of work developed by the State Associations that demonstrates the nonprofit community's embrace of self-regulation, in 2007 the Panel on the Nonprofit Sector (convened by Independent Sector) introduced *33 Principles for Good Governance and Ethical Practice* for use by nonprofits as well as any philanthropic organization as a guide for strengthening effectiveness and accountability. The *33 Principles for Good Governance and Ethical Practice: Reference Edition* provides background on the legal guidance relied on to craft the *33 Principles for Good Governance and Ethical Practice* with comparisons to other standards and systems of self-regulation in the nonprofit sector.

We conclude by stressing that there is no single set of “best practices” that could apply to all nonprofit organizations across multiple states. Charitable nonprofits can range from organizations that are small all-volunteer groups serving a local community to those that employ hundreds of employees and work all over the world. Many nonprofits are regulated by special additional federal, state, and/or local regulations, such as those organizations providing healthcare, food services, interacting with youth, or housing, while many others comply with accreditation standards applicable to their subsector (such as museums and hospitals). Still others choose to follow recognized principles of good practice on a voluntary basis, out of a desire to be soundly operated, accountable, transparent, and ethical organizations.

It is our view that the nonprofit sector is so diverse that a national standard applicable to all charitable nonprofits would not be practical or advisable. Therefore, the State Associations of nonprofits have committed themselves to best governance practices and sound ethical standards by way of their own conduct – by leading by example – and where applicable, by setting the bar in their states to which all nonprofits in their states can strive to excel.

The National Council of Nonprofits, the nation's largest network of nonprofit organizations with more than 25,000 member nonprofit organizations, works through its member State Associations to amplify the voices of America's local community-based nonprofit organizations, help them engage in critical policy issues affecting the sector, manage and lead more effectively, collaborate and exchange solutions, and achieve greater impact in their communities.

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