scaa south county art association
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To: House Corporations Committee
From: Jen Ferry, Executive Director of the South County Art Association
Date: March 4, 2025
Re: In Support of House Bill 5562, titled AN ACT RELATING TO BUSINESSES AND PROFESSIONS -- SOLICITATION BY CHARITABLE ORGANIZATIONS

South County Art Association is a 501(c)(3) nonprofit arts organization that has been supporting local artists throughout Rhode Island since 1929. Our almost 100 years of sustainability results from providing educational and exhibit programs in response to community needs and sound financial stewardship. Each year, we offer over 100 art classes for students to learn about art and host 10 exhibitions in which artists can share their art with the hundreds of visitors that come to our gallery.

Over the years, our revenue has grown to approximately $500K and, like similar nonprofits, we struggle to find enough revenue sources to keep up with our ever-increasing expenses. We support House Bill 5562, which provides charitable organizations with a gross income of one million dollars ($1,000,000) or less to meet the required reporting and records requirements by providing either an IRS Form 990 or other approved financial statements.

The current statute states that nonprofits with a gross revenue of over $500K must submit a financial audit. **It does not consider that smaller nonprofits, who have received a large restricted grant, may not have the operational funds to afford a financial audit.** I applaud the Department of Business Regulation's (DBR) initiative to prevent fundraising fraud but it doesn't take into consideration grant funding especially when it's a state grant already vetted for fraud by another state agency.

This is our story. Our fiscal year 22/23 was the first time our gross revenue exceeded $500K because we received a Rhode Island State Council on the Arts (RISCA) Cultural Facilities Grant of $258K to make our classroom space ADA accessible. It was a 50% matching grant with RISCA reimbursing us for 50% of the construction costs and 50% of our own organizational funds and personal donations restricted toward this project. For financial oversight, I would submit all the invoices for the project to RISCA, and the state would, in turn, write us a check for 50% of the costs. With this state grant, oversight has already been diligently vetted by RISCA. Fortunately, after I explained the situation to DBR, they granted us a waiver from submitting a costly financial audit.

The following year, in our last fiscal year 23/24, we received $100K in restricted grant funds from the Champlin Foundation to fix water damage to our building. That amount put us over the $500K threshold for the second year. Not to raise red flags and be compliant with the current statute, I had about three months for our accountant to do the financial audit and needed to find money in our budget to pay for it.

Our accountant told us three things:

1. ***For an organization our size, a financial audit would cost approximately $6K.*** When we create a budget for the upcoming year, we can't predict the amount of grant funds, if any, we will receive. Allocating $6K in our budget just in case we have to comply and do a financial audit reduces the amount of money that could be spent on advocating our mission.
2. ***Financial audits take between four and six months to complete.*** Champlin notified us of the grant approval in December 2024, and our charitable license expires in March 2025. The financial audit process would have had to have started by the time we were notified. If we had started and not received the grant funds, we would have spent the money on an audit for nothing.
3. ***Our accountant couldn't even do the financial audit for us.*** As a small accounting firm with two accountants, they don't carry the insurance needed to do financial audits. Only larger accounting firms offer this service because it comes with more risk and higher insurance premiums for their businesses.

With this information, I again went to the DBR asking for another waiver which they granted. By this time, I started to wonder if the DBR would be as nice next year. We just received news that our neighbor is donating his property to us. It's still early in the process and our Board of Directors is figuring out if we can maintain and sustain this donated property. If we can, we're not sure yet exactly when the transfer will happen. But if everything goes as planned, we'll go over the $500K for a third year in a row. Now it's up to me to decide whether to start the financial audit process knowing there's a chance that this donation might not happen. Do we spend the money "just in case" or do I hope the DBR will be kind enough again to grant me another waiver next year? If we go ahead and start the audit, it may not be needed. If we don't, our charitable license renewal and ability to fundraise are jeopardized and left up to the DBR to decide. It's a no-win situation.

In all the cases I presented, I want to note that not one of the grants or donations increased our gross revenue in operational funds from which an audit cost would be coming from. Nor did they increase our capacity to make more revenue to help pay for an audit. We still have the same small operational fund; we were just lucky to receive some large restricted grants and a potential sizable donation.

With the current statute and our above circumstances, it feels like we're being penalized for receiving grant funding and donations. I understand the importance of preventing fundraising fraud. Still, it shouldn't come at the cost of smaller nonprofits like ourselves, who need every penny of our operational funds to fulfill our mission.

Thank you for reviewing my testimony and for considering passing House Bill 5562.

Sincerely,

Jen Ferry
SCAA Executive Director