



Testimony of John Sharbaugh Before the Texas House Committee on Business and Commerce on HB 2147

March 26, 2019

Mr. Chairman and members of the Committee. Thank you for the opportunity to provide input on HB 2147. My name is John Sharbaugh and I am the Managing Director of Governmental Affairs for the Texas Society of CPAs. TXCPA is a professional organization for CPAs in Texas with more than 26,000 members.

I am here to express our support for [HB 2147](#). This proposed legislation would provide nonprofit organizations that undergo a financial statement audit by an independent CPA firm and who share this audit with the public, an exemption from the requirement in the current law to make their books and records available to the public upon demand.

The nonprofit law does not require nonprofits in Texas to undergo an independent financial audit. And in the case where a nonprofit chooses not to undergo an independent financial audit, then the requirement to make their books and records available to the public makes sense as spelled out in current Texas Code Section 22.353. However, for those nonprofits that do undergo an independent audit, it seems reasonable that they should be provided an exemption from this requirement as is proposed under HB 2147.

An independent financial audit is an examination of the financial records, accounts, business transactions, accounting practices, and internal controls of an organization by an "independent" CPA auditor. Upon completion of their work the auditors issue a report expressing a professional opinion about the organization's financial practices; specifically, whether the financial statements: "fairly present the financial position of the organization in accordance with U.S. generally accepted accounting principles". So, by reading the independent auditors report, which will accompany the organization's financial statements and footnotes, the public can learn a lot about the financial condition, results of operations and cash flows of a nonprofit organization.

In addition, if the non-profit is classified as a "tax exempt" organization under federal law (as many if not most are) then there are IRS regulatory requirements that mandate that copies of their federal tax returns (990) as well as their application for exempt status be provided to the public. These tax returns also provide useful information about the nonprofit's operations and finances.

Nonprofit organizations have a special place within our society and within our statutory and regulatory system. As a result, they should be held to high standards in their operations and in their transparency. We feel that a nonprofit organization that undergoes a financial audit by an independent CPA firm and makes that information available to the public, coupled with the requirements to make public copies of their federal tax returns, is sufficient transparency of their financial information and these nonprofits should be exempted from the requirements of Code Section 22.353, as HB2147 would provide.

Thank you for the opportunity to present our views on this issue. I am happy to respond to any questions.