

STAND. COM. REP. NO.

2455

Honolulu, Hawaii

MAR 01 2012

RE: S.B. No. 2720  
S.D. 1

Honorable Shan S. Tsutsui  
President of the Senate  
Twenty-Sixth State Legislature  
Regular Session of 2012  
State of Hawaii

Sir:

Your Committee on Judiciary and Labor, to which was referred  
S.B. No. 2720 entitled:

"A BILL FOR AN ACT RELATING TO CONVERSIONS BY NONPROFIT  
CORPORATIONS,"

begs leave to report as follows:

The purpose and intent of this measure is to repeal certain  
laws under chapter 414D, Hawaii Revised Statutes, the Hawaii  
Nonprofit Corporations Act, that authorize nonprofit corporations  
to covert to other legal entities.

Your Committee received testimony in support of this measure  
from the Department of the Attorney General.

Your Committee finds that certain laws under the Hawaii  
Nonprofit Corporations Act do not conform to the Revised Model  
Nonprofit Corporations Act, which Hawaii's law is based on, and  
allows the assets of a charitable corporation to be converted and  
used for non-charitable purposes. These provisions are an  
invitation to abuse.

Assets held for charity, whether trust, or corporate form,  
should be in a "lock box." The charity may dissolve and  
distribute its assets to other charities, use the assets for  
purposes of charitable or program services, or sell its assets and  
use the proceeds to support its charitable purposes. However,  
allowing charities to convert to a for-profit is antithetical to



the concept that charitable assets should be perpetually devoted to charitable uses.

Your Committee notes that in April 2010, the attorneys for American Pacific University notified the Department of the Attorney General of its plans to file articles of conversion to covert the nonprofit corporation into the for-profit American Pacific University Inc. In June 2011, American Pacific University attained a for-profit status. This measure will prevent additional charitable corporations from doing the same and ensure that charitable assets continue to be used for charitable purposes.

Your Committee has amended this measure by:

- (1) Inserting an effective date of July 1, 2050, to ensure further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Judiciary and Labor that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2720, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2720, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on  
behalf of the members of the  
Committee on Judiciary and  
Labor,



---

CLAYTON HEE, Chair



The Senate  
 Twenty-Sixth Legislature  
 State of Hawai'i

**Record of Votes**  
**Committee on Judiciary and Labor**  
**JDL**

Bill / Resolution No.:* <b>SB 2720</b>	Committee Referral: <b>JDL</b>	Date: <b>2/17/12</b>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
HEE, Clayton (C)	✓			
SHIMABUKURO, Maile (VC)	✓			
GABBARD, Mike	✓			
IHARA, Jr., Les				✓
SLOM, Sam	✓			
<b>TOTAL</b>	<b>4</b>			<b>1</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
<b>Distribution:</b> Original                     Yellow                     Pink                     Goldenrod File with Committee Report                     Clerk's Office                     Drafting Agency                     Committee File Copy				

\*Only one measure per Record of Votes