

# Nonprofit Management Accelerator Classes

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## Overview of Accelerator Classes, 2019

- How to start a nonprofit 501(c)(3) organization, 2 July
- Introduction to grant writing, 6 August
- Assessment and evaluation of nonprofit programs, 3 September
- Logic models and theory of change, 1 October
- Tools for social change, 3 December

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# 1. How to Start a Nonprofit 501(c)(3) Organization

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## Yet Another Nonprofit?

- Extraordinary indication of compassion and energy to engage
- Also, indicates huge need for social assistance
- But, consider ...
- Operating as a sole proprietorship (don't bother incorporating except for liability protection)
- Teaming up with an existing nonprofit
- Who is already doing similar work, servicing the target population?
- Need a matrix of organizations by service(s) provided, by population
- Consult United Way 211:
  - <http://www.211connectsalabama.org>
  - Use key words to find affinity organizations
- Talk to the Nonprofit Concierge, Birmingham Public Library, 10-noon Thursdays

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## Learning Objectives

1. Identify types of NPOs
2. Explain tax exemption
3. Explain requirements for 501(c)(3)
4. Determine annual reporting requirements
5. Explain how to get really big

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## To Be Clear:

- Companies that don't make a profit are not nonprofit organizations; they are just unprofitable: expenses equal or exceed income.
- Organizations incorporated as nonprofit corporations may still be liable for federal taxes.
- Only nonprofit organizations that meet IRS rules for public benefit can be ruled by the IRS as tax-exempt at the federal level, and only when they receive the IRS Letter of Determination.
- They can still be liable for state taxes, employer taxes, and federal taxes on unrelated income.
- After receiving the 501(c)(3) Letter, organizations must also register to solicit donations in Alabama.

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## Other Interesting Nonprofits

- 501(c)(4): Social welfare organizations (dark money)
- 501(c)(6): Business leagues; chambers of commerce; real estate boards
- 501(c)(7): Social and recreational clubs; country clubs
  
- 527 Organization: Tax-exempt groups to influence politics
- PAC, SuperPAC: Political Action Committee, 527 organization registered with the Federal Election Commission

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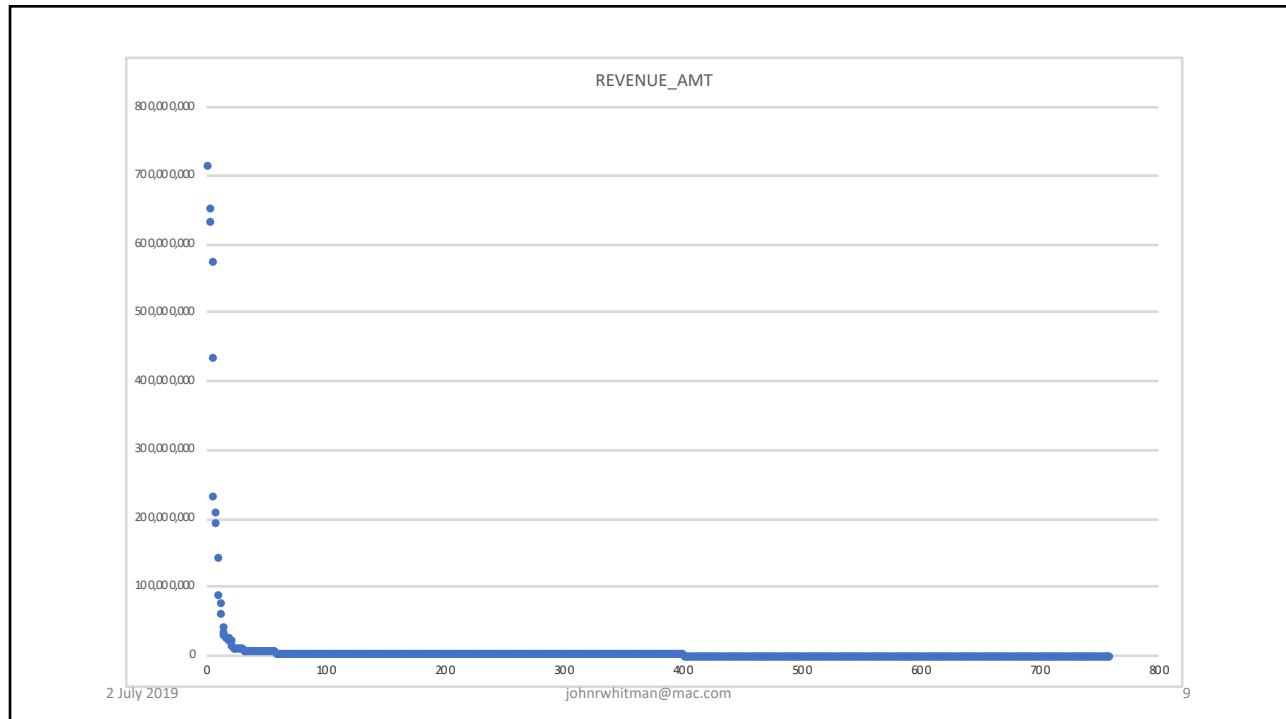
## Categories of 501 Nonprofit Organizations

- The IRS has some 30 different categories of nonprofits.
- We are only concerned with those that qualify as 501(c)(3) organizations.
- Only a few nonprofit organizations are very large; most are very small.
- There are about 12,000 nonprofits in Alabama, and about 1,600 are in Birmingham.
- Children's Hospital of Alabama is the largest, at over \$700 million in annual revenue; Southeastern Conference is second largest, with about \$650 million in revenue.

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## Another Distinction

- Nonprofits that provide **amenities**:
  - Museums
  - Symphonies
  - Country clubs
  - Hospitals
  - College sports
- Nonprofits that provide **services**:
  - Shelters
  - Food banks and pantries
  - Daycare
  - Crisis centers

## Generosity is Not Evenly Distributed

- Communities that are more well off, growing, and liberal tend to support amenities for their own enjoyment, rather than services for the poor.
- Poor and declining communities most in need of services tend to be in areas that have limited resources and a conservative ideology.
- This creates growing regional disparity in service provision and quality of life.
- How does this dichotomy apply to the Birmingham region?

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## Why Tax Exempt?

- The IRS offers tax relief to organizations that qualify as providing a public benefit
- They must have one or more exempt purpose and address one or more charitable activity

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## IRS: Exempt Purposes

- Charitable
- Religious
- Educational
- Scientific
- Literary
- Testing for public safety
- Fostering national or international amateur sports competition
- Preventing cruelty to children or animals

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## IRS: Charitable Activities

- Relief of the poor, the distressed, or the underprivileged;
- Advancement of religion;
- Advancement of education or science;
- Erecting or maintaining public buildings, monuments, or works;
- Lessening the burdens of government;
- Lessening neighborhood tensions;
- Eliminating prejudice and discrimination;
- Defending human and civil rights secured by law;
- Combating community deterioration and juvenile delinquency.

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## Key Steps

1. Name (this is intellectual property; be mindful of possible infringement)
2. EIN: SS-4
3. INC: Alabama Domestic Nonprofit Corporation Certificate of Formation
4. IRS Form 1023: Application for recognition of exemption
5. LOD: Letter of Determination from the IRS
6. Register with state to solicit contributions
7. Now the hard part (get money, do work)
8. Annual filing: Depends on level of revenue
9. Keep a Minute Book (binder of all documents)

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## IRS 1023: Two Tests

- Organizational
  - Limit purpose to exempt purpose(s)
  - Restrict/prohibit activities that are not exempt
  - Permanently dedicate assets to exempt purposes
- Operational
  - Activities advance exempt purpose(s)
  - Limited or forbidden activities that do not advance exempt purpose

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## Two Types of 501(c)(3) Organizations

- Private foundation (excise tax, e.g., 2% on investment income)
  - Single or limited source of funding and does not qualify as a public charity
  - **Private operating foundation:** private foundation that lacks broad public support but conducts exempt programs (rather than make grants)
- Public charity (no excise tax)
  - Broad public support from contributions, membership fees, user fees
  - **Community foundation:** a public charity that make grants to meet community needs and support local nonprofits

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## Annual IRS Reporting Requirements

- Form 990: Public charities
- Form 990-PF: Private foundations
- Form 990-EZ: Public charities with receipts less than \$200,000 and assets less than \$500,000
- Form 990-N: Gross receipts less than \$50,000
- Form 990-T: Public charities and private foundations with unrelated business income of \$1,000 or more
- Most information related to IRS must be publicly available

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## Duties of the Board

- Due diligence
  - Be informed; attend meetings; contribute
- Loyalty
  - Honest and good faith; solidarity; vigilance against conflicts of interest
- Care
  - Act with prudence; offer perspectives; ask for review when necessary; know and respect the distinction of roles of board and staff; work cooperatively

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## Accountability

- The Board is ultimately responsible for the organization (so get your board right)
- If the organization violates IRS tax regulations, the IRS can take legal action
- All other malfeasance comes under the jurisdiction of the state Attorney General
- If there is tax malfeasance, the IRS still defers to the state Attorney General to take action

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## Capacities for Nonprofit Success

- Develop a deep bench of **expertise**
- Build a strong **reputation** in the community of practice
- Cultivate **relationships** with funders and collaborators
- To get big, align with a **single funding source** whose mission is best served by the nonprofit

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## Big NPOs: Concentrated Funding Sources

- Government, 40%
- Service fees, 33%
- Corporate (largely in-kind, such as food and medicine), 19%
- Individuals, 6%
- Foundations, 2%
- Total, 100%

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## Data Sources

- [www.guidestar.org](http://www.guidestar.org): See Form 990s for all nonprofits over \$50,000
- [www.bls.gov](http://www.bls.gov): See salary levels for all occupations, which vary by location
- <https://independentsector.org/value-of-volunteer-time-2018/>: Value of generic volunteer time

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## Get Experienced Nonprofit Help

- Lawyer
- Accountant
- Banker
- Technical support
- (Don't put service providers on the board)

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## Closing Remarks

- Managing a nonprofit organization, like any company, takes money and a sustained effort.
- Your idea may be better pursued as a program within an existing nonprofit organization that shares your mission.
- If your nonprofit goes out of business, all of its assets must be transferred to another 501(c)(3) nonprofit. You cannot legally benefit from the organization's assets.
- Good luck!
- Any questions?

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## References

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