

Nonprofit 101



Nonprofits exist to pursue a mission

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BOYS & GIRLS CLUBS
OF KING COUNTY

OUR MISSION:

To inspire and enable all young people, especially those who need us most, to realize their full potential as productive, responsible, and caring citizens.



BILL & MELINDA
GATES foundation

ALL LIVES HAVE EQUAL VALUE



LIGHTHOUSE
INTERNATIONAL

Dedicated to fighting vision loss through prevention, treatment and empowerment.



provides nutritious food to hungry people statewide in a manner that respects their dignity, while fighting to eliminate hunger.

HOPELINK: MOVING LOW-INCOME PEOPLE TOWARD SELF SUFFICIENCY

Evaluating Success: For Profit vs. Non Profit

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- A sustainable **for-profit** should be socially and environmentally responsible, but to be a success it **must deliver a financial profit**
- A sustainable **nonprofit** should make a financial profit, but to be successful it **must deliver on its social or environmental mission**



Photo credit: [Craig Maccubbin](#)

Profit Management: For Profit vs. Non Profit

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- **For-profits** can **pass** along **profits**, **property**, or **shares** to **individuals** who manage or govern the organization or invest profits in the organization

- **Nonprofits** must **reinvest** profits in pursuing the **organization's mission**
- **Passing** profits, property or shares to **individuals** is **illegal**



What makes a nonprofit a nonprofit?

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- Pursue a community benefit
- Nonprofits adhere to corporate law & regulations unique to this sector



Photo credit: [Chuck Coker](#)

Names and Acronyms for Nonprofits

Non-governmental Organizations (NGOs)

Nonprofit Organizations (NPOs) Not for profits

Voluntary sector

Social sector

Additional Resources

Citizen Media Law Project: [What is a nonprofit?](#)

Idealist: [Who can benefit from a nonprofit's activities?](#)

Idealist: [Nonprofit Regulations](#)

Organizations are deemed 'nonprofit' by state government, 'tax exempt' by federal government

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Informal Groups
(not incorporated)

Nonprofit
(incorporated in state)

WA Secretary of State -
Nonprofit Incorporation

**Nonprofits with
federal tax-
exempt status**
(incorporated in state
AND meets additional
federal requirements)

IRS - Nonprofits

Simplest

Most Complex

Informal Groups

A small group of individuals who come together to pursue joint goals, but do not register as an organization



Photo Credit: [John Spooner](#)

Examples: Community groups, Coalitions, Neighborhood associations, etc.

Legal Responsibilities: minimal

Legal Privileges: no group privileges

Advantages: Accomplish a shared goal with minimal requirements

Limitations: Informal groups can NOT -

- Have a group bank account,
- Ask for contributions
- Win grants or contracts
- Hire staff
- Earn income

Nonprofits

A group that registers as a nonprofit with the Secretary of State



Examples: most neighborhood groups, professional organizations, new organizations that haven't received federal tax-exempt status yet.

Legal Responsibilities: Must provide social or community benefit, follow charitable solicitation rules in fundraising, pay state, local and federal taxes, have a board of directors.

Legal Privileges: Can enter into business dealings, form contracts, own property, similar to state-incorporated businesses, plus can:

- Ask for contributions (if registered for charitable solicitation with Secretary of State)
- Receive grants or contracts from some funders

Advantages: Earns business privileges with moderate need for extensive recordkeeping and reporting

Limitations : Contributions are not tax-deductible, Ineligible for some grants or contracts

Tax-exempt Nonprofits

A nonprofit that registers with the Secretary of State and applies for and earns IRS tax exemption status



Photo credit: [Valentin Ottone](#)

Examples: most nonprofits you can think of! 501 Commons, Goodwill, YMCA, UW, churches, etc.

Legal Responsibilities: All responsibilities of a state nonprofit, plus must file [IRS 990](#) financial reporting form annually

Legal Privileges: Exempt from federal corporate taxes (but may pay state and local taxes), additional privileges depends on specific type of tax-exempt designation

Advantages: Tax exemptions, eligible for more grants and contracts

Limitations: Must follow complex reporting and recordkeeping rules.

Common Challenges of Nonprofits

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administration advocacy assessment boards communications evaluation facilitation financial fundraising

governance **management** planning technology volunteer

Nonprofit Board Governance

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- Board powers are defined in
 - Articles of Incorporation
 - Bylaws
- Board is directly accountable for actions and policy of organization
- Board members can be held financially liable for the actions of the organization
- Family members of staff should not be on the Board (conflict of interest)
- Board must have at least 4 people and meet at least 4 times a year
- Most Boards have about 15 people
- Board may limit the number of years a member can serve

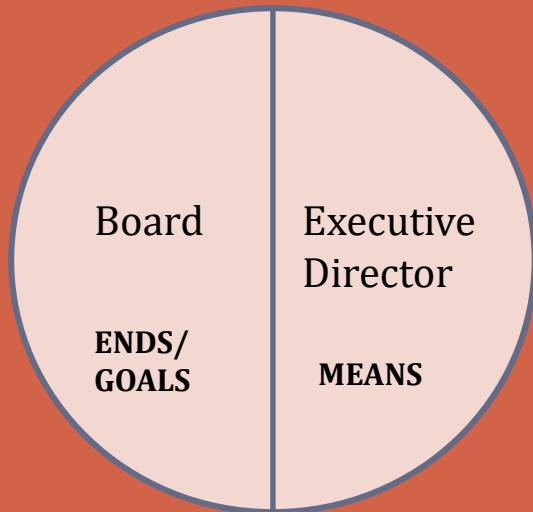
Challenges with the Board

“Very competent individuals can come together to form a very incompetent board.”

John Carver
Boards that Make a Difference

- Lack of clarity on which decisions made by the Board and which are made by the Executive Director (ED.)
 - If lack of clarity leads to a passive board, the Board might not challenge the ED enough.
 - On the other hand, a very involved Board, may not give the ED the freedom to make day-to-day decisions without consulting the board.

What is the Board's Job?



- Boards should decide the end results or long term goals a nonprofit should pursue
- Executive Director is responsible for achieving those goals
- Boards should define any limits on the executive. Examples:
 - Don't do anything illegal or unethical
 - Don't treat clients, volunteers or staff unfairly
 - Don't get into debt

Challenges with staffing

Staffing is typically a nonprofit's biggest expense, but understaffing is common

- Similar to small business, nonprofit staff wear many hats
 - Executive director often has program and management responsibilities and is the chief fundraiser
 - Office manager is often responsible for finances, HR, technology, facilities, etc.
 - Staff may not have special knowledge or training for some aspects of their job
- Unique to nonprofits
 - Program staff may be primarily volunteers or AmeriCorps members with time-limited terms

Challenges with money

Nonprofits have limited access to capital and face restrictions on how money is spent.

- Grants and contracts are often for one year only
- Donors can restrict contributions to a certain program
- Contracts and grants restrict the percentage that can be used for administration
- Impact:
 - Significant staff resources spent tracking spending of donor funds
 - Funding restrictions can make it difficult for a nonprofit to invest in technology, staff training, and other capacity building projects

Challenges with time

Knowing when to say “enough”

- Limited staff resources, constant fundraising, and lack of investment in administrative systems leads to burnout
- Staff are driven to achieve the mission despite limited resources
- Measures of success are often unreachable
 - How can the food bank manager go home, at the end of the day if there's still a line around the block?

How important are volunteers to nonprofits?

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Myth: Volunteers do only low value tasks

Reality: Volunteers are a critical resource

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- All nonprofits are required to have Boards of Directors who are volunteers
- Volunteers help nonprofits serve more clients
 - In homeless organizations, it's estimated that 40% of services are provided by volunteers
- Volunteers extend the reach of the staff
 - For example, the Girl Scouts use their network of 928,000 adult volunteers to serve 2.4 million girls
- Volunteers are much more likely to donate than non-volunteers

**Want to
learn
more?**

- 501 Commons Web Site Tools and Best Practices
- 501 Commons Best of the Web
- Other recommended Website
 - Idealist.org's [Nonprofit FAQ](#)

Appendix

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Facts and figures about the nonprofit sector

501 Commons works mostly with 501c(3) organizations

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**501c(3) organizations can ask for
contributions & donors can take
tax deductions**

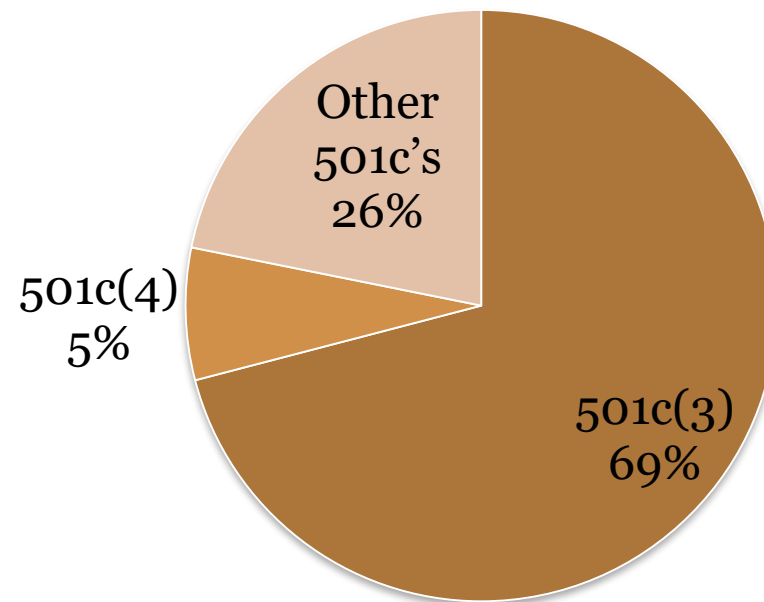
More information on Federal Tax Exemptions
<http://www.irs.gov/pub/irs-pdf/p557.pdf>

Most Common Tax Exempt Statuses

501c)3 : religious, educational, charitable, scientific, and literary organizations

501c)4: civic leagues, social welfare organizations, and professional associations

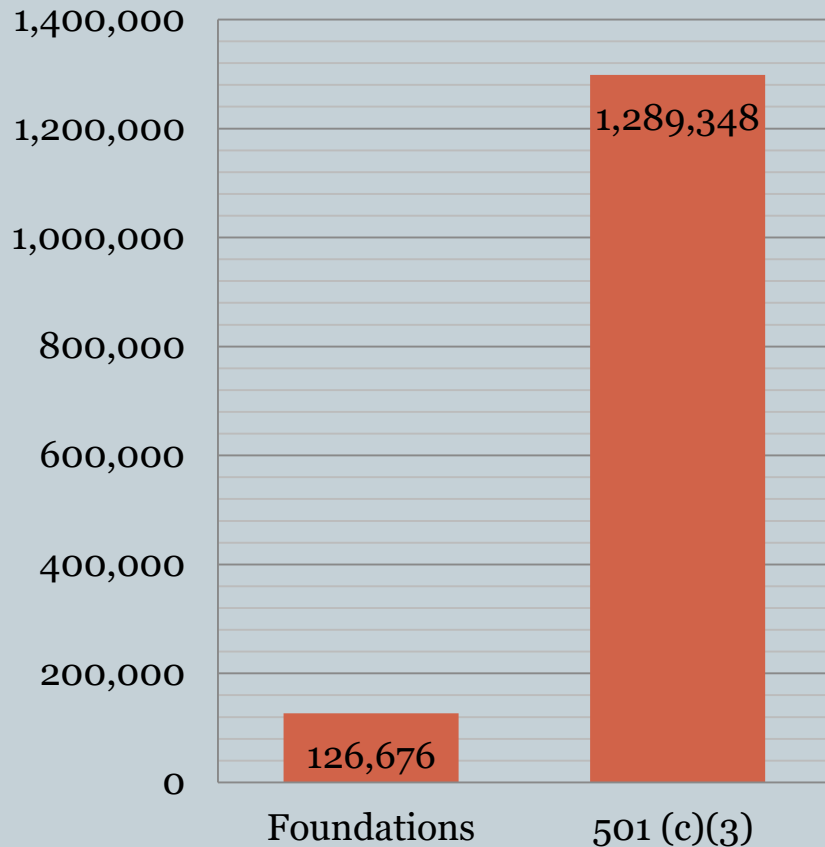
Distribution of Federally Tax Exempt Nonprofits in WA, OR and ID (2020 data)



Data Source: Urban Institute

How Many Nonprofits in the US? How Big?

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Data Source: Council of Nonprofits

- Most nonprofits are small
 - 76% of public charities annual revenue is \$0 – \$99K
 - 66% reported revenues of \$500,000 or less

Data Source: IRS

How do Nonprofits earn money?

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Myth: Most nonprofit revenue is from charitable contributions

Reality: Most contributions come from individuals

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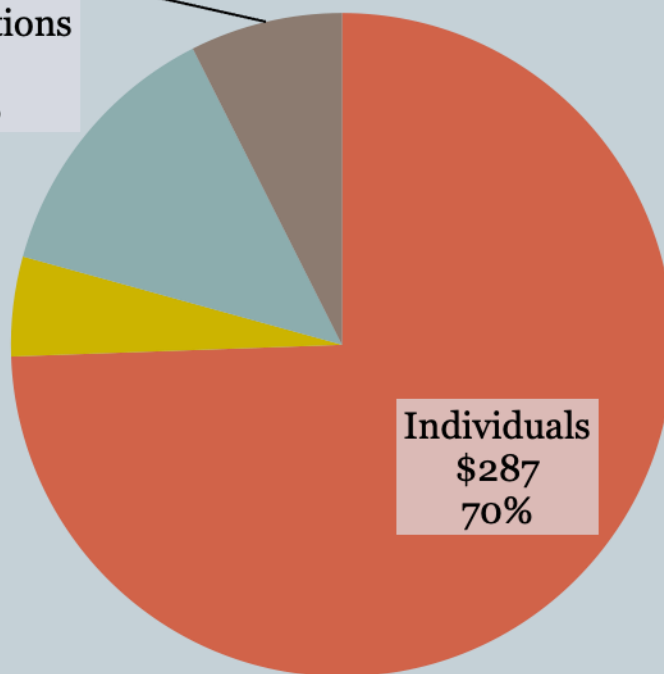
2018 Charitable Contributions \$410 Billion by Source (\$ in Billions rounded)

Bequests
\$36
9%

Foundations
\$67
16%

Corporations
\$20
5%

Individuals
\$287
70%



Reality: Most revenue is from earned income

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Sources of Revenue for Reporting Public Charities, 2013 data

