Nonprofit 101
Nonprofits exist to pursue a mission

**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.

**ALL LIVES HAVE EQUAL VALUE**

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

• 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

- **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.

Photo credit: Nick Wheeleroz
What makes a nonprofit a nonprofit?

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

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.

- Informal Groups (not incorporated)
- Nonprofit (incorporated in state)
- Nonprofits with federal tax-exempt status (incorporated in state AND meets additional federal requirements)

**Simplest**

**Most Complex**

- WA Secretary of State - Nonprofit Incorporation
- IRS - Nonprofits
Informal Groups

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

**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

Photo Credit: John Spooner
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

**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](https://www.irs.gov) 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.

*Photo credit: Valentin Ottone*
Common Challenges of Nonprofits

- administration
- advocacy
- assessment
- boards
- communications
- evaluation
- facilitation
- financial
- fundraising
- governance
- management
- planning
- technology
- volunteer
Nonprofit Board Governance

- 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 use 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?

Myth: Volunteers do only low value tasks
Reality: Volunteers are a critical resource

- 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

Facts and figures about the nonprofit sector
501 Commons works mostly with 501c(3) organizations

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

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)

501c(3) 69%

501c(4) 5%

Other 501c’s 26%

Data Source: Urban Institute
How Many Nonprofits in the US? How Big?

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

Data Source: Council of Nonprofits

Data Source: IRS
Myth: Most nonprofit revenue is from charitable contributions
Reality: Most contributions come from individuals.

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

- Individuals: $287 (70%)
- Foundations: $67 (16%)
- Corporations: $20 (5%)
- Bequests: $36 (9%)

Data Source: Giving USA
Reality: Most revenue is from earned income

**Sources of Revenue for Reporting Public Charities, 2013 data**

- **Private Contributions**: 13.3%
- **Government Grants**: 8%
- **Fees for services and goods from government**: 24.5%
- **Fees for services and goods from private sources**: 47.5%
- **Other Income**: 2%
- **Investment Income**: 5%

*Data Source: Urban Institute*