Starting and Managing a US 501c3 Non-Profit Organization

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Disclaimer

I am not an attorney or CPA.

You should engage both in forming a 501c3. This short presentation does not replace either consultation.

Some of the points covered here are matters of interpretation/opinion. I am sharing my interpretation as a peer and friend, not as a certified expert. Do not take my interpretation as absolute truth.

Corporate law, tax law, liability, and the regulatory environment all involve complex interaction between Federal and State law. I am sharing a perspective gained from one state, North Carolina.

Disclaimer

If you are looking at these slides and were not at the presentation, it won't be all that useful.

Use it as an outline for research topics, only.

Your turn first:

Why is this subject of interest to you?

What is one specific thing you hope to learn today?

What is It?

- A 501c3 is a nonprofit corporation organized to serve a public purpose (as defined/allowed by the IRS).
- It is not owned by anybody, and cannot be sold.
- It can make a profit. It can not distribute that profit to individuals.
- We are talking about 501c3 Public Charities. There is another type of 501c3 called a Private Foundation, which exists to raise money for use by Public Charities.
- Be careful: Might your idea be a Private Foundation?

Outline

1. Starting a 501c3 non-profit: should I?
2. Starting a non-profit: what's involved?
3. Managing a nonprofit: legal/regulatory issues
4. Managing a nonprofit: skills needed
5. Managing a nonprofit: smart choices

Should you Start a Non-Profit?

There are about 1.5 million in the US.

25,000 - 50,000 per year shut down.

There is a backlog of 60,000 applications currently.

One option, either for start-up/idea testing, or forever, is to operate under the umbrella (fiscal sponsorship) of an existing nonprofit.

Coming Soon: Southern Arizona Pet Food Pantry

RUFF Rescue, the Community Foundation of Southern Arizona and Cochise Canine Rescue are opening the FIRST Pet Food Pantry in southern Arizona, under the umbrella of Cochise Canine Rescue's 501 c3, not for profit status.

Start From Seed (SFS) is a non-profit organization under the umbrella of 501(c)3 WNC Health Advocates in Asheville, NC. SFS provides comprehensive birth services to families in Buncombe County, North Carolina. SFS partners with many wonderful community health organizations in Buncombe County, North Carolina. Our partners refer qualified patients with limited resources, histories of trauma and abuse, teenage pregnancies, and homelessness. These women make up

I like this option if it can work. The administrative burden of running a 501c3 is large. SPI was started in sort of this way, moreso as just a “program” of another nonprofit than under its fiscal sponsorship.

Starting Up: What's Involved?

1. Assess the need
2. Establish a board
3. Incorporate with your State
4. Write bylaws
5. Apply for an EIN (IRS form SS-4)
6. Apply for 501c3 Status (IRS 1023=$400 or 1023-EZ=$850) -- usually with an attorney (fee varies)
7. (EZ=receipts<$50,000)
8. Wait 2-23 months

Do I need the US Tax Status to Begin Activities?

No. If you are a state-registered nonprofit organization without the US 501c3 status:

You can do most everything you want to do EXCEPT tell your donors that they can claim gifts to the organization as tax deductions.

Managing a Nonprofit: Early Considerations

- D&O Insurance
- Payroll Taxes
- Workers' Comp Insurance (NC: Required @3 employees)
- Liability Insurance?
- Charitable Solicitation License-required by most states
- Bookkeeping
- . . . Audit? – required by many states, some charitable foundations, and Gov't grants.

Does a tax-exempt organization file a tax return?

Yes … Taxes! ☺☺☺

The annual return is the IRS 990.
Ours this year was 43 Pages Long.
I recommend reading this form before you start a non-profit. Every single one is publicly available. I use NCCS search.

Nonprofits with annual gross receipts under $200,000 and total assets under $500,000 can file form 990- EZ.

Some helpful nuggets of info from your 990 tax form.

- Functional Allocation: “% of your budget spent on programs.”
- Grants to foreign entities.
- A zillion yes/no questions about various policies and practices. The first two shown here are fallout from the Sarbanes-Oxley Act:

13	Did the organization have a written whistleblower policy?	13	X	
14	Did the organization have a written document retention and destruction policy?	14	X	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	X	
b	Other officers or key employees of the organization	15b		X
	If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions).			

In-kind income – how is it counted?

On the bottom line of your financials, in-kind gifts (donated materials) are no different from cash revenue.

The donor assigns the value . . . So don’t forget to ask!

Questions at this juncture?

3 Job Titles Of
Every Non-Profit Lead Staff

If you're going to be doing most of the work for a while, be willing and able to wear the following hats:

Salesperson

Sales is a maligned skill to some in the US but applicable to all types of work, non-profit work as much as any.

Fundraising = Sales

Partnership = Sales

Hiring = Sales

Volunteer Management = Sales

Collection Agent

From grantmakers (most of all the US Government) to corporate donors to event sponsors to your landlord holding your security deposit –

Everyone has the possibility of paying you too slowly or not at all.

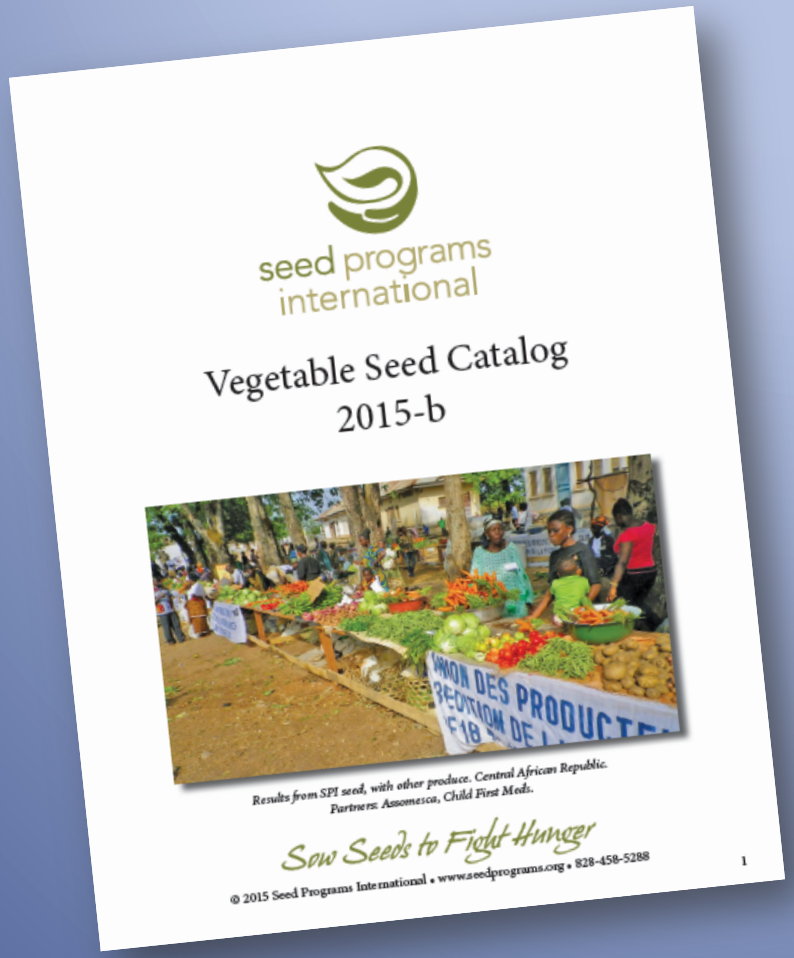
- React quickly and firmly
- Be the squeaky wheel
- You are the steward of public/donor funds, completing a mission in the public trust. You should be even tougher and angrier than a for-profit business.

Secretary / IT Person

If you don’t have great organizational skills (and technology is a big part of that, these days), budget from the get-go to hire someone who does.

Write a business plan first.

Thank you!



Keep in Touch

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