

# Not for Profit Handbook

*All You Need to Know  
About NonProfits*

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Not for Profit Handbook  
All You Need to Know About NonProfits  
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# INTRODUCTION

George owns a local stationery store. He just got a call for a big paper order from a not-for-profit. Sounds like a chance to get a new customer. He wonders how not-for-profits do business and operate. He knows his wife makes contributions so at dinner he asks her what she knows about them. She replies that she knows they do good things but not how they operate or do business. George calls his brother who is a corporate executive and was once asked to be on the board of a not-for-profit. His brother says he doesn't know a thing about them and that is why he turned them down. He calls his daughter, who is a business major at college. She says she is only learning about for-profit businesses.

And so it goes. Not-for-profits are all over. They are a big part of the U.S. economy and hundreds of thousands of people work for or do business with them; or make contributions, serve on boards, or volunteer. And we read about them daily in our newspapers. Yet most of us know little about how they differ from ordinary businesses, the laws that guide them, and how they operate.

This handbook will tell you the basics about how not-for-profits operate: the special laws under which they work, how they are the same but different from for-profit businesses, and the role they play in society.

It will help you relate better to them as an employee, volunteer, or when you conduct business with them. Or perhaps you got interested because of an article you read in the paper. Whatever your reason, welcome aboard.

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PART I  
THE SECTOR

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# WHAT IS A NOT-FOR-PROFIT?

Nonprofit or Not-for-profit? Or sometimes called a charity. In the U.S., these words are used interchangeably. In other parts of the world, nonprofits are called NGOs, nongovernmental organizations. Regardless of what term is used, the key point is that we are talking about a nongovernmental, private organization with a societal mission as its purpose for existence.

*For-Profit Purpose –To Make Money* A business has making money as its primary reason for existence. Whether a company makes soap or jet planes, its reason for doing so is to make money for its owners and investors. That is not the case for not-for-profits, which exist to fulfill a societal mission.

*Nonprofit's purpose – to fulfill a societal goal.* Not-for-profits have no investors or owners and are prohibited from paying any dividend, distribution, or other return on investment to anyone. The only payment they can make is reasonable compensation for work done by employees, consultants, or contractors.

Not-for-profits can make money. They just can't distribute that profit to owners. It is to be used in accomplishing their mission.

In general, not-for-profits can be categorized as one of three types: as a service, as an advocate, or as a grant-giving organization. Some will do two types but will have a primary focus on one.

Service organizations seek to help people or provide cultural or civic functions. Grant-giving, usually called foundations, are mostly focused on giving to other not-for-profits.

Advocacy organizations are the main vehicle for advocating change in this country. Whether people come together to fight for a better environment or gun control, they will form a not-for-profit or join one that already exists for that purpose.

And not-for-profits are the vehicles for charity, from 10 dollars to multimillion-dollar gifts. From volunteering on a board or donating several work hours a week. Without them, there would not be a way for people to donate their time or money to help others.

## ROLE IN SOCIETY

Not-for-profits are everywhere. They include civil rights organizations, environmental organizations, social service groups, literacy, youth groups, emergency aid, and on and on. On the cultural side, everything from symphony orchestras to small theater groups are formed as not-for-profits. Go to a museum, hear a concert, watch a theater group; all are likely to be not-for-profit organizations.

Most of our universities and educational institutions are not-for-profits. Many of our hospitals and health organizations are not-for-profits, as well as the organizations that provide social services to needy individuals and families. Many large international organizations based in the U.S. deliver critical services throughout the world.

Think of a societal need and there are likely to be many not-for-profits servicing it. They are big and small, international and national, as well as regional down to the small neighborhood group taking care of the trees or responding to other local needs.

Altogether there are over 1.50 million not-for-profits in this country that are filed with the Internal Revenue Service. This handbook

focuses on these. There are also tens of thousands more that have chosen not to file with the IRS. These are primarily smaller ones that have decided to forego any of the benefits that come from federal filing.

Some not-for-profit areas of work:

Health

Hospitals, large and small

Health clinics

International Care Agencies

e.g. Red Cross

National Health Advocacy

e.g., Cancer Society

Disability Assistance

Education

Colleges and Universities

Private Schools

Preschools

Advocacy Organizations

Cultural

Museums

Orchestras

Art Schools

Dance Groups

Environmental

Anti-poverty

Human Rights

Local

Parks

Housing

Neighborhood Improvement

# ECONOMIC IMPACT

The not-for-profit sector has a big impact on the economic well-being of our society. Not-for-profits spend over \$2.5 trillion in the U.S. In 2016 the sector contributed over a trillion dollars, representing about 6% of the Gross Domestic Product.

The 1.5 million not-for-profits in this country employ more than 12 million people. It is the third largest job sector of our economy behind retail and manufacturing. Another 25% of our population works at a nonprofit as a volunteer. Add volunteers and the not-for-profit sector is actually the largest employer.<sup>1</sup>

Not-for-profits also serve as an adjunct to the government. When the government wants to provide a certain service, it has been increasingly contracting out to not-for-profits in the field to deliver the service. These federal, state, or regional government contracts to not-for-profits have become a critical way for the government to deliver services.

And not-for-profits buy much of their goods and services from for-profit companies, whether it's professional services, such as accountants and lawyers, or material goods such as pencils or toilets. They

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<sup>1</sup> Statistics are taken from the National Center for Charitable Statistics, Library of Congress, and Johns Hopkins Center for Civil Society Studies.

rent from for-profit landlords or buy space using for-profit real-estate brokers. In this way not-for-profits contribute significantly to the well-being of the for-profit sector.

Not-for-profits and for-profits are finding ways to work together to deliver services in ways that benefit both parties. Not-for-profits can bring good public relations, or knowledge of a community, or some other skills that are helpful to a for-profit company. For-profits can bring investment capital and expertise.

One example of partnerships between the sectors is in affordable housing development. To bring down the cost of housing, the federal government provides funding support for private developers but requires them to partner with a not-for-profit. The for-profit developer provides the equity funding and oversees the project's construction. The not-for-profit works to obtain community support, screens and selects the residents, and maybe has an ongoing role in the management of the project. In this way, the not-for-profit furthers its mission and earns a fee for its work; the government meets a public need; and the for-profit makes its profit.

# HISTORY

There were volunteer organizations in this country from the day the colonists arrived. In fact you could say that it was volunteers who built the foundation of this country. Immigrants that settled in the New Land, coming mostly from Europe, knew of volunteer associations from back home. In the New Land, they worked together in clubs and associations to build the infrastructure and manage the different colonies. And when the time came, it was volunteers who went to Philadelphia to form the country. So we live in a country where volunteering and volunteer associations are a major part of our heritage.

Yet after the American Revolution there was a push-back against volunteer associations. A sentiment arose that these were vehicles that the wealthy controlled and used to influence society. Many states passed laws to restrict their growth. The exception was the New England states which, in fact, encouraged their growth. In New England, not-for-profit corporations, such as Harvard University, flourished.

The next major growth did not come until the 1800s. Up until the mid-1800s, volunteer organizations were mostly formed to deal with education, civic and cultural concerns. Then the role for

not-for-profits grew significantly as social issues gripped the nation before and after the Civil War. Not-for-profits, like the Red Cross, formed to both help people and to fight for their better treatment. For the first time organizations formed throughout the nation to deal with social issues.

Then in the late 1800s, as the Industrial Revolution created great wealth, Andrew Carnegie led the way towards the establishment, by the wealthy, of charitable trusts to support both cultural and social institutions. This burst of funding from wealthy donors led the movement of not-for-profits from mainly volunteer organizations to now include larger institutions with paid staff.

The next big period of growth and change for the not-for-profit sector was under President Roosevelt. During our recovery from the Great Depression, the President turned to the not-for-profit sector to provide the vast increase in government programs he used to stimulate the economy and create jobs. Under contracts with the government, not-for-profits took on a whole new role in society, delivering services on behalf of government. This role has continually increased as government contracting with not-for-profits has become a commonplace occurrence and a major source of organizations' funding.

As the 20th century came to a close, President Reagan threw his support behind not-for-profits, but his call was for less government spending and instead greater volunteerism to deal with society's needs.

At the beginning of the 21st century, when faced with a crashing economy, President Obama, following in the footsteps of President Roosevelt, pumped large amounts of stimulus funding into the not-for-profit sector to get jobs out to communities throughout the country.

Most recently, as technology has created many billionaires, Bill Gates and Warren Buffet have called for the very wealthy to pledge at least half their wealth to charity. So far, over one hundred wealthy individuals have made the pledge.

Not-for-profits have been in the blood of this nation from its start. And as the nation grew, their role has grown, becoming even more an integral part of how our society functions.

- Colonists – form volunteer civic association to build their communities and help their neighbors.
- Colonists – Volunteers form a nation.
- Post-Revolution – Much of new country turns against volunteer associations controlled by the wealthy. New England states embrace them.
- 1800s – Growth of volunteer organizations formed to deal with social issues; significant growth triggered by Civil War issues.
- Industrial Revolution, late 1800s – The new wealthy, led by Andrew Carnegie, form trusts to fund not-for-profits; volunteer organizations now have funds for staff.
- 1930s, Great Depression – Under President Roosevelt not-for-profits take on new role of administering government-funded programs.
- Late 1900s – President Reagan calls for greater volunteerism to help not-for-profits deal with nation's needs.
- Early 2000s – President Obama again engages not-for-profits to administer government programs to stimulate the economy.

- Current Technology Revolution – New wealthy once again lead the way to funding not-for-profit sector's work in dealing with social needs; President Trump reduces government contract funding.

