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## Value of Volunteer Time Increases in 2012

The Independent Sector recently released its Volunteering and Civic Life in America report on the value of volunteer time. The estimated average value of a volunteer hour was \$22.14 in 2012, which is an increase of 35 cents.

The Washington, D.C.-based advocacy group releases a dollar estimate of the value of volunteer hours every year as a way to acknowledge the work of volunteers across the country. The full report is available on the Independent Sector Web site at [http://www.independentsector.org/volunteer\\_time](http://www.independentsector.org/volunteer_time)

For more information on the economic impact of nonprofits in individual states, a state profiles portal is also available at [http://independentsector.org/state\\_profiles](http://independentsector.org/state_profiles)

## Governor's Volunteer Awards Due April 5

Nominations for the Governor's Volunteer Awards (GVA) are due April 5. This year, nominations must be submitted online. Nonprofit or charitable organizations should submit nominations to Brenda Steinmetz at the Iowa Nonprofit Resource Center according to the instructions found in the Nonprofit News section on the INRC Web site at <http://inrc.continuetolearn.uiowa.edu/>

To submit nominations, use the form available at: [www.volunteeriowa.org/GVAwardsNomination.aspx?idAgency=129](http://www.volunteeriowa.org/GVAwardsNomination.aspx?idAgency=129)

Other agencies and organizations should refer to the Governor's Volunteer Awards Web site at [www.volunteeriowa.org/awards/index.html](http://www.volunteeriowa.org/awards/index.html)

Award ceremonies to honor recipients will be conducted around the state during the month of June. Watch the Volunteer Iowa Web site for details.

## Do You Qualify for Student Loan Forgiveness?

If you have federal student loans and work full-time in a public service job, such as a nonprofit organization, you may qualify for the Public Service Loan Forgiveness (PSLF) Program.

Only certain types of loans are covered by this program, and students must have made at least 120 on-time, full, scheduled monthly payments. If you qualify, you could have the balance of your loans forgiven.

Find out if you are eligible for this opportunity. Go to the Federal Student Aid Web site at <http://studentaid.ed.gov/repay-loans/forgiveness-cancellation/charts/public-service#what-loans-are-eligible>

# Limited Liability Companies as 501(c)(3) Organizations—Choose LLC Status With Care

By Matt Quetsch

## Background

Some states, including Iowa, have expanded the purposes for which a limited liability company (LLC) may be formed. In these states, an LLC may be formed for any lawful purpose, regardless of whether for profit. As a result, some nonprofit organizers have considered forming an LLC instead of a nonprofit corporation. LLC's have some advantages. Members have tremendous flexibility in structuring the organization and, generally speaking, LLCs are subject to fewer rules and regulations. There are some limitations, however.

The tax consequences of choosing an LLC are not necessarily prohibitive. The IRS has said that it is possible for an LLC to obtain 501(c)(3) exempt status under certain conditions. One major condition is that an LLC's members must be limited to 501(c)(3) organizations and governmental units or instrumentalities; therefore, an LLC will not qualify for 501(c)(3) status if it has any individual or for-profit members. Thus, while an LLC may potentially qualify for the same tax benefits as nonprofit corporations, the LLC is only an appropriate choice for some organizations. As for state taxes, some nonprofit LLCs should be able to claim property and income tax exemptions.

One general problem for nonprofit LLCs is that they are a new and unexpected development, so their legal status is relatively uncertain compared to nonprofit corporations. The nonprofit corporation remains the predominant form of nonprofit organization, and the law of nonprofit corporations is more settled. Nevertheless, LLCs have become an option for some nonprofit organizers. This article discusses the legal issues involved in using LLCs as 501(c)(3) organizations.

## Iowa's LLC Act (Chapter 489)

State law governs the formation of an LLC. In 2008, Iowa adopted the Uniform LLC Act, which has been adopted in seven other states plus the District of Columbia. Under this act, an LLC may be formed for any lawful purpose, regardless of whether for profit. Thus,

nonprofit organizers whose goal is to form a 501(c)(3) organization may validly form a nonprofit LLC under Iowa law. Nothing in Iowa's LLC Act forbids it.

The LLC equivalent of a corporation's organic documents (articles of incorporation and bylaws) are the LLC's certificate of organization and operating agreement. An LLC is validly formed as soon as organizers file a certificate of organization with the secretary of state. This is a basic document. The law only requires it to include the LLC's name as well as the name and address of its registered office and registered agent. However, the law permits organizers to include additional information, and the IRS requires LLCs to have certain provisions in both its certificate of organization and its operating agreement to obtain 501(c)(3) status. These are discussed below.

The operating agreement is an agreement among the members. It governs: (1) the relations among members, and relations between members and the LLC; (2) the rights and duties of managers; (3) the activities of companies; and (4) the means and conditions for amending the operating agreement. The LLC Act's default rules govern the affairs of an LLC except as otherwise provided in the operating agreement. Where the operating agreement is silent, the default LLC rules apply. (In addition, there is a short list of default rules that the members cannot change in the operating agreement.)

The LLC Act was designed for businesses, not nonprofit organizations, so it contains no default provisions in favor of nonprofit organizations. As a result, members must set forth certain provisions in their operating agreement to make sure it will qualify for 501(c)(3) status. An organization that operates according to the default rules would not qualify for 501(c)(3) status.

## Federal Tax Issues: Obtaining 501(c)(3) Status

Under section 501(a) of the federal tax code, organizations described under section 501(c)(3) are entitled to a federal income tax exemption. In order to be exempt, an organization must be organized and

operated exclusively for one of the exempt purposes listed in section 501(c)(3), such as religious, charitable, scientific, literary, educational, or other similar purpose. Furthermore, its net income must not inure to the benefit of any private individual or shareholder, and it must not, as a general rule, attempt to influence legislation. The organization bears the burden of proving to the IRS that it meets all of these tests.

In determining whether an organization is organized exclusively for an exempt purpose (that is, in applying the organizational test) the IRS looks to an applicant's organic documents. For an Iowa LLC, these are its certificate of organization and operating agreement (other states call the certificate of organization by a different name). Assuming an LLC is "otherwise qualified" under each of the above tests (the operational test, for example, requires an organization to operate exclusively for an exempt purpose) an LLC will pass the organizational test if the IRS can answer "yes" to each of the 12 conditions listed on its **LLC Guide Sheet** available at [http://www.irs.gov/pub/irs-tege/llc\\_guide\\_sheet.pdf](http://www.irs.gov/pub/irs-tege/llc_guide_sheet.pdf)

The document **Instructions for Limited Liability Company Reference Guide Sheet, IRS**, is available at [www.irs.gov/pub/irs-tege/llc\\_guide\\_sheet\\_instructions.pdf](http://www.irs.gov/pub/irs-tege/llc_guide_sheet_instructions.pdf)

These conditions are designed to make sure that a nonprofit LLC is organized and operated for proper purposes and that its charitable assets are protected. A competent drafter can include the necessary provisions in the certificate of organization and operating agreement. Some are easier than others to meet. A boilerplate 501(c)(3) purpose statement, for example, will satisfy the first condition. The third condition, however, prevents individuals from forming an LLC instead of a nonprofit corporation.

One general problem for nonprofit LLCs is that they are a new and unexpected development, so their legal status is relatively uncertain compared to nonprofit corporations.

## Conclusion

It is possible for the right members—501(c)(3) organizations, governmental units and instrumentalities—to form a nonprofit LLC that can obtain 501(c)(3) status in its own right. In order to do so, members should carefully draft the operating agreement pursuant to the IRS Guide Sheet. Although it is possible to use an LLC, the law is relatively unsettled, and the nonprofit corporation remains the predominant form of nonprofit organization.

# Book Review: Nonprofit Governance and Management

3d ed., by Cheryl Sorokin *et al*

Reviewed by Matthew Quetsch

**A** nonprofit organization succeeds to the extent it is able to fulfill its mission. In order to fulfill its mission, an organization relies on its board of directors for good governance and its executive staff for effective management. These are especially important because “today’s board members and executive staff face increasing scrutiny from the Internal Revenue Service as well as from their members, constituents, and donors.”

*Nonprofit Governance and Management* (3d edition) is a practical guide for board chairs and chief executive officers in particular, but also for advisors, including lawyers, accountants, and consultants. The information is accessible for the general reader as well. Although the authors limit their discussion to nonprofit corporations, the principles they discuss apply to unincorporated associations (e.g., LLCs) with equal force. The authors emphasize, for example, that governance and management are distinct but interrelated functions, and that a strong working relationship between the board chair and the chief executive officer is fundamental to an organization’s success.

The book is divided into three chapters. Each contains a topic by topic discussion, followed by a “Practical Advice” section laying out pitfalls to avoid, issues to consider, and how-to lists, often in bullet point form for ease of access. The advice is not groundbreaking—much of it may seem trivial to a seasoned veteran of the board—but the authors are thorough and have collected a great deal of relevant information in one place for quick reference.

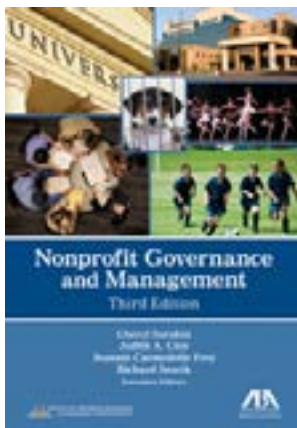
Chapter one “provides an overview of governance basics and board structure and operations.” Topics include

the role of directors and officers; their respective rights and duties; and their respective liabilities and liability protections.

Chapter two offers “specific guidance on such key substantive issues as strategic planning, financial management, fund-raising, oversight of the executive officer, human resources management, risk management, and handling of crises.” It includes a discussion of relevant tax laws as well.

Chapter three, titled “Governing Documents, Board Structure, and Operations,” discusses various bylaw provisions that nonprofit organizers should consider such as board composition (including size, term limits, age limits); board membership criteria; expectations of board members; committees; board meetings; minutes; and techniques for evaluating effectiveness. Like the first two chapters, this chapter contains specific advice on ways in which the board can function more efficiently.

*Nonprofit Governance and Management* serves as a useful beginning point for leaders faced with any number of situations. It includes a detailed table of contents and index making it easy for the reader to flip directly to a discussion of what he or she is looking for and to find practical advice for dealing with it. In addition, there are appendices containing examples, sample forms, and places to look for information. (These are also included on a CD-ROM.) This book provides leaders of nonprofit organizations with tools to adapt and apply to concrete and specific circumstances, ultimately helping the organization fulfill its mission.



*Nonprofit Governance and Management*, Third Edition  
By Cheryl Sorokin, Judith A. Cion, Jeannie Carmedelle  
Frey & Richard Sevcik  
ABA Publishing  
Paperback \$109.95, 283 pages, 7x10 + CD-ROM  
ISBN 978-1-61632-975-4  
Product Code 5070647

# Nonprofit funding opportunities

In each issue of the INRC Quarterly we feature four funding opportunities for Iowa nonprofits. If your nonprofit is a funder and you'd like to be listed, please let us know.

## Community Foundation of Johnson County

**Grant program:** Community Foundation of Johnson County grants program

**Grant description:** Five focus areas: Arts, Culture & Humanities; Education; Environment & Animals; Health & Human Services, Public & Societal Benefit

**Funding amounts:** No specified grant amounts

**Eligible grantees:** 501(c)(3) Nonprofits within Johnson County

**Grant application deadline:** September 14

**For more information:** See <http://communityfoundationofjohnsoncounty.org/pages/grants-from-the-endowment.php>

## The Hall-Perrine Foundation

**Grant program:** Hall-Perrine Foundation Grants Program

**Grant description:** Funding determined after preliminary inquiry to foundation. Cannot be requested for endowment, debt relief, operating support, support for churches, and other areas of restriction.

**Funding amounts:** No specified grant amounts.

**Eligible grantees:** 501(c)(3) Nonprofits in Linn County.

**Grant application deadline:** Year round

**For more information:** <http://www.hallperrine.org/Grants.html>

## Nationwide Insurance Foundation

**Grant program:** Nationwide Insurance Foundation grant program

**Grant description:** Emergency and basic needs; crisis stabilization; personal and family empowerment; community enrichment.

**Funding amounts:** No specified grant amounts

**Eligible grantees:** 501(c)(3) Nonprofits in Des Moines

**Grant application deadline:** May 2013 for 2014 funding

**For more information:** <http://www.nationwide.com/about-us/apply-now-step1.jsp>

## Prairie Meadows

**Grant program:** Prairie Meadows Legacy Grant Program

**Grant description:** Funds large-scale signature projects in central Iowa.

**Funding amounts:** \$100,000 to \$1 million

**Eligible grantees:** Nonprofits in central Iowa

**Grant application deadline:** application not available until May 2013

**For more information:** <http://www.prairiemeadows.com/community/legacy-grant-program/>



# Training Opportunities

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Secretary

## Iowa Nonprofit Resource Center

### Start an Iowa Charitable Nonprofit

**Date:** June 8, 2013

Hands-on workshop covers all the legal forms needed to start a nonprofit with 501(c)(3) status in Iowa.

**Instructor:** Richard Koontz, Director, Iowa Nonprofit Resource Center.

**Time:** 9 a.m. – 4 p.m.

**Fee:** \$50 paid by check in advance

**Location:** Room 265, Boyd Law Building, University of Iowa campus. Enrollment limited to seven participants.

**To register:** Telephone 866-500-8980 (toll free) or 319-335-9765 or link to registration form at <http://inrc.continuetolearn.uiowa.edu>

## Iowa Nonprofit Summit 2013

The 2013 Iowa Nonprofit Summit will be held November 6 and 7 at The Meadows Event Center in Altoona, Iowa.

The Summit is an invaluable experience for Iowa nonprofit workers. Hear outstanding keynote speakers and expert presentations. Meet new people and reconnect with your counterparts in other nonprofit organizations.

Summit organizers are **seeking proposals for keynote speakers and presenters for breakout sessions**. The submission deadline for keynote speakers is April 30. The deadline for workshop proposals is May 17.

For more information, visit [www.regonline.com/builder/site/Default.aspx?EventID=1200808](http://www.regonline.com/builder/site/Default.aspx?EventID=1200808)

Watch the above-mentioned link and the INRC Web site and newsletter for additional information as it becomes available.

### Legal Disclaimer:

All newsletter content is provided for informational purposes only and does not constitute legal counsel. Although we have made every attempt to ensure accuracy, the INRC is not responsible for any errors or omissions or for the results obtained from the use of this information. All information is provided with no warranty of any kind.



Photo by Bruce Drummond

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## About Our Organization

The Larned A. Waterman Iowa Nonprofit Resource Center is a University of Iowa interdisciplinary collaboration created to make more accessible educational and service programs focused on strengthening the operational capacity of Iowa nonprofit organizations.

The INRC works collaboratively with government agencies, nonprofit organizations and educational institutions to impart new knowledge through activities

and provide information and training resources to help nonprofit organizations and interested persons throughout Iowa. We seek to build the capacity and develop the effectiveness of community-based organizations and enhance the overall effectiveness of local organizations in building communities.

The INRC also introduces students to the nonprofit sector and develops their sense of public and community service.