



An excerpt from *The Best of the Board Café*
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Alligators in the Boardroom

Myths and Urban Legends about Nonprofits



It is worth noting that some common assumptions about nonprofits are actually urban legends. Like the legendary alligators in New York sewers, these stories have been passed along through so many people they've gained a measure of credibility just by their longevity. Some of these myths may need to be dispelled among your fellow board members.

Nonprofits can't make a profit. In fact, the Internal Revenue Service (IRS) guidelines do *not* say that nonprofits can't have profits, but they *do* clearly state that any profits can't be simply distributed to board members (as corporate profits are to shareholders). The IRS requires surpluses ("profits") to be reinvested in the organization's work. Such surpluses are needed by nonprofits to even out their cash flows, to provide reserves for emergencies, and to allow them to pay for equipment, research, staff development, building renovations, and other necessary investments.

Nonprofits can't charge for their services. In fact, many nonprofits exist solely or mostly on fees charged, such as nonprofit preschools that charge tuition or community choirs that sell tickets to their concerts.

Nonprofits are poorly managed compared to businesses. It depends which business! Compared to WorldCom, Enron, Andersen, Webvan? In fact, nonprofits often achieve growth rates well above for-profit companies of comparable size, and they do so while undercapitalized and highly regulated, and while maintaining the highest of ethical standards. (In fact, comparisons between nonprofits and for-profits often aren't very useful; they have different bottom lines, different measures of effectiveness, different resources, and different financial flows.)

Nonprofits can't lobby. Nonprofits cannot engage in any *electoral* activity—they can't support or oppose candidates. However, they *can* support or oppose ballot measures (such as *for* public school bonds or *against* new immigration laws). In addition, nonprofits can encourage legislators to support or oppose various pieces of legislation—as long as such lobbying activities are an "insubstantial" part of their activities. In fact, legislator education and lobbying may be centrally important for long-term effectiveness. (For more information, see the web site of Charity Lobbying in the Public Interest: www.clpi.org.)

A nonprofit budget has to be balanced. Instead, in some years a nonprofit will want to budget for surpluses, in order to create a cash reserve or to save up for new equipment. In other years the same nonprofit might plan for a deficit, for example, to do one-time programs with windfall money or to invest in a new fundraising director or a publicity strategy. Over time, the financial goal of a for-profit is to maximize profits; in contrast, the financial goal of a nonprofit is to *sustain sufficient working capital for program continuance and strategic choices.*

I don't benefit from nonprofits. Nonprofits help other people. In fact, each and every one of us benefits from nonprofits every day. We may have a daughter in Brownies or an aging father in a nonprofit nursing home. We may watch public television, take in a play, or take a walk in a restored natural habitat. We drive safer cars because nonprofits have developed

and advocated for consumer safety legislation. We benefit from medical research at nonprofit research institutes, and from the cleaner air and water that have resulted from nonprofit advocacy. When we volunteer as board members, we are giving something back to the nonprofit sector through which our communities improve themselves.

Nonprofits don't contribute to the economy. Surprisingly, nonprofits generate 6 percent of the gross domestic product (GDP) in the United States, and employ one in every fourteen American workers. Nonprofits mobilize the efforts of an army: 83.9 million adults volunteering 15.5 BILLION hours each year toward community and public benefit—the equivalent of 7.7 million full-time staff.*

* Independent Sector, *The New Nonprofit Almanac in Brief: Facts and Figures on the Independent Sector* (Washington, DC: Independent Sector, 2001), 3.