

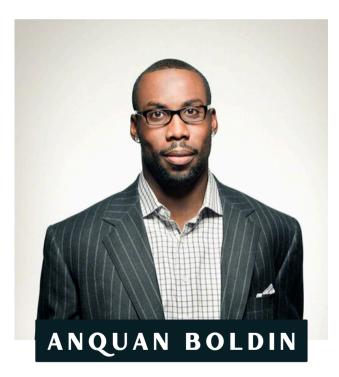
# 501(c)(3) LESSONS LEARNED

# BUILDING A CHARITABLE LEGACY

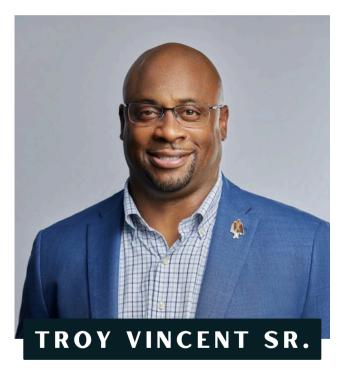
Anguan Boldin & Troy Vincent Sr.

NFL Legends Anquan Boldin and Troy Vincent Sr. openly share their lessons learned when it comes to establishing their own 501(c)(3) organizations. Their insights and experience aim to assist other players who may be considering starting their own charities as they navigate the complex and nuanced nonprofit landscape.

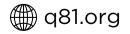
Acutely aware of the need for athlete-centered resources, Boldin created <u>Sport for Impact</u> with the intention of providing a trusted, player-led infrastructure and support for athletes at every stage of their charitable impact journey, with the purpose of assisting players build an enduring and respected community legacy.



2015 Walter Payton NFL Man of the Year, Super Bowl XLVII Champion, Co-Founder of Sport for Impact, Co-Founder of Players Coalition, and Founder of Q81 Foundation



2005 Walter Payton NFL Man of the Year, Founder of Love Thy Neighbor CDC, and Executive Vice President of NFL Football Operations







#### UNDERSTANDING YOUR NONPROFIT STATUS IS KEY

**Troy:** There is a difference between a nonprofit and a 501(c)(3). While the terms "nonprofit" and "501(c)(3)" are often used synonymously, they refer to different concepts. "Nonprofit" refers to an entity, typically a corporation, that is organized for a purpose other than making profits. "501(c)(3)" refers to a nonprofit that has been officially recognized by the IRS as tax-exempt due to its charitable activities.

**Anquan:** While forming a nonprofit is an essential step in the process, it is not the only step required for a nonprofit that will also be a 501(c)(3). Additionally, it's important to be aware that there are other pathways for charitable impact that athletes can consider if starting your own 501(c)(3) is more than what you are ready to take on.

#### MAKE SURE YOU KNOW THE IRS REQUIREMENTS FOR YOUR 501(c)(3)

**Troy:** The IRS has defined specific conditions for an organization to initially qualify as a 501(c)(3). These include:

- The requirement to operate primarily for exempt purposes, including charitable, educational, scientific, religious, and certain other approved purposes.
- A prohibition on inurement to ensure that no part of the organization's net earnings benefits any private shareholder or individual.
- A restriction against becoming an action organization, which involves attempting to influence legislation as a substantial part of its activities or intervening in political campaigns.
- A prohibition against providing more than insubstantial private benefits to any individual or entity.



#### WHY DO YOU WANT TO HAVE THE PROPER LEGAL DESIGNATION IN SETTING UP YOUR NONPROFIT?

**Anquan:** Many aspiring nonprofit founders overlook this critical step, which can lead to significant challenges down the line. Without the appropriate legal designation, such as 501(c)(3) status in the United States, organizations may find themselves unable to receive tax-deductible donations or qualify for grants.

This lack of recognition can severely limit fundraising opportunities and hinder the organization's ability to fulfill its mission. Moreover, failing to secure proper legal status can expose the organization to legal liabilities. Without the protections afforded by nonprofit status, founders and board members may be personally liable for the organization's debts and obligations.

To ensure full compliance and legal protection for all of its funds and athlete-led charitable initiatives, Sport for Impact works with expert nonprofit compliance attorney Chris Hammond at Dinsmore & Shohl LLP.

#### WHAT IS THE DIFFERENCE BETWEEN "FOUNDATIONS" & "CHARITIES"?

**Anquan:** While both categories are 501(c)(3) organizations, the difference between a foundation and a charity is important for compliance purposes. In general, a "charity" receives donations/revenue from a wider donor base, while a "foundation" is generally self or family funded. This determination is based on technical tax law and is not based on the name of the organization itself—most states will permit founders to name a nonprofit a "foundation" even if it will be a charity for 501(c)(3) purposes.



If a 501(c)(3) is classified as a foundation, then additional compliance rules will apply. While some of the compliance rules are generally easy to navigate (for example, a small tax on investment income, a prohibition on investing in risky investments, and a prohibition on owning too much equity in certain entities), other compliance rules are traps for the unwary. In general, those include a mandate to distribute 5% of assets annually, a prohibition on most every type of conflicted transaction, and a prohibition on certain types of payments in respect of certain matters (for example, lobbying) or to certain beneficiaries (for example, scholarships that are not part of a plan preapproved by the IRS).

# ARE THERE STATE AND LOCAL REQUIREMENTS FOR A 501(c)(3)?

**Troy:** Each state where your 501(c)(3) does business or raises money has specific requirements to remain in good standing or active status. Some localities may also have requirements. There is no centralized regime for these matters and can vary significantly from state to state. Due to the breadth of these rules, compliance in this area can be extremely complex and cumbersome.

Personally this was brought to my attention by Sports Enterprise and Investigative reporter Jason Wolf. My standalone 501(c)(3), Love Thy Neighbor CDC, was in full compliance and good standing federally, but we were not aware of the state requirements. Upon being made aware, I immediately worked with sports and entertainment philanthropy attorney Andrew Morton to update our status in the states where we do business. This is really about the details that you may not be thinking about. Someone on your team needs to keep track of them to ensure everything is in alignment, good standing, etc. at the federal, state, and local levels. Lesson learned.



#### WHAT TYPE OF FISCAL MANAGEMENT PROCESSES ARE NEEDED?

**Anquan:** Many nonprofits struggle with financial oversight, leading to mismanagement of funds and potential financial crises. Common issues include inadequate budgeting, lack of financial reporting, and failure to monitor cash flow.

### UPON RECEIVING TAX EXEMPT STATUS, ARE THERE ANY FEDERAL REQUIREMENTS THAT MUST BE FOLLOWED?

**Troy:** Many organizations mistakenly believe that once they obtain their 501(c)(3) designation, they are free from tax obligations. However, nonprofits must still file annual returns, such as Form 990, and maintain accurate financial records. Neglecting these responsibilities can lead to audits and fines that can cripple an organization's financial health. Real-world examples abound of nonprofits that have faced dire consequences due to tax noncompliance. All of these filings are part of public disclosure requirements that are mandated by 501(c)(3). Lesson learned.

#### WHAT ABOUT EMPLOYMENT LAW REQUIREMENTS?

**Troy:** From hiring practices to employee benefits, nonprofits must comply with various federal and state labor laws. Failing to do so can result in costly lawsuits and damage to the organization's reputation. For instance, misclassifying employees as independent contractors can lead to significant penalties and back taxes owed to the government.



## EACH NONPROFIT IS UNIQUE AND HAS UNIQUE INTELLECTUAL PROPERTY (IP). DOES IP NEED TO BE PROTECTED?

**Anquan:** In today's competitive landscape, protecting intellectual property (IP) is essential for nonprofits that rely on unique programs, branding, or content to distinguish themselves from others in their field. Many organizations fail to recognize the value of their IP and neglect to take steps to safeguard it. This oversight can lead to unauthorized use of their materials or branding by other entities, which can dilute their message and impact.

To avoid such issues, nonprofit professionals should prioritize IP protection by registering trademarks, copyrights, and patents as necessary. Additionally, educating staff about the importance of IP can foster a culture of respect for creative work within the organization.

#### HOW MANY BOARD MEMBERS SHOULD A 501(c)(3) HAVE?

**Troy:** While state law varies (for example, Delaware requires only one, while many other states require three), the IRS prefers that a nonprofit organization should generally have board members representative of the community. Accordingly, it is considered a best practice to have at least three board members. The terms of these board members are not meant to be indefinite and usually range from one to five years, as specified in the organization's bylaws.



## HOW DO YOU ENSURE YOUR NONPROFIT REFLECTS YOUR VISION WITHIN THE GOVERNANCE AND BOARD OF DIRECTORS' RESPONSIBILITIES?

**Anquan:** Strong governance is fundamental to the success of any nonprofit organization. However, many nonprofits struggle with board engagement and governance practices, leading to ineffective decisionmaking and lack of accountability. Board members must understand their roles and responsibilities clearly; otherwise, they may inadvertently contribute to organizational dysfunction. A disengaged board can result in missed opportunities for strategic planning and fundraising efforts. Board members also have "fiduciary duties" that obligate them to pay attention and to act in the best interests of the organization. If they fail, they can be personally liable in certain situations.

#### ARE THERE ANY OTHER LESSONS LEARNED REGARDING YOUR 501(c)(3) LANDSCAPE?

**Troy:** Lessons are continuous. I'm sure Tommi and I will continue to learn. Having the right partners that are aligned and are committed to your values and mission is very important-not just by association, but to sustain, grow, and scale your efforts. Partnerships, corporations, and people must be aligned in your values and mission. The overall impact should be consistent with the goals of the organization. Lesson learned.



#### WHAT WERE SOME OF THE EARLY LESSONS YOU LEARNED WHILE STARTING YOUR OWN FOUNDATION?

**Troy:** The selection of board members was important. The composition of the board and learning how to have a sustainable operational model. Identifying the right leader for the organization. There was considerable turnover in our first decade in the philanthropic space. Conducting the proper search as well as building a sustainable funding plan without relying on significant capital contributions coming from Tommi and I year in and year out was very important to our success. Lesson learned.

# WHAT ROLE CAN SPORT FOR IMPACT PLAY IN SUPPORTING PLAYERS AND THEIR NONPROFITS?

**Anguan:** Sport for Impact provides strong peer-to-peer guidance and opens doors to new partnerships and shared resources through our Athlete Impact Network of athletes aligned in purpose. Our unwavering commitment to educating and empowering athletes allows them to further maximize their charitable impact. This peer-to-peer learning is invaluable to success.

#### **POWER OF PARTNERSHIP**

**Anguan:** Athletes don't have to do this work alone. We created Sport for Impact to bring athletes together and help identify opportunities for collaboration with others in this space doing similar work with aligned missions in the communities players care about.

**Troy:** We are here to support you. Reach out and benefit from Sport for Impact's Athlete Impact Network and the work Anguan is leading to ensure you have the resources, guidance, and support you need.



### ANY ADVICE YOU WOULD GIVE TO YOUNGER PLAYERS JUST GETTING STARTED ON THEIR CHARITABLE JOURNEYS?

**Anquan & Troy:** In any sport, there will only be one champion, but everybody is doing phenomenal work-Multiplication of good. As is written in Romans 14:9-12, "we will all stand before the judgment seat of God" and "each of us will give an account of himself to God." It's not all about what we do on the field, it's about what we did with the talents God gave us. Being that good and faithful servant. It's not about the game, it's about what you do for others. Lesson learned.

## FOR MORE INFORMATION OR TO GET INVOLVED CONTACT US AT <u>REBECCA@SPORTFORIMPACT.ORG</u> OR VISIT <u>SPORTFORIMPACT.ORG</u>



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