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## Don't Let Rich People Boss You Around - Transcript

[Speaker 1]

Welcome to Charity Therapy, the podcast where we explore the ups and downs of the nonprofit sector and answer your burning questions. I'm your host, Jess Birken, owner of Birken Law Office, and I'm excited you're here. Imagine hanging out with me and my super smart, funny nonprofit expert pals.

You get to ask them anything about your nitty gritty nonprofit life and get their wisdom for free. Whether you're a seasoned pro or just strapping on your nonprofit boots, we're here to share stories and remind you, you're not alone on this journey. So get ready to join the conversation and bring me the tough questions.

I ain't scared. Ready to rock? Let's dive in.

Hello and welcome to this episode of Charity Therapy. Meghan and I are back again for more nonprofit answers to your nonprofit questions. Hello, Meghan.

Hello.

[Speaker 2]

Hello. Let's hope we have nonprofit answers and not some crazy other kind of answers. You never know.

[Speaker 1]

We were trying to look at the law firm's financials with the accountant today, and I can guarantee that I can give you nonprofit answers. I cannot give you any accounting answers, though.

[Speaker 2]

Don't come to us for numbers.

[Speaker 1]

Numbers are not our area. Not wired for that at all. I do have a 10 key and I know how to use it, and that's as far as it goes.

Very good. Give me a grant budget, but beyond that, oh my gosh, what a pain.

[Speaker 2]

Yeah. We love all of our accountants and bookkeepers and everybody who knows these things because we need you.

[Speaker 1]

Bless your hearts in the best way possible because I cannot do what you do. Give me a nonprofit problem to solve any day. As if on cue, Meghan, what are we doing?

[Speaker 2]

What a transition. Yes. Okay.

So obviously, we're going to have a listener question here, but as a little backdrop question for you first, this question came up in my research or this term came up in my research and I'm like, what does that even mean? Jess, I've been seeing the phrase like nonprofit industrial complex thrown around a few times, and I know what all of those words mean, but I'm not 100% clear on what the term actually is referring to. What's going on here?

[Speaker 1]

Meghan, the nonprofit industrial complex is what you and I were just talking about before we started recording. Love it. Love it when I'm accidentally on key.

Yes. It is the idea that these nonprofits exist not necessarily to achieve any certain outcome or mission or vision, but just to perpetuate themselves as a company, as an organization, and that we will just continue to do that even if it means we just pay everyone substandard wages because we get paid. We at the top, the executives and whoever else is in charge, are getting our livelihood out of serving the homeless, serving the dogs and the cats, and serving the youth who are in trouble.

And so if those things actually went away, we would lose our livelihoods. So it's this idea, and there's multiple ways to look at the nonprofit industrial complex, but it's basically, as the Gen Z's would say, big nonprofit. This is an industry unto itself, and it has an incentive to keep existing, to keep fundraising, and to low-key not ever really accomplish its mission, because to do so would put it out of business.

[Speaker 2]

Yeah. So it's like the elite people that are involved, the upper class, the people with money are all just passing it around amongst themselves, and maybe doing some good on the side.

[Speaker 1]

Yeah, I'm not saying good doesn't come out of the nonprofit sector, but there is definitely this idea of big nonprofit, and you don't have to be that big to participate in big nonprofit, where it's like, hey, if we ended reading problems in grade school children in our community, we would be out of jobs. So somewhere embedded in there, there's just like a self-interested thing. Yeah.

[Speaker 2]

Anyway, that makes sense.

[Speaker 1]

Don't get too fired up at the beginning of the episode.

[Speaker 2]

I was going to say, I sent some rants on their current here, and we'll see how much we unleash with this listener question.

[Speaker 1]

Y'all can go find my comment on LinkedIn ranting about low-wage jobs in the nonprofit sector. My friend Ephraim and I were both bemoaning the sector's inability to pay a fair living wage to people despite claiming that's what we value.

[Speaker 2]

Friend of the pod, Ephraim Gopin. Go check him out. But yeah.

Okay, let's get right into this listener question because we might as well open the floodgates. Let's do it. All right.

Person writes in and says, My partner and I run a small LLC that provides on-demand mental health services to underserved populations in our community. Our operation has grown quite a bit in the past few years, and we've become involved with the city's efforts to dispatch mental health practitioners to community members in crisis. We've been approached by a family foundation in our area who would like to support our work with an \$80,000 grant.

But after discussing it with us, they're now saying that we need to be a 501c3 nonprofit because they only give grants to charities. We're considering doing it, but a friend of mine who works in nonprofits mentioned that it might not be worth the effort. What should we do?

Okay.

[Speaker 1]

What I'm hearing is this is a for-profit entity. This is a taxable entity. This is a business that's in the mental health space.

And city is doing like the whole like defund the police thing where we don't need to send a cop with a gun to every situation. And that's great. I love that.

I think that's awesome. I don't think we need cops with guns going to every situation. I'm pro cities and philanthropy funding this kind of thing.

Where I have a little problem with this is what does this foundation mean? They can, they're only going to, you have to be a nonprofit. So what we're saying is you need to go through all of the work and effort to become a 501c3 for the convenience of the foundation.

That's what I'm hearing.

[Speaker 2]

And especially the details in this question suggest that this company has been like trotting along doing great work and growing as they have been is as a small LLC, but they're now working with the city and they're doing this like big work and have been growing without the help of these foundations. And the foundation is talking about an \$80,000 grant, like \$80,000 is important, but it's not changed the world money either.

[Speaker 1]

Yeah, no. How did the nonprofit industrial complex come up in your research on this? Were there people commentating?

[Speaker 2]

Yeah, there was stuff. There was stuff.

[Speaker 1]

This is like, I don't even know if this is nonprofit industrial complex or just like philanthropy at its finest. Oh, we like to give out our money, but only in the way, the one way that we're comfortable giving it out. And even though we could give you money as a taxable entity, we just don't feel like doing the work of figuring that out or paying our lawyers to figure that out, how we can do that for you.

So why don't you go ahead and you do that labor, you do that work, you start an entirely new corporation that is more regulated and has IRS compliance problems, and maybe we'll give you \$80,000 one time. With, of course, baked in the implied, we might give you more if you do what we want, or we might give you this again, we might give it to you every year until we don't feel like it anymore. Yeah, and who knows, maybe it's a one time thing.

Yeah, it could never happen again. Foundations change their funding priorities. And on a whim, they just decide, oh, childhood obesity is actually what we want to focus on for the next 10 years.

So sorry, we're not funding this anymore. And we've seen that happen over and over again, over time.

[Speaker 2]

Let's backtrack for a second, because I think you said something in there that I think is important to highlight. So they could just give the grant to the for profit, right? That's an option.

What does that look like?

[Speaker 1]

We don't have any information about this question, right? In theory, assume, I'm gonna just assume that they say Family Foundation, they mean, this is a 501 c three Family Foundation, just like the Bill and Melinda Gates Foundation before they split up and all that, right. So, and we already know, like, you can Google it, there are ways that Family Foundations can give money to for profit entities.

But usually there's some sort of strings attached. Like I think the Gates Foundation famously funded like a vaccine company that was a for profit entity to make vaccines on the condition that they gave out X million dollars worth of doses for free in Africa, in exchange for doing that. So there are different mechanisms.

They can also do some sort of social enterprise, they probably can legally give out some money that's just here is Model C grant, they could just find another c three to give the grant to for the purpose of giving it to this. The point is they can do it a few different ways. I don't know their exact situation.

But like they obviously just don't want to be inconvenienced.

[Speaker 2]

Yeah, they normally give to see threes. And we're not willing to do anything different, even though you're the one working with the local government, you're the one that's doing this work, but you need to bend over backwards to fit our typical funding profile or whatever.

[Speaker 1]

Yeah. And at what cost to this small business? Yeah, that's the thing, right?



[Speaker 2]

They say we're considering doing the nonprofit, but a friend mentioned it might not be worth the effort. Let's talk about that. What would that actually look like for something that has been operating as a C or as a LLC to become a nonprofit?

[Speaker 1]

So first of all, there's no become a nonprofit, you can't convert an LLC into a charity. You would start an entirely new corporation. And these folks, whoever they are, they own their company right now, they're mental health providers who own their business, they would start a new organization with a board of directors that they would not have any ownership stake in.

And so they'd be basically starting over from scratch. And then we'd have to figure out, do you keep your for profit entity going? How do we keep it firewalled from the nonprofit?

So there's never any question from the IRS or others about commingling of funds between the for profit and the nonprofit. What is the purpose of this nonprofit? Because what you're doing has been fine as a business.

So what is like the charitable purpose? You have to form this whole new entity, get a new tax ID number, apply for income tax exemption, wait for the IRS to give it to you have a board of directors have bylaws comply with all the regulations, all the conflicts, policies, all the everything. It's a lot of effort.

[Speaker 2]

It's a lot more effort than just starting an LLC or continuing with the one that already exists, especially for these people. Yeah, absolutely. So I guess that is the like nonprofit industrial complex piece that was jumping out to me when I was doing some research on the background

here is that it's Oh, no, this family foundation that has all this big pot of money is not actually willing to find the best person for the job to fund this priority of theirs.

They're just looking for a C three. Yes, they want it to be within their priority. Sure.

But they're gonna make you jump through all the hoops and hire a lawyer to help you make a nonprofit and do all of these things and hire a new CPA and take on all of this extra work that actually doesn't serve the mission any more than the LLC did in the first place.

[Speaker 1]

Because now we have complies with all of the chart of accounts, a new accountant who knows nonprofit accounting, we have different tax forms, we have new insurance, they're basically like duplicate all of your efforts, but even more because nonprofits are harder to operate, so that I am not inconvenienced. And since I have the gold and I make the rules, you will do what I say.

[Speaker 2]

Yeah, participate in this complex that this dance that we're in with the nonprofit sector, because otherwise, we're not helping you even though it's within our mission to do. So ultimately, what would you say? Obviously, there's a lot of missing information in this, it's not a full thing.

But would you say, don't do it? Don't start the nonprofit? Or think hard about it?

[Speaker 1]

For 80k one time? No, I would absolutely not. Also, just the fact that I'm assuming that this nonprofit would essentially replace the LLC.

So we're also asking for these providers to give up their business for the convenience of some philanthropist. We don't know what color these people are. But if they're black or brown, this feels a little unfair, that a bunch of like rich folks somewhere are gonna say, hey, give up your viable business, really for anybody, especially if this is a BIPOC led organization.

Hey, you take all the risk, you figure it all out. It just feels gross to me. I don't like it.

And there's no guarantee. I would say go back to them and push back and say, listen, for X, Y, and Z reasons, we cannot. However, would you be open to sponsoring a grant to another C3 that has a good mission that aligns with us, and they will be the pass through.

That's like the quickest win here, because it lets the philanthropist be lazy and do what they've always done. They don't have to lift a finger. They just need a partnering organization who's willing to give them a Model C sponsorship grant and pass through those dollars to this entity.

If they're really going to consider going C3, then I'm like, great. You should get way more than 80K. What is the long term plan for them to support this work for at least the next five years?

And it needs to be worth doing. To administer this whole extra organization, it's not nothing. It's a lot of work.

And to do all of that for one-time grant of 80K? No. I would want a five-year multi-year grant agreement guaranteed.

As long as they are doing the outcomes and performing their part of it, this funding is going to be there. The juice is not worth the squeeze. Whoever this friend is that's telling you, hold on a second, they are correct.

[Speaker 2]

It's that thing that we run into all the time that especially people in the business world actually, oh no, we'll just do the nonprofit. That sounds great. I know how to run a business.

We'll just also do a nonprofit so that we can get the benefits of the nonprofit world as well. And often folks have a good intention about doing that. They're not trying to do anything that is inappropriate or illegal or anything like that.

But they don't understand how different it is from their for-profit business and what kinds of things they are going to have to give up or change radically in order to fit within the nonprofit structure.

[Speaker 1]

And you're not going to be an owner and you're not going to be able to pay yourself in the same way. And you're not going to be able to unilaterally make decisions. And I assume whoever is running their own business is probably going to have to act as the executive director or CEO of the nonprofit.

So they're probably going to want a salary and I just am like, why would you give up owning your own business to do this?

[Speaker 2]

That has been successful. Like this is just, they've already been doing all of this great work and linking up with the city and getting these opportunities without this family foundation funding or helping them out.

[Speaker 1]

Stick to your guns. Don't let rich people boss you around. There you go.

[Speaker 2]

I think that's that. Great. All right.

[Speaker 1]

Some takeaways here.

[Speaker 2]

First is that from a funding perspective, family foundations can give money to things other than just a 501c3 public charity. It is possible for profits or other entities or groups of people who are doing great work that are not a nonprofit that a foundation may want to fund because it aligns with their mission. So it's definitely a possibility.

Another takeaway here is that there's no easy way to convert a for-profit into a nonprofit. So if you are...

[Speaker 1]

Not that there's no easy way. There's no way.

[Speaker 2]

Yes. Yes. There's literally no way.

You cannot just become a C3 nonprofit from your LLC. So it's going to be a complicated process of switching over entities and whatever. So it's like the idea of just like, adopting the nonprofit as your new status is not going to work the same way you might think.

And then if you do decide to start a nonprofit for everything in this world, there's way more compliance, there's way more risk, there's way more rules to follow, and it will be more expensive to run than a for-profit. If you are a for-profit entity that's doing work like this or any other kind of work, and the idea of a nonprofit is out there for funding streams or some other reason, just know that it's not a simple, oh yeah, we'll just switch. That's what I have.

What else? Anything? No, I think that you nailed it.

Absolutely. Great. Don't let rich people boss you around, really.

[Speaker 1]

In an ideal world, we would have just as much ability to say no or how about something else to the philanthropists out there. Okay. So folks, if you enjoyed hearing me rant about the nonprofit industrial complex and get all up in arms about philanthropy running wild, please like our podcast, rate it, subscribe, share it with a friend. It really helps us out. If you have a question or a story or a situation that you want to share, get at us. We want to hear from you. Send me a note online at [charitytherapy.show](https://charitytherapy.show).

Thanks for listening. Bye.

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## About the Author



**Hi, I'm Jess Birken.**

I'm the owner of Birken Law Office, I help nonprofits solve problems so they can quit worrying and get back to what matters most – The Mission. I'm not like most attorneys, I actually have an outgoing personality, and – like you – I like to think outside the box. Most of my clients are passionate and have an entrepreneurial spirit. I'm like that too. My goal is to help you crush it. Getting bogged down in the minutia sucks the joy out of the important stuff. My clients want to do the work – not the paperwork.

**Let's connect!**

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