CASE STUDY #2: Nonprofits and Services

A nonprofit organization ("Newco") was formed for the purpose of providing administrative, management, and other supportive services to tax-exempt organizations, without regard to whether such organizations had any corporate relationship to Newco. Newco was a membership corporation that initially had two members, but the members were unrelated to each other.

Newco's application for recognition of **Section 501(c)(3)** status (its Form 1023) stated that Newco was designed to provide its initial members and other tax-exempt organizations desiring to use its services the benefit of collaborating and sharing a variety of management and related administrative services, thereby gaining efficiencies and economies of scale and allowing the participating organizations to focus on their respective missions, goals, and programs. Specific services contemplated included four core service areas-human resources, finance/accounting and electronic health record (EHR) development and management, information technology (IT), and support services. Newco's Form 1023 provided a fair amount of detail about these services:

- Newco's finance department proposed to provide services for financial reporting; development of management tools; monthly reconciliation of general ledger accounts; payroll processing; accounts payable; billing for reimbursements; internal budgets and budgets for grant proposals; contract negotiation and the setting of reimbursement rates; review of fiscal policies and procedures and monitoring of internal controls; oversight of annual audits and site visits from funders, coordination of tax reporting; treasury functions and management of cash flow; and procurement of insurance including property, professional/general liability, workers compensation, and D&O insurance.

- The human resources and training departments would provide centralized services for all human resource needs including recruitment; applicant tracking and processing; benefit management and tracking; employee documentation; time and labor tracking; payroll processing; HR consultation; employee training; and training management and maintenance.

- The EHR services to be offered included maintenance of clinical records; EHR implementation and maintenance; report customization; ad hoc reporting; assigning caseloads, access, and permissions; forms customization and creation of new forms; producing required reports; providing user support for medical records; responding to ROIs; assistance during audits; and claims based billing.

- The IT department proposed to support the infrastructure of advanced communications, data storage, and data sharing technology; support fiber and broadband computer networks; provide professionals to ensure system security, network administration, database management, and software and hardware support; provide a help-desk support system, and provide continuing professional development to IT staff.

- Finally, the support services proposed to be provided included HVAC, plumbing, painting, repair, light electrical work, locksmithing, and other services (via a property management department); vehicle fleet maintenance, recordkeeping, coordination of trips, and funder documentation (via a transportation department); and negotiation pricing on a group purchasing basis (via a purchasing department).