

A Guide to
Starting and Running
a Nonprofit Organization

Even though there's no profit motive, you still need to focus on the bottom line. And for directors, workers, volunteers and yourself, compensation is not a driving factor, passion is. Even though a non-profit has to be run like any business, certain rules and laws also must be followed. These are just some of the special considerations of non-profit organizations that will be outlined in this *Guide to Starting and Running a Nonprofit Organization*, brought to you by BizFilings and Business Owner's Toolkit®.

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Special Considerations for Starting Your Nonprofit Organization

Join a Strong and Dynamic Segment of the Economy.

Welcome to the world of nonprofit organizations! You are starting down a noble path, following in the footsteps of so many who have chosen the path of service to the community (whether around the corner or around the world) instead of the pursuit of commercial gain in business. If you continue this pursuit, you will be joining a strong and dynamic segment of economy.

The *National Center for Charitable Statistics* reports that, at the end of 2008, there were more than 950,000 public charities, 110,000 private foundations, and more than 440,000 other nonprofit organizations (such as chambers of commerce, civic leagues and fraternal organizations) — more than 1.5 million nonprofits, all-in-all — registered and operating in the United States.

Public charities reported total revenues in 2007 in excess of \$1.4 trillion, and total assets of nearly \$2.6 trillion. Charitable giving totaled more than \$280 billion for the same period, with religious, educational and human service organizations receiving the largest percentages of the donations.

As you can see, nonprofit operations represent a significant segment of economic activity in today's economy. So it is vital to learn the basics about the nonprofit industry, and the dynamic role nonprofits play in our economy.

The Distinctive Character of a Nonprofit — A Service Motive; Not a Profit Motive. One of the distinctive characteristics of a nonprofit organization is the absence of a profit motive in its operations. A business enterprise is established to earn profits from the products or services it sells, and to distribute those profits to its owners (shareholders, partners, or members). A nonprofit organization, on the other hand, is established generally to perform a function or service — usually something that benefits a broad community of people — without the commercial mind-set of making money for its owners.

Traditionally, starting-up a nonprofit organization involves a group of service-minded people getting together and pooling their resources of time, talent and treasures (and those of others). Therefore, personal service, not personal profit, is often a motivating factor for these people, again different than their for-profit counterparts.

The specific services that are provided must be geared toward a “community,” however community may be defined. A public charity like United Way or Red Cross is formed to provide a public benefit to persons in need. A chamber of commerce or a trade association is formed to provide a mutual benefit to its members. In either case, the community served may be defined on a local, regional, national or worldwide scale.

The nature of service, not profit, also means these organizations play by a different set of rules and laws established by state and federal authorities. As you would imagine, this adds another layer of complexity to normal business operations. This means the leadership qualities needed for these types of organizations also are different than for a customary for-profit business. You'll want to familiarize yourself with:

- Understanding the Unique Aspects of Non-Profit Organizations
- Recognizing State Regulatory Issues for Nonprofits
- Navigating Federal Regulatory Issues for Nonprofits

Building a Nonprofit Organization. Having completed a quick review of the distinctive characteristics of a nonprofit enterprise, you're ready to take a look at the steps of the start-up process. First, you need to ask yourself whether your personality and your purpose are consistent with nonprofit enterprise. Then you will need to effectively communicate your purpose to others and get them to share in your passion. A solid business plan

will need to be executed. Funds will need to be raised and legal requirements must be followed. This will require special skills and special staffing. You need to carefully consider these issues:

- Do You Have What It Takes To Lead a Nonprofit Organization
- Communicating Your Purpose, Passion and Plan for Your Nonprofit
- Finding The Right Partners for Your Nonprofit Message
- Establishing Your Nonprofit Organization
 - » Selecting a Board of Directors
 - » Filing Organizational Documents and Tax Registrations
 - » Fundraising for Your Nonprofit Organization
 - » Developing Critical Business Functions and Operations
 - » Staffing Your Nonprofit Organization
 - » Seeking Essential Nonprofit Skills

Understanding the unique aspects of nonprofit organizations

Nonprofits are different from other business enterprises in a number of ways. Several functions are unique to the nonprofit environment, or, at least, have some distinctive features that should be understood by the person preparing to enter the field. You'll need to excel in these areas:

- **Communication.** More than in almost any other industry, effective communication is key to success in the nonprofit world. As a nonprofit leader, you have to pass on your passion for your purpose to an array

of supporters. You must paint a picture, verbally and otherwise, to convince donors to contribute some of their treasures and to inspire directors, employees, and, especially, volunteers to offer up their time and talents for the mission of your organization.

- **Fundraising.** Unique to the nonprofit world is the art of fundraising. Perhaps the fundraising itself is not unique, but the sales pitch is. Fundraising in the business world is based on the profit motive — “give us your money and we’ll make more money for you.” In the nonprofit arena, the “ask” is based on showing that the financial contribution will result in the successful achievement of the organization’s vision and mission. Donors have to be sold on your vision and mission, and on your ability to perform. Their ‘return on investment’ is to see good things being done with their money.
- **Grant-writing.** A key component of fundraising is grant-writing — formally requesting funds from governmental entities, foundations and others to finance specific functions within the mission of your organization. Learning the art to grant-writing is essential to nonprofits in their efforts to expand their financial ability to serve their community.
- **Volunteer Coordination.** Many nonprofits rely on the substantial contribution of time and talents from volunteers. Volunteer coordination and management is far more sensitive than even the coordination and management of employees. Why? Because volunteers don’t have to be there. They’re not in it for the paycheck. They should be treated with respect and dignity—it’s the only compensation they seek. So plan their participation. Develop a staffing plan, recruit carefully, provide clear job descriptions, set and communicate goals, and supervise and evaluate their performance.

Recognizing state regulatory issues for nonprofits

Just like any for-profit business with a formal entity designation, nonprofit organizations are a creation of state law. The laws of the various states provide for both the formal establishment of nonprofits and the ongoing regulation of their activities. Organizational laws are generally administered by the secretary of state's office.

Typically, state regulation governs not only the incorporation and basic operations of nonprofits, but also the fundraising activities that are unique to nonprofit enterprise. Such regulations, often referred to as charitable solicitation laws, control the manner in which nonprofits can solicit the public for donations. Charitable solicitation laws are generally administered by the state attorney general's office.

In addition, most states have special tax laws that benefit certain types of nonprofits. Such laws may offer nonprofits an exemption from sales tax on goods and services they purchase and use to carry-out their beneficial activities. Property tax exemptions are often available, too. However, such special tax treatment is often limited to a more narrow subset of the nonprofits, those with the most 'public-minded purposes' — charitable, religious, and educational organizations, and perhaps a handful of others. Special tax rules are typically administered by the state's department of revenue or taxation.

Of course, there are federal regulatory issues to be aware of as well.

Navigating federal regulatory issues for nonprofits

While nonprofits are established and regulated primarily by state law, federal law actually has greater influence on the nonprofit industry. Federal law is the tail wagging the dog, so to speak. Why? Money. More to the point, income tax exemptions and deductions. Put simply, you

create a nonprofit organization under state law, but you create a tax-exempt organization under federal tax law. And qualifying as a *tax-exempt* organization is the aim of most nonprofit enterprises.

The commonly-held, but inaccurate, view most people hold is that the terms 'nonprofit' and 'tax-exempt' are one and the same. In fact, becoming a tax-exempt organization is not the same as becoming a nonprofit; rather, it is a 'next step' that follows after becoming a nonprofit enterprise. Becoming a tax-exempt entity does not change the nature of your enterprise, but it dramatically changes the regulatory framework and reporting requirements, and makes the federal government a far more important 'master' than the state for your enterprise.

The most well-known number in the world of nonprofits is 501(c)(3) — the section of the U.S. tax code under which the core charitable organizations (charitable, religious, scientific, literary or educational entities) achieve tax exempt status.

A lesser known (but at least as important) number is 170 — the section of the tax code that allows American taxpayers to make tax-deductible donations to qualified nonprofit, tax-exempt organizations.

These two sections of the tax code have more influence on the operations of nonprofit organizations than any other legal provisions, state or federal. Why? Because in exchange for tax-exempt status and the right to receive tax-deductible charitable donations, organizations must accept a tougher regulatory regimen, more intensive reporting obligations, and restrictions on their activities.

- **Tax Exemption.** The distinctive character of a tax-exempt organization goes beyond merely having a service motive instead of a profit motive. A tax-exempt entity performs a service that our federal government deems to have such a high public or mutual benefit that the entity is worthy of an exemption from income tax.
- **Tax-Deductible Donations.** Moreover, where our federal government deems the services particularly worthy because of their public benefit, as in the case of orga-

nizations exempted pursuant to 501(c)(3), American taxpayers are permitted to deduct from their taxable income amounts that they donate to these qualifying organizations as charitable contributions.

- **Regulations, Records and Restrictions.** In addition, a tax-exempt organization is characterized by a stricter regulatory regimen, detailed record-keeping and reporting requirements, and restrictions on conduct — all part of the price for tax-exempt status. The regulatory regimen and reporting requirements begin with the application for tax-exempt status — either Form 1023 for 501(c)(3) organizations or Form 1024 for other types of entities — and continue with ongoing annual reporting requirements.
- **Restricted Activities.** Restrictions on conduct limit the participation of tax-exempt organizations in political campaign activity and lobbying activity. Caution must be taken to avoid conflicts of interest in business transactions with key board members, employees or others with a close relationship to the organization. And, of course, no part of the earnings of the organization can go to the benefit of any private owner or individual.

Do you have what it takes to lead a nonprofit organization?

Do you have a purpose that you are ready to pursue with a passion? Can you communicate your passion to others, and paint a picture for them with your words in a way that will inspire them to participate with you in your plans for a better tomorrow? Are you prepared to take the initiative to get things started, and then to take responsibility for keeping operations running and growing? If so, you may be ready to start a nonprofit.

Starting a nonprofit takes a similar entrepreneurial spirit as starting a business. But one thing is very different — the role of the profit motive. A business entrepreneur hopes for growth in his or her business enterprise primarily as a means toward growing his or her personal financial reward. A nonprofit entrepreneur must have a different focus. Certainly as the nonprofit grows, there may be some opportunity for higher compensation. But the entrepreneurial focus in a nonprofit must be on growing the organization for the sake of its mission, not for any personal financial benefit. If your long-term inspiration comes more from the fulfillment of the mission than from the pursuit of personal financial success, you may be ready to start a nonprofit.

But that's just the beginning. You need to make sure that your stated purpose and mission align with the various requirements to secure nonprofit status.

Simply put, if your purpose is to provide a public benefit or a mutual benefit for a particular community, and if you do not intend to pursue a financial return on investment for yourself or for any other private owner or individual, then your purpose most likely is consistent with nonprofit status.

However, the laws of each state typically provide lists of the purposes for which nonprofit organizations can be established. You should carefully review the law in your state as you begin the process of starting your nonprofit.

If you intend to seek tax-exempt status for your nonprofit from the IRS, you will need to look at Section 501 of the tax code to learn what purposes are eligible for exemption. Like the states, the feds also have a list of qualified purposes. Not all purposes that are eligible for nonprofit status under state laws are eligible for tax-exempt status under federal tax law, however.

Communicating your purpose, passion and plan for your nonprofit

Perhaps more than in any other form of endeavor, the first step to starting a nonprofit organization is to paint your vision so that others can see what you are seeking to accomplish and understand why it matters. Why is this so important? Because you will be asking people to support your vision with no expectation of financial return on their investment.

Purpose. You will be asking people to contribute their time, talents and treasures to the pursuit of your purpose. You must paint for them a picture of the future you hope to build (your vision) and the path by which you hope to get there (your mission). Their 'return on investment' is to see your organization passionately pursue its mission and progress toward the fulfillment of its vision.

Passion. You need to be contagious in your passion. To reach a point of commitment to and participation in your mission, people must become nearly as passionate — excited, hopeful, concerned, outraged — as you are about the focus of your mission. So you must share your passion as well as your purpose.

Plan. Then, after sharing your purpose and your passion, it's time to share your plan. People need to know you mean business; that you're not just an idealistic dreamer. You need to show them the roadmap of the route you intend to take to accomplish your goals. That roadmap is your mission statement.

The mission statement is the basic statement of what the organization intends to do and how it intends to do it. It doesn't have to be a final product, yet, because you may want to include the board of directors in completing and authorizing the statement (as well as the final business plan for achieving the mission). However, you will want to include such things as:

- the target community to be served by the organization (its primary beneficiaries)
- the services and benefits to be provided to the target community
- the basic approach the organization will use to provide the services and benefits
- the values and character qualities that will guide the operation of the organization

- the manner in which funds will be raised, and anticipated sources of funds
- the way in which you want the organization to be viewed by others

Finding the right partners for your nonprofit message

As you begin to develop the vision for your nonprofit organization, you'll need to consider who you want as partners in your endeavor. Sharing your purpose and passion with the right people will be crucial to making progress toward your goals. So who do you want draw into your plans? Who is your audience? You will need at least three types of partners: Directors, donors and doers.

- **Directors.** The directors of a nonprofit are essential partners in the success of the organization. Forming a solid board of directors is one of the first steps in developing a nonprofit. You want to draw a group that is like-minded in their support of your vision and mission, who will commit their time to the organization, and who bring a variety of talents to the board's oversight of the organization. They can help you clarify your mission statement, build the organization, find funding, and stay accountable to the plan.
- **Donors.** To get your new enterprise started on solid footing, you want to draw donors into your plan. Funding is always a key to getting a new enterprise underway, and it is no different in the nonprofit sector. You will want to look for individuals with an interest in supporting you and/or your mission. Also, seek out foundations that have authority to finance projects such as yours. As you share your vision with people, you may find some who are potentially both director and donor.
- **Doers.** You will want to recruit others to help you carry out the work of your organization, too. As you develop your plan, you may find a need not only for volunteers, but for paid staff. Like the search for directors, you need like-minded people when it comes to the mission, but people who are diverse in the talents they bring to the table.

Establishing your nonprofit organization

Once your vision has been painted clearly for others to see, and some partners have been drawn in by your passion for it, and you have developed a mission statement and action plan to serve as a roadmap for implementation, it is time to passionately pursue the purposes for which your organization is being created.

Be businesslike in starting and running your organization. Just because it's a nonprofit doesn't mean you shouldn't treat it like a business. Some of the same keys to success are as relevant to the operation of a nonprofit as they are to the operation of a commercial enterprise. Effective management, accountability techniques, internal controls and performance monitoring are useful tools for getting the most out of finances and personnel, regardless of whether they are used in a commercial or a nonprofit enterprise. A nonprofit is no less dependent than a commercial enterprise on steady streams of funding to keep operating successfully, so fundraising must be taken seriously.

Several steps must be taken in the initial phase of starting-up a nonprofit enterprise:

- **Choose wisely those who will lead.** No step is more important than the identification and recruitment of a strong, committed board of directors with diverse talents to contribute to the mission of the organization.
- **Faithfully file organizational documents and tax forms.** Next, make sure you take all steps necessary to comply with laws regulating nonprofit and tax-exempt organizations — file articles of incorporation or association with state authorities; file for tax-exempt status with the IRS; file for other state tax exemptions, such as sales and property tax, for which the organization may qualify; and register under any required state charitable solicitation laws that may apply.
- **Let the fundraising begin.** Put your fundraising mechanisms in place and start the flow of funds so that programming can get started. Get your board of directors involved. Remember — no funds, no programs!

- **Organize the organization.** Start thinking in terms of the various functions that will be performed in your nonprofit, and start organizing the organization into functional units. One option is to divide functions into four areas: governance, administration, programs and fundraising.
- **Recruit and coordinate paid and volunteer staff.** Find like-minded people with enthusiasm for the mission and with diverse skills essential to the organization.
- **Seek professional assistance.** You may need some help getting started because of the unique legal and tax characteristics of nonprofits. Wisdom dictates getting advice and counsel from an attorney and tax accountant early in the process. With the right people on your board of directors, you may have the expertise on board already. Or if your staff will include an experienced lawyer and tax specialist, then you can rely on them. But if not, you may want to consider getting outside professional support right away. This will help to ensure consistent compliance with the laws right from the start. It also offers confidence that all the appropriate tax exemptions will be pursued from state and federal authorities.

Selecting the board of directors

Developing the proper governance structure and getting the right kind of representation on the board of directors is important for the long-term success of your nonprofit.

You want to have people who are like-minded in their enthusiasm for the organization and its mission. But you also want people with diverse talents so that different directors may be able to oversee and guide different aspects of the organization's operations. You want a board that is big enough for diversity in talents, but not so big that it is unwieldy and ineffective in governing.

In particular, you want to have board members who have strengths where you have weaknesses. If you're not big on fundraising, you want at least one board member with experience and enthusiasm for it. If you're not up on the

technical compliance requirements for nonprofits, you may want to recruit a board member with a high level of expertise in the area. Your passion is likely to be in the pursuit of the mission more than in the management of an organization, so you will want someone with good management experience who can offer you sound advice.

And, last but not least, you will want to have people willing to hold you accountable for carrying out the mission of the organization. You're not looking for 'yes' men and women, but rather people who will truly help you achieve your goals. And you want them to encourage course corrections when they see progress getting off track.

Filing organizational documents and tax registrations

As you get your board of directors in place, the next task is to make sure all filings on both the state and federal level are completed for nonprofit status, income tax-exempt status, property and sales tax-exempt status, and status for lawful charitable fundraising. This regimen of filings and registrations goes well beyond the requirements placed upon typical business enterprises.

State Incorporation. The first step in setting-up a formal nonprofit organization is to file articles of incorporation or association with the appropriate state authorities. A nonprofit can generally operate in the form of a corporation, an association or a limited liability company. Articles of incorporation are typically filed with the secretary of state in the state where the organization will be located.

While this is essentially an administrative matter, you will want to prepare the articles of incorporation carefully. Especially if you will seek tax-exempt status with the IRS, your articles and bylaws must show the necessary features to qualify for tax-exempt status — that no earnings will inure to the benefit of a private owner or individual and that the stated purpose of the organization is a qualifying purpose.

You can file this paperwork yourself, or you can hire a third-party to do it for you, such as a lawyer/accountant or a service provider specializing in these filings.

State Registration for Tax Exemptions. If the mission of your nonprofit is consistent with purposes that qualify for tax exemptions in your state, then you will want to file applications with your state tax department for exemptions from the state's sales tax and property tax. In many states, income tax exemption is automatic if you have received tax-exempt status from the IRS. Also, some states' sales and property tax exemptions are contingent upon your having already earned tax-exempt status from the IRS. Thus, you will want to coordinate your filings with federal and state tax authorities

States vary a lot regarding the purposes which qualify for tax exemption. Typically, there is no question regarding the core charitable purposes, but there is more variation with respect to purposes that stray from those that are purely for public benefit. Also, be aware that many states require a separate exemption request for each tax type, so you may have to file both a sales tax and a property tax exemption application. These forms and instructions for making application are almost always available on the state tax department's website.

State Registration for Charitable Solicitation. Another unique filing requirement for nonprofits that intend to solicit charitable contributions is the registration for charitable solicitation. Most states require an organization to be registered, usually with the state attorney general's office, before actively pursuing public solicitation of donations. Only a handful of states do not require special registration.

Each state will have its own forms for registration. However, there is also a Unified Registration Statement (URS) that can be used for filing in a majority of states. The URS is the product of the *Multi-State Filer Project* organized by the *National Association of State Charity Officials* and the *National Association of Attorneys General*. Use of this form will simplify your filing requirements if you intend to solicit charitable contributions in more than one state.

- Multi-State Filer Project
www.multistatefiling.org
- National Association of State Charity Officials
www.nasconet.org
- National Association of Attorneys General
www.naag.org

Federal Application for Tax-Exempt Status. If you want your organization to operate with tax-exempt status, and if you want the donors that give to your organization to be able to deduct the amount of their contributions from their taxable income, then you must file for tax-exempt status with the IRS. (By the way, don't forget to file for your Employer Identification number (EIN) while you're at it). **Form 1023** must be filled out and sent in to request the exemption from federal income tax. **IRS Publication 557** will give you the information you need to fill-out the forms and properly file them. Form 1023 calls for a substantial amount of information to be provided about your organization, including your best estimates of financial activity during your first few years of operation.

If your organization will not be eligible for tax exemption under 501(c)(3), then **Package 1024** will have to be used for the application process, instead. The biggest difference that results from not being eligible under 501(c)(3) is that the donors can not take tax deductions for the amounts that they contribute.

Fundraising for your nonprofit organization

The lifeblood of the nonprofit organization is its fundraising. No money, no programs! Therefore, it's crucial to lay the foundations for an effective fundraising operation early on. Even if you really want to devote yourself to the program functions of the organization, you need to discipline yourself to focus adequate attention on fundraising.

Key to fundraising is your ability to communicate your vision, share your passion, and present your plan in a way that motivates people to jump on the bandwagon and commit their resources to your project.

- **Donations.** There are different strategies and different target audiences for fundraising efforts. Hopefully, the people that you choose for your board of directors will also want to be donors, or at least will be ready to search their networks of relationships for others who are potential donors. You will need to engage in attention-getting activities to get the notice you need to raise donations.
- **Grants.** In addition to charitable fundraising, you will want to search for like-minded organizations, foundations or governmental entities that offer grants for the types of services you intend to provide. If you have someone within the organization who has solid grant-writing skills, he or she will be a major asset over the long-term.
- **Dues.** If yours is a membership organization, the pursuit of member dues will be a major fundraising focus. Key to this fundraising methodology is your ability to convince potential members that the value of their membership will far exceed the cost of their dues. To make this argument, not only do you focus on the benefits of pooling resources for the benefit of all, but you can provide membership perks that add value to the member without costing the organization. Always look for ways to add value for the member without adding cost to the organization, as a way of maximizing dues collections.
- **Fees for Services.** Another possible source of funds is to charge fees for the services that you are providing, at least to a portion of the clientele you are attempting to serve. Charging for the services you provide does not impact your nonprofit or tax-exempt status when the proceeds are used to carry on the mission of the organization.

Developing critical business functions and operations

The business activities of a nonprofit generally can be divided into four functional areas: Governance, administration, programs, and fundraising.

Governance. The governance function of a nonprofit is characterized by the responsibility to provide general oversight, strategic direction, guidance and accountability to the organization and its operations. The term 'governance' generally refers to the functions of the board of directors, but it also relates very much to the relationship and interaction between the board and the executive staff of the organization. Effective governance depends to a great extent on the working relationship between board and top management.

Administration. The administrative function serves to manage and control the resources available to the organization for all of its operations and programs. It is a central support service for the rest of the organization. Administrative functions include budget, finance and accounting, procurement, general services, personnel, facilities management and other like functions. Some might include fundraising or member services in this category, but these activities are really distinct functions in and of themselves. There is almost always pressure in a nonprofit organization to minimize administrative costs as a percentage of overall costs in order to show that resources are used for programs as much as possible.

Programs. The programs are the heart and soul of a nonprofit. They are the means by which the organization pursues its mission. Resources are allocated to specific programs in order to accomplish the goals set for each program. It often helps to think of programs in terms of inputs, process, outputs and outcomes. Inputs are the various resources needed to run the program (money, facilities, clients, program staff, etc.). The process is how the program is carried out (clients are counseled, children are cared for, art is created, association members are supported, etc.). The outputs are the units of service (number of clients counseled, children cared for, artistic pieces produced, or members in the association, etc.). Outcomes are the impacts on the clients receiving services (increased mental health, safe and secure development, richer artistic appreciation and perspectives in life, increased effectiveness among members, etc.).

Fundraising. Some would include the fundraising function as part of administration, but it really is a function all to itself — a specialty unique to the nonprofit world. Perhaps fundraising itself is not unique, but the sales pitch is. In the nonprofit arena, the "ask" is based not on showing contributors that a great 'return on investment' can be made, but rather on showing contributors that they can participate in the successful achievement of the organization's vision and mission. Donors have to be sold on your vision and mission, and on your ability to perform. Their 'return on investment' is to see good things being done with their money and, in some cases, to earn goodwill as a result.

Staffing your nonprofit organization

With most nonprofits, the staff — both paid and volunteer — represents their greatest asset. These are the 'doers' — the ones that will actually perform the administrative and programmatic services comprising the core activities of the organization. They are the ones who will be the hands and feet of the organization as it implements its mission.

As with your board of directors, your staff needs to be built upon people who are like-minded in their commitment to the mission, but people who are diverse in the talents they bring to the table. Nonprofits are often in a position of having limited financial resources, and when that is the case, having a staff that can truly operate as a team is essential.

Their compensation is partly based on the satisfaction of serving and achieving the organization's mission. If you don't have the right team in place, that "satisfaction compensation" is reduced for all involved. Then the nonprofit suffers in achieving its mission, and a vicious cycle could occur.

In the for-profit world, monetary compensation can go a long way toward smoothing over bad team dynamics. In the for-profit world, the challenge is greater. You want your team "invested" for reasons other than money.

As for your paid staff, you'll have to follow all the usual rules for having paid employees, just like every other business.

Compensating Yourself. While you consider the recruitment and compensation of a governing board and a staff for the nonprofit organization, you should also give some thought to your own compensation. As a founder and leader of the organization, how should you be compensated for your

work? Having chosen the nonprofit path instead of the commercial path, it seems that your entrepreneurial spirit is satisfied more by successfully building an organization and pursuing a worthwhile mission than by building your own personal financial empire. But you still have to consider your own financial needs and the worth of your services to the organization. You need to be compensated fairly for your contribution to the mission of the organization.

Compensation is a two-tiered question: How will you pay yourself? And how much should you pay yourself? The response to the first question is obviously more limited in the nonprofit setting than in the commercial setting. Salary, fringe benefits, insurance benefits and retirement benefits are the basic methods of receiving compensation from a nonprofit. Other options for receiving compensation that may be available in a different form of business enterprise are not really feasible in the nonprofit setting.

As to the second question, criteria have developed over the years for judging “reasonable compensation” in a business setting. Many of the criteria are equally relevant in the nonprofit setting. They include:

- the nature and size of the enterprise
- the nature and scope of the work you do for the enterprise
- any special qualifications you may have
- the availability of others to perform the same duties
- general economic conditions
- compensation compared to gross and net receipts of the enterprise
- compensation relative to other employees of the enterprise
- your compensation history for past services

Seeking essential nonprofit skills

As you startup your nonprofit, we’ve tried to make you aware of the skills uniquely essential in the nonprofit setting. But it is unlikely that you and your team will be able to do it all and do it all well. You should seek to increase your team’s skill-set over time, as well as finding others you can enlist or hire. These are some of the areas you will likely focus on:

Fundraising and Grantwriting. Nonprofit management must engage in fundraising in order to meet the fiscal needs of their organization. Often, the leader of an organization is focused most on the programs and operational activities, and fundraising can be easily ignored. But fundraising is essential, and nonprofit leadership must strike an appropriate balance between the time they devote to fundraising and program management. Too little attention to one area can leave an organization bereft of cash or quality services.

Nonprofit Budgeting and Accounting. Nonprofits are unique entities created with a service motive rather than a profit motive. As a result, most nonprofits enjoy special tax-exempt status with the IRS. Their lifeline of support comes through grants and other donations to sustain their continuing operations. These unique aspects of the nonprofit world call for methods of budgeting and accounting different from those used in the business world. Proper record-keeping and reporting is critical to donors that intend to deduct their contributions on their tax returns. Thus, finding staff with these special skills will be important for the maintenance of adequate records and for keeping up with the special reporting requirements of the organization.

Program Development and Evaluation. Nonprofits typically deliver ongoing services in the form of organizational programs. Therefore, it’s important that nonprofit management understand the basic principles of program development and evaluation.

Public Policy. Nonprofits often are at the forefront of public policy, and often champion new legislation in the public interest. Nonprofit management must understand the rules and regulations governing public services — especially the services that constitute a part of their organization’s mission — and must track and speak out about changes that affect the delivery of their services. Having a strong working knowledge of the government agencies and how they produce rules, regulations and laws can be beneficial to the long-term financial viability of an organization, especially if it relies on government funding to carry out its mission.

Once you have successfully started your nonprofit organization, the rules of the road don't change a whole lot when it comes to keeping it running and growing. Just as communication was essential in the startup phase, it remains key for a smoothly running operation. Continue to passionately pursue your mission, steadily making progress on purpose.

Keep running the organization like a business. Carefully maintain compliance with all state and federal laws dealing with your organization, its fundraising activities, and its tax reporting obligations. Nurture relations with your donors, and carry-on a multi-faceted fundraising effort. If yours is a membership organization, keep making it worth the member's time and money to be a member.

Also, now that you are up and running, you may be able to find some time for a little networking. Try to connect with other nonprofits and with people from other like-minded organizations that may want to help support the efforts of your organization. And finally, check out some of the many resources out there that can help you to run your organization more effectively.

- [Sticking to Your Nonprofit Mission](#)
- [Running Your Nonprofit Organization Like a Business](#)
- [Complying with Nonprofit Laws](#)
- [Effective Fundraising Is the Key to Expansion](#)
- [Pursuing a Multi-Faceted Fundraising Plan](#)
- [Tapping Additional Information Resources](#)

Sticking to your nonprofit mission

Now that you are up and running, don't stop the passionate pursuit of your purpose. Stick to the mission that you laid-out in the beginning, and continue to devote energy and enthusiasm to the tasks before you. Keep working the plan that you developed, making appropriate course corrections where necessary, and use the resources of the organization to effectively deliver services to the community the organization serves.

It's no different now than it was when you first started your nonprofit. Just as communication was the key then to draw in your directors, donors and doers to get the train started down the track, communication is still the key to coordinate all of the functions of your organization so that the train reaches its destination on time and under budget, with as few detours as possible.

Keep your vision out there in front of all the players as much as you can. Continue to exhibit your passion for the mission. And at every opportunity communicate, clarify and correct the plan for delivering services to the community that your organization serves. Make sure you pass on success stories to your directors, donors and doers so that they can be encouraged by the positive effect their contributions are having.

While still staying true to your mission, be prepared to evolve and change as circumstances do. New opportunities will likely present themselves, but use strong criteria to judge whether the new ideas really fit your nonprofits true mission. You don't want to damage your credibility or nonprofit status.

Running your nonprofit organization like a business

A business enterprise is established to earn profits and to distribute those profits to its owners (shareholders, partners, or members). A nonprofit organization, on the other hand, is established to perform a function or service that benefits a broad community of people, without the commercial mind-set of earning profits for its owners. However, to effectively perform its service and successfully fulfill its mission, a nonprofit organization is well-advised to organize and operate like a business.

A nonprofit must start with a clear mission statement and a business plan that supports it — just like any business. It must have strong, like-minded leadership on its board of directors supporting its mission. The organization must be structured so that operations can be conducted efficiently and with an ease of administration. Functions must be clearly delegated to appropriate divisions or departments. Those with responsibility for specific functions must be given adequate authority to carry them out, and must be held accountable for successful completion.

Some of the same keys to success are as relevant to the operation of a nonprofit as they are to the operation of a commercial enterprise. Effective management, accountability techniques, internal controls and performance monitoring are useful tools for getting the most out of the finances and the personnel, regardless of whether they are contributing to a commercial or a nonprofit enterprise.

A nonprofit organization that seeks to grow and prosper must consciously pursue financial contributions, much like a business corporation pursues invested capital. It is no less dependent (and in some ways, more dependent) than a commercial enterprise on steady streams of funding to keep operating successfully, so fundraising must be taken seriously. Just like a business marketing its product or service, a nonprofit must market its mission in a way that attracts investors to “buy in” and support its efforts.

Gathering together the right group of people as leaders, managers, administrators and front-line workers is essential to the success of a nonprofit — again, just like a business. The staff — both paid and volunteer — represents a nonprofit’s greatest asset. These are the ‘doers,’ the hands and feet of the organization, the ones that actually deliver the core services of the organization. The staff must consist of individuals who are like-minded in their commitment to the mission, but who are diverse in the talents they bring to the table. And they must be treated with dignity.

In so many ways, the nonprofit organization must operate with the same seriousness, the same focus, and the same determination as a business enterprise. These represent just a few of the ways in which the nonprofit can benefit from operating like a business.

Complying with nonprofit laws

Once your nonprofit has been organized in accordance with the law, registered to conduct charitable solicitations, and approved for tax-exempt status by the IRS and the state tax authorities, don’t think that your compliance responsibilities have come to an end. In fact, they’ve only just begun.

Your organization likely will have at least annual reporting obligations with your state’s office of secretary of state, office of attorney general, and department of taxation, not to mention annual reporting requirements with the IRS.

Typically, a corporate entity is required to file an annual report with the secretary of state to update its corporate status. This is a simple process, but failure to file can lead to an involuntary dissolution of the organization — a headache that is best avoided.

In those states where registration is required for charitable solicitation, an annual filing is typically required to update the registration and to provide financial information to the state authority, usually the state attorney general.

On the tax front, tax-exempt organizations are annually required to file *Form 990*, *Form 990-EZ*, or *Form 990-N* with the IRS. Small tax-exempt organizations with annual gross receipts of \$25,000 or less may be required to electronically submit Form 990-N, also known as the e-Postcard, unless they choose to file a complete Form 990 or Form 990-EZ. Form 990-N is the simplest and least comprehensive form to file, while Form 990 is the most comprehensive and detailed of the reports.

You can anticipate that there will be annual state tax reporting requirements, too. Check with your state tax authorities for the particulars.

Effective fundraising is key to expansion

It's simple, really — your nonprofit cannot expand its operations without increasing the finances that are available to it. A steady, ongoing, multi-faceted approach to raising funds is the foundation upon which your nonprofit can grow and deliver more programs to the community it serves. More funding means more programming.

For the funding pipeline to keep steadily flowing, your organization's relationships with its donors need to be continually nurtured, and new relationships need to be routinely developed.

Effectively communicating success stories arising from successful delivery of the organization's services keeps donors and/or members committed to the ongoing financial support of the organization. They must be kept informed of the good work done with their financial contributions, if they are to continue financing the organization.

Additionally, make sure they are aware of the financial needs of the organization as they arise, and let them know how much more the organization could accomplish if only there was more funding. Finally, they need to know that you are grateful for their generosity, so institute a regular program of recognizing and thanking your financial supporters. And, make sure they receive essential documentation for tax purposes in a timely fashion, so that they can properly deduct their contributions when tax time arrives.

Pursuing a multi-faceted fundraising plan

In the same way that you looked at a variety of tools and strategies when you began fundraising during the start-up phase of your organization, you can pursue a multi-faceted approach to fundraising as you continue to run and grow the organization. Many options for raising funds can be considered.

- **Donations.** Obviously, basic solicitation of charitable contributions must continue as a routine source of funding.
- **Grants.** You can continue to pursue more substantial funding through grants from foundations or other organizations to support one or more of your programs.
- **Discounts.** 'Expense lowering' can often serve as another form of fundraising. Seek providers of goods and services for your organization that are willing to reduce their prices because they support your mission.
- **Dues.** In a membership organization, you will always want to keep evaluating the value of membership, and make sure that you can clearly explain why the value of membership is greater than the price of dues. As with donors, you want to nurture the relationship with members. The 'expense lowering' concept can be used to provide membership perks to those who join. If a person can enjoy discounts on the goods and services they need simply by joining the organization, this may be value enough to easily win their participation.
- **Fees.** If it is appropriate for your mission and for the community you serve, consider charging a fee for the services that comprise your mission. Routinely evaluate the amount of the fee that may be appropriate.
- **Business activity.** You may want to consider other money-making activities to support your mission. Be alert, though, if you seek to make money through business activities that are unrelated to the mission of your organization. Even tax-exempt organizations can be taxed on unrelated business income.

Tapping additional information resources

There are numerous information resources that can help you run your nonprofit organization. Several web sites and organizations specifically target the needs of the nonprofit community. Here are just a few that you may want to take advantage of:

- National Council of Nonprofits
www.councilofnonprofits.org
- Foundation Center
www.foundationcenter.org
- Alliance for Nonprofit Management
www.allianceonline.org
- Center for Nonprofit Management
www.cnmsocal.org
- American Society of Association Executives and the Center for Association Leadership
www.asaecenter.org
- Idealist.org

Also, the governmental authorities responsible for regulating nonprofits and tax-exempt entities provide substantial amounts of information on their websites. The IRS and state tax department web sites can help you with tax-related questions. The web sites of the various secretary of state offices offer helpful guidance not only on setting up organizations, but also on staying compliant with annual reporting requirements. And state attorney general offices (and the Multi-State Filing Project) typically provide the information needed for compliance with charitable solicitation laws.

Take advantage of these resources to help you run and grow your nonprofit more effectively.