

LEARNING MADE EASY



6th Edition

Nonprofit Kit

for
dummies[®]
A Wiley Brand



Run a prosperous
nonprofit organization

Survive and thrive
in any economy

100+ documents online
to help run your nonprofit

Dr. Beverly A. Browning

Bestselling author, *Grant Writing For Dummies*

Stan Hutton

Frances N. Phillips



Nonprofit Kit

6th Edition

**by Dr. Beverly A. Browning, Stan Hutton,
and Frances N. Phillips**

for
dummies[®]
A Wiley Brand

Nonprofit Kit For Dummies®, 6th Edition

Published by: **John Wiley & Sons, Inc.**, 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

Copyright © 2022 by John Wiley & Sons, Inc., Hoboken, New Jersey

Media and software compilation copyright © 2022 by John Wiley & Sons, Inc. All rights reserved.

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Trademarks: Wiley, For Dummies, the Dummies Man logo, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc. is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: WHILE THE PUBLISHER AND AUTHORS HAVE USED THEIR BEST EFFORTS IN PREPARING THIS WORK, THEY MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES REPRESENTATIVES, WRITTEN SALES MATERIALS OR PROMOTIONAL STATEMENTS FOR THIS WORK. THE FACT THAT AN ORGANIZATION, WEBSITE, OR PRODUCT IS REFERRED TO IN THIS WORK AS A CITATION AND/OR POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE PUBLISHER AND AUTHORS ENDORSE THE INFORMATION OR SERVICES THE ORGANIZATION, WEBSITE, OR PRODUCT MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING PROFESSIONAL SERVICES. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR YOUR SITUATION. YOU SHOULD CONSULT WITH A SPECIALIST WHERE APPROPRIATE. FURTHER, READERS SHOULD BE AWARE THAT WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ. NEITHER THE PUBLISHER NOR AUTHORS SHALL BE LIABLE FOR ANY LOSS OF PROFIT OR ANY OTHER COMMERCIAL DAMAGES, INCLUDING BUT NOT LIMITED TO SPECIAL, INCIDENTAL, CONSEQUENTIAL, OR OTHER DAMAGES.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002. For technical support, please visit <https://hub.wiley.com/community/support/dummies>.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Control Number: 2021946367

ISBN: 978-1-119-83572-1

ISBN 978-1-119-83574-5 (pbk); ISBN 978-1-119-83573-8 (ebk)

Contents at a Glance

Introduction	1
Part 1: Getting Familiar with the Nonprofit Framework ...	5
CHAPTER 1: Journeying into the World of Nonprofit Organizations	7
CHAPTER 2: Understanding What It Takes to Start a Nonprofit	17
CHAPTER 3: Prioritizing Building Your Board of Directors	37
CHAPTER 4: Creating Your Mission Statement and Vision Statement	57
CHAPTER 5: Incorporating and Applying for Tax-Exemption Status	71
CHAPTER 6: Adhering to Nonprofit Status Requirements	91
Part 2: Bringing Your A-Game to Nonprofit Management	109
CHAPTER 7: From the Top: Examining the Nonprofit Management Structure ...	111
CHAPTER 8: Strategic Planning: Embracing the Ongoing Process	121
CHAPTER 9: Evaluating Your Work: Are You Meeting Your Goals?	147
CHAPTER 10: You Can Count on Me! Working with Volunteers	161
CHAPTER 11: Working with Paid Staff and Contractors	179
CHAPTER 12: Money Matters: Preparing Budgets and Financial Reports	207
CHAPTER 13: Marketing and Branding	235
Part 3: Raising Funds Successfully	263
CHAPTER 14: Creating a Fundraising Plan	265
CHAPTER 15: Raising Funds from Individual Donors	283
CHAPTER 16: Planning Onsite and Virtual Special Events	311
CHAPTER 17: Sleuthing for Grant Funding	329
CHAPTER 18: Writing an Award-Winning Grant Proposal	347
CHAPTER 19: Capital Campaigns: Finding Lasting Resources	369
Part 4: The Part of Tens	383
CHAPTER 20: Ten Tips for Pivoting in Times of Uncertainty	385
CHAPTER 21: Ten Tips for Raising Seed Money	393
CHAPTER 22: Ten Tips for Protecting Your Nonprofit	401
Part 5: Appendixes	409
APPENDIX A: Glossary	411
APPENDIX B: About the Online Content	415
Index	421

Table of Contents

INTRODUCTION	1
About This Book	1
Foolish Assumptions	2
Icons Used in This Book	3
Beyond the Book	3
Where to Go from Here	4
PART 1: GETTING FAMILIAR WITH THE NONPROFIT FRAMEWORK	5
CHAPTER 1: Journeying into the World of Nonprofit Organizations	7
What Is a Nonprofit Organization?	8
Comparing for-profits to nonprofits	9
Introducing the coveted 501(c)(3) status for nonprofits	9
Knowing Your Mission Before Entering the Nonprofit World	11
Setting up a nonprofit	11
Making plans and being flexible	12
Embracing and Sharing Your Inspiration	13
Finding the Resources to Do the Job	14
Who is giving to nonprofit organizations?	15
Supporting your mission with fundraising	15
CHAPTER 2: Understanding What It Takes to Start a Nonprofit	17
Weighing the Pros and Cons of Starting a Nonprofit	18
Doing Your Homework First	19
Analyzing the competition	20
Identifying the right people to help you	20
Figuring out how you'll survive financially	21
Acknowledging the reality of what's ahead	22
Planning, plotting, and projecting	23
Understanding Nonprofit Ownership	24
Benefiting the public for the greater good	24
Being accountable and transparent	25
Looking at the Many Varieties of Nonprofits	26
Identifying nonprofits by their numbers	27
Adding rules and regulations to add to your file	28
Comparing Nonprofits and For-Profits	31
How they're alike	31
How they differ	32

	Using a Fiscal Sponsor: An Alternative Approach	34
	Examining common details of a fiscal sponsorship relationship	35
	Finding a fiscal sponsor	36
CHAPTER 3:	Prioritizing Building Your Board of Directors	37
	Appreciating the Duties of a Nonprofit Board of Directors	38
	Primary role: Preserving public trust	39
	Secondary role: Dealing with planning, hiring, and other board tasks	41
	Sharing responsibilities among the board, staff, and volunteers	42
	Recruiting the Right People for Your Board	43
	Incorporating diversity, equity, and inclusion in the board's composition	44
	Keeping it fresh: Terms of service	46
	Big boards or little boards	47
	Choosing officers and committees	48
	Introducing new and prospective members to the board and the organization	50
	Putting Staff Members on Your Board	51
	Using Your Board to Full Capacity	52
	Encouraging commitment from board members	52
	Holding effective board meetings	53
CHAPTER 4:	Creating Your Mission Statement and Vision Statement	57
	Honing Your Mission Statement	58
	Keeping your mission statement short and sweet	60
	Stating your mission — the goal for services	60
	Specifying who will be served by the nonprofit	61
	Explaining how you'll accomplish your mission	61
	Incorporating diversity, equity, and inclusion (DEI) into your mission statement	62
	Imagining Your Future with a Vision Statement	63
	Capturing your vision statement	63
	Asking "Where are we going?" and "Why?"	65
	Inviting Stakeholders to the Planning Table	66
	Encouraging and embracing stakeholder input	67
	Working together to finalize your statements	68
	Living by Your Mission and Staying Fixed on the Vision	69

CHAPTER 5:	Incorporating and Applying for Tax-Exemption Status	71
	Creating a New Entity: The Nonprofit Corporation	72
	Following your state’s or territory’s laws	73
	Understanding the required governing documents	73
	Deciding whether to have members in your corporation	74
	Finding the best name	75
	Writing the Articles of Incorporation	76
	Crafting a heading	76
	Article I	76
	Article II	77
	Article III	77
	Article IV	78
	Article V	78
	Article VI	78
	Article VII	78
	Article VIII	79
	Signed, sealed, and delivered	79
	Securing Your Employer Identification Number (EIN)	80
	Writing Your Organization’s Bylaws	81
	Holding Your First Board Meeting	82
	Applying for Tax Exemption	82
	Tackling Form 1023 online	83
	Discerning between public charities and private foundations	85
	Establishing public charity status	85
	Describing your activities	86
	Reporting salaries and conflicts of interest	88
	Dealing with financial information	88
	Collecting the other materials	89
	Paying the fee	90
	Navigating possible contribution barriers until tax-exemption status is approved	90
CHAPTER 6:	Adhering to Nonprofit Status Requirements	91
	Disclosing What You Need to Disclose	92
	What you do need to show	92
	What you don’t need to show	93
	Using the web to satisfy disclosure requirements	94
	Avoiding Excessive Payments and Politicking	95
	Determining reasonable pay and benefits	95
	Using caution when getting involved in politics	96
	Why all the fuss? Understanding the increased scrutiny by the IRS	97

Reporting to the IRS	98
Filing Form 990-N	99
Taking it easy with the Form 990-EZ return.	100
Tackling the long Form 990	104
Getting your Form 990 to the IRS	106
Reporting to Your State, Territory, and Local Governments.	107

PART 2: BRINGING YOUR A-GAME TO NONPROFIT MANAGEMENT 109

CHAPTER 7: From the Top: Examining the Nonprofit Management Structure 111

Managing a Nonprofit: A Bird's-Eye View.	112
Appreciating the Governing Board's Role and Responsibilities	113
Understanding the board's management oversight duties	113
Protecting your board from liability	115
Redefining the Nonprofit Founder's Role	116
Adding an Advisory Board	117
Expanding to Take On an Executive Director	118

CHAPTER 8: Strategic Planning: Embracing the Ongoing Process 121

Understanding the Importance of Planning	122
Making Your Organization's Strategic Plan	122
Getting ready	123
Working with your nonprofit's mission and vision statements	124
Hearing from all your stakeholders	124
Surveying the external situation	126
Looking at the internal situation	127
Calling in the SWOT team.	128
Putting the plan in writing	132
Adjusting your strategic plan when necessary	134
Putting Plans into Action	134
Defining and setting goals, objectives, strategies, and outcomes	134
Creating a work plan.	136
Planning for Programs	137
Working as a team.	137
Assessing needs.	138
Brainstorming the resources needed to implement new programs	140
Facility Planning: Finding a Place to Do Your Work	142
How much space and of what kind?.	142
Location, location, location	142
Owning, leasing, or taking a free ride.	143

	Making a move.....	145
	Deciding to take on a capital project	145
CHAPTER 9:	Evaluating Your Work: Are You Meeting Your Goals?	147
	Knowing the Importance of Evaluation	148
	Working Through the Evaluation Process	149
	Selecting the right kind of evaluation.....	149
	Planning for evaluation.....	152
	Crafting valuable questions.....	153
	Choosing evaluators: Inside or outside?	154
	Conducting Your Evaluation.....	155
	Analyzing Results and Putting Them to Work.....	156
	Interpreting results	156
	Using your evaluation to strengthen your work.....	158
	Telling the truth.....	158
	Sharing the evaluation results with your stakeholders	159
CHAPTER 10:	You Can Count on Me! Working with Volunteers	161
	Knowing Why People Volunteer	162
	Designing a Volunteer Program	163
	Considering a volunteer coordinator	165
	Determining your need for volunteers.....	165
	Writing volunteer job descriptions	166
	Organizing volunteers.....	167
	Hunting for Volunteers.....	169
	Getting the word out.....	169
	Looking for volunteers at other organizations.....	171
	Finding volunteers with special skills	172
	Hiring interns	172
	Interviewing and Screening Volunteers.....	173
	Managing Your Volunteers.....	175
	Providing adequate training	175
	Keeping good records.....	176
	Insuring your volunteers	176
	Saying farewell to bad volunteers.....	177
	Showing Appreciation for Your Volunteers.....	177
CHAPTER 11:	Working with Paid Staff and Contractors	179
	Determining Your Staffing Needs	180
	Getting Your Nonprofit Ready for Paid Employees	181
	Developing your personnel policies	181
	Exploring payroll setup options.....	184
	Providing benefits and perquisites.....	184

Preparing to Hire	185
Composing a job description	185
Considering necessary qualifications	186
Establishing nonprofit salary levels	187
Announcing the position	188
Making the Hire	189
Looking at résumés	189
Interviewing candidates	190
Digging deeper with references	192
Making your decision	193
Onboarding a New Hire	193
Confirming employment terms in writing	193
Getting your new hire started on the job	194
Evaluating your new hire's progress	195
Looking to the future: Creating a professional development plan	195
Managing Employees	196
Recognizing what a manager or supervisor does	197
Clarifying the lines of communication	197
Following the reprimand-and-dismissal process	199
Working with Independent Contractors	200
Differentiating an independent contractor from an employee	201
Establishing the roles for independent contractors	202
Finding a consultant: Ask around	203
Interviewing consultants	204
Developing and executing the contract	204

**CHAPTER 12: Money Matters: Preparing Budgets
and Financial Reports**

.	207
Making a Budget = Having a Plan	208
Beginning with zero	208
Defining a good budget	211
Budgeting based on your history	212
Understanding and isolating general administrative and fundraising costs	213
Accounting for in-kind contributions	213
Creating Budgets for Programs or Departments	214
Working Frequently with Your Budget	218
Projecting Cash Flow	219
Constructing your cash flow projection	219
Deciding what to do if you don't have enough	221
Borrowing to make ends meet	222
Putting money away to make a nonprofit strong	223
Keeping Your Books Organized and Up to Date	224
Differentiating the various accounting systems	224
Considering accounting software or an accountant	225

Reviewing the Numbers: Financial Statements and Audits	226
Preparing financial statements	226
Seeing the value of an audit	227
Knowing whether you need an audit	228
Reading Your Financial Statements	229
Getting to know the parts of a standard financial statement	229
Asking the right financial questions	230
Managing Financial Systems	232
CHAPTER 13: Marketing and Branding	235
Taking Care of the Basics	236
Designing a logo and letterhead	236
Preparing an organization overview or brochure	237
Creating a website	237
Producing annual reports and newsletters	239
Taking care of your service population — your most important marketing tool	240
Discovering Who You Are: First Steps to Marketing	241
Recognizing the current market	242
Defining whom you want to reach and how	246
Reaching Your Audience via Mass Media	250
Planning for effective publicity	250
Developing a media list	251
Understanding how the media works	252
Submitting materials to your media contacts	253
Getting your event into community event calendars	254
Putting together public service announcements (PSAs)	255
Using Social Media for Fun and Profit	255
Developing a social media policy	256
Planning your social media posts	257
Choosing your social media platforms	258
Protecting your online reputation	260
PART 3: RAISING FUNDS SUCCESSFULLY	263
CHAPTER 14: Creating a Fundraising Plan	265
Recognizing Who Can Raise Funds	266
Naming Possible Funding Sources	267
Weighing Your Fundraising Capacity	269
Drafting a Fundraising Plan	270
Setting a preliminary monetary goal	271
Asking whom you and your board members know	272
Researching and refining your prospect list	272
Plotting fundraising costs	274
Moving to an Action Plan	278

Planting the Seeds for a New Nonprofit	280
Hitting up family and friends before asking others	280
Raising funds with special events	281
Getting to know community foundations	281
Assessing your capabilities to apply for government grants	281
CHAPTER 15: Raising Funds from Individual Donors	283
Understanding Why People Give	284
Stating Your Case.	285
Creating an Elevator Speech	288
Identifying Possible Donors	289
Drawing circles of connections	290
Getting a list of potential donors from your board of directors	291
Growing a Major Gift.	292
Deciding who should do the asking	292
Preparing to make your request.	293
Breaking the ice	293
Adopting the right attitude.	293
Timing the request: An inexact science	294
Treading lightly when making the ask	294
Expressing gratitude for the gift	295
Raising Funds by Mail	295
Taking the direct-mail route.	295
Inspiring volunteers to steer a letter-writing campaign.	297
Raising Money the “E” Way (Easily and Electronically)	299
Building and maintaining relationships by using email and related tools	299
Building your email address lists	301
Using your website as a cultivation tool.	302
Setting up an online donation portal	303
Soliciting text message donations.	305
Telemarketing: Dialing for Dollars	306
Perfecting a script	307
Training your board and volunteers as callers	308
Collecting the pledges.	309
CHAPTER 16: Planning Onsite and Virtual Special Events	311
Thinking through the Whole Event	312
Using your budget to guide decisions	313
Sticking to your budget.	316
Soliciting in-kind gifts for your event	318
Building your event committee	319
Setting a date and location	320
Setting Up Your Timeline	321
The first three months	321
Months four and five.	322

Four weeks before the event	322
The week before the event	323
Spreading the Word	324
Setting social media to blast	324
Finding a news angle.	325
Getting a mention on radio or TV	326
After the Event is Over	326
CHAPTER 17: Sleuthing for Grant Funding	329
Assessing Your Nonprofit’s Grant-Seeking Readiness	330
Planning for a Foundation Grant Proposal	331
Learning about funding priorities	332
Familiarizing yourself with types of foundations	333
Using the Foundation Directory Online to assemble a broad list of prospects	336
Digging deeper to narrow your prospects	340
Going for a Government Grant	342
Federal grants	343
Nonfederal government grants	345
CHAPTER 18: Writing an Award-Winning Grant Proposal	347
Attending to Pre-Proposal Tasks	348
Perfecting the letter of inquiry	348
Passing the applicant eligibility screening questionnaire	349
The Pitch: Writing a Competitive Grant Proposal	349
Starting out with the cover letter and executive summary	350
Introducing your organization and its operating history	351
Documenting the need for funding	352
Setting goals, SMART objectives, and proposed outcomes	353
Presenting (ta-da!) your project idea with evidence-based solutions	354
Presenting the management plan	356
Explaining how results will be measured	356
Talking about the budget	357
Showing where the rest of the money comes from: The sustainability section	359
Appending requested attachments	360
Familiarizing Yourself with Other Types of Written Funding Requests	361
Trolling for corporate grants or sponsors	361
Seeking general operating support	364
Asking for capacity building funding	365
Seed money: Proposing to form a new nonprofit	366
Following Through after Receiving Funding	367

CHAPTER 19: Capital Campaigns: Finding Lasting Resources . . .	369
Beginning the Funding Plan	370
Preplanning your campaign	371
Developing a rough budget	372
Testing feasibility	373
Analyzing the results of your study	375
Developing a Case Statement	376
Building the Pyramid of Gifts	376
Starting at the top	377
Applying for grants as part of your capital campaign	378
Ending the quiet phase and moving into the public phase	379
Realizing the Benefits and Risks of Capital Campaigns	380
PART 4: THE PART OF TENS	383
CHAPTER 20: Ten Tips for Pivoting in Times of Uncertainty	385
Create an Emergency Operations Plan	386
Communicate When Making Hard Decisions	386
Step Back and Regroup	387
Set a Manageable Fundraising Goal	387
Collaborate with Others in Your Field	388
Share a Back Office	388
Place a Program within Another Agency	389
Merge with Another Nonprofit	389
Close with Dignity If Necessary	390
Complete the Government’s Closing Paperwork	391
CHAPTER 21: Ten Tips for Raising Seed Money	393
Ask	393
Hit Up People You Know	394
Tell Your Story and Don’t Ramble	394
Show How You’re Improving Lives	395
Use Numbers to Convey Urgency and Compassion	395
Research, Research, Research	396
Know Your Donors’ Point of View	397
Build a Donor Pyramid	398
Make It Easy to Respond	398
Keep Good Records	398
CHAPTER 22: Ten Tips for Protecting Your Nonprofit	401
Assessing Your Risks	402
Planning for Emergencies	402
Filing Annual Federal Forms	404

Filing Annual State Forms.....	404
Paying Employment Taxes.....	405
Reporting Payments to Consultants.....	405
Maintaining Transparency.....	405
Responding to Negative Press.....	406
Protecting Your Online Reputation.....	407
Determining Insurance Needs.....	407
PART 5: APPENDIXES	409
APPENDIX A: Glossary	411
APPENDIX B: About the Online Content	415
INDEX	421

Introduction

It may sound corny, but we feel a certain sense of mission when it comes to nonprofits. We've started them, directed them, raised funds for them, consulted for them, volunteered for them, given money to them, and written about them. We've worked with nonprofits in one way or another for more years than we care to remember.

Why have we continued to work for nonprofit organizations? Yes, we care about others and want to see the world become a better place — our values are important to us. But, to be honest, that's not the only reason we've worked for nonprofit organizations for so many years. We believe the reason is that we can't think of anything more interesting or more challenging to do.

Starting a new program is exciting. Securing your first grant is thrilling. Working with the multifaceted personalities that come together on a board of directors is fascinating. Learning a new skill because no one else is there to do it is fun. Seeing the faces of satisfied clients, walking along a restored lakeshore, hearing the applause of audiences — all are gratifying.

That's why we do it.

About This Book

We try to cover the gamut in this book — everything you need to know to start and manage a charitable organization, from applying for your tax exemption to raising money to pay for your programs. We include supplemental information at Dummies.com, including forms to help you create a budget, examples of grant proposals, and links to websites where you can find more help.

We also attempt to give you a bird's-eye view of the economy's nonprofit sector. When you look at financial resources, for example, nonprofits are much like the rest of the world: Most of the wealth is held by relatively few nonprofit organizations, a certain number of them are in the middle, and many, many more struggle to make ends meet.

Note: When we refer to nonprofit organizations, unless we say otherwise, we're talking about organizations that have been recognized as 501(c)(3) nonprofits and are considered public charities by the IRS.

We try to be honest about the difficulties you'll sometimes face. You probably won't be able to achieve everything you set out to accomplish, and you'll always wish you had more resources to do more things. Still, we can't imagine doing anything else. Maybe you'll feel the same way after you jump into the nonprofit world.

As you're reading, you may note that some web addresses break across two lines of text. If you're reading this book in print and want to visit one of these web pages, simply key in the web address exactly as it's noted in the text, pretending the line break doesn't exist. If you're reading this as an e-book, you've got it easy — just click the web address to be taken directly to the web page.

To make the content more accessible, we divided it into five parts:

- » **Part 1:** Getting Familiar with the Nonprofit Framework
- » **Part 2:** Bringing Your A-Game to Nonprofit Management
- » **Part 3:** Raising Funds Successfully
- » **Part 4:** The Part of Tens
- » **Part 5:** Appendixes

Foolish Assumptions

When writing this book, we made some assumptions about who may be interested in reading it. Here are some of the readers we imagined:

- » You have an idea that will help solve a problem in your community, and you believe that starting a nonprofit organization is the best way to put your idea into action.
- » You serve on a board of directors and wonder what you're supposed to be doing.
- » You work for a nonprofit and need some ideas about fundraising, managing your organization, or working with your board of directors.
- » You're simply curious about the nonprofit sector and want to find out more about it.

If you're one of these people, we're confident that this book will answer your questions and give you the information you're seeking.

Icons Used in This Book

We use the following icons throughout the book to flag particularly important or helpful information.



REMEMBER

The Remember icon emphasizes important information that you should be ready to put into practice.



TECHNICAL
STUFF

You may not need this technical stuff today (and can skip over it), but — who knows? It may be invaluable tomorrow.



TIP

This icon is posted next to little hints and suggestions gleaned from our experience over the years. Put these ideas to good use to save yourself some time, energy, or money.



WARNING

Warnings are just what you think they may be. We alert you to information that can help you avoid problematic situations.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product also comes with some access-anywhere goodies on the web. Check out the free Cheat Sheet for a list of steps that are necessary for securing nonprofit status from the IRS, a rundown of the roles and responsibilities of people who sit on the board of directors for a nonprofit organization, and ideas for raising money for your nonprofit organization. To get this Cheat Sheet, simply go to www.dummies.com and type **Nonprofit Kit For Dummies Cheat Sheet** in the Search box.

You can also go to www.wiley.com/go/nonprofitkitfd6e for samples, forms, and lists of helpful websites. We mention many of these files within the chapters; we also include a file of web resources for most chapters. All digital files are labeled with the chapter number and the order in which the element appears in the chapter. For instance, the first digital file in Chapter 2 is labeled File 2-1. For a complete list of digital files, turn to Appendix B, at the back of this book.

Where to Go from Here

One of many handy features about this book is that it's modular, which means you can start reading anywhere you like! If you're new to the nonprofit world, we suggest beginning with Chapter 1, where you find fundamental information to get you moving in the right direction. If you're familiar with nonprofits already but want to better understand your responsibilities as a board member, you can find the answers you need in Chapter 7. If you're a new board member and want to understand the organization's finances when spreadsheets are passed out at board meetings, we provide guidance about making a budget *and* understanding financial statements in Chapter 12. If you need help to publicize and market your programs, we offer some suggestions in Chapter 13.

If you're like many nonprofit workers or volunteers, you want to know how to find and obtain money for your organization. Part 3 covers this topic, so those chapters are good places to begin.

Whether you're new to the nonprofit world or a seasoned professional, we think you'll find helpful and valuable information in this book to get you started or continue your good work.

1

Getting Familiar with the Nonprofit Framework

IN THIS PART . . .

Peek inside the structure of a nonprofit organization and how nonprofits compare to for-profits.

Get an inside glimpse at what it takes to start a nonprofit organization.

Learn why building your board of directors is the first priority.

See what goes into a mission statement and vision statement and follow some pointers on how to write these two upfront organization-driving documents.

Discover what you need to do to incorporate your new nonprofit. After that task is completed, apply for tax-exempt status from the IRS.

Make sure you maintain your nonprofit status by filing the required IRS reports.

- » Defining the nonprofit sector
- » Getting started with a nonprofit
- » Encouraging volunteerism
- » Acquiring the resources your nonprofit needs

Chapter **1**

Journeying into the World of Nonprofit Organizations

It's a typical day in your hometown. Your alarm wakes you from a restful sleep and you switch on your radio to hear the latest news from your local public radio station. You hear that a research institute's study reports that economic indicators are on the rise and that a health clinic across town is testing a new regimen for arthritis. Plato, your golden retriever/Labrador mix, adopted from the animal shelter when he was 5 months old, bounds onto your bed to let you know it's time for breakfast and a walk. Plato is followed by Cynthia, your 4-year-old daughter, who wants to help you walk Plato before she's dropped off at her pre-school housed in the community center. You remember that you promised to bring canned goods to the food bank that's next-door to Cynthia's school. You haven't even had coffee yet, but already your morning is filled with news and services provided by nonprofit organizations.

You know that your public radio station is a nonprofit because you hear its pledge drives three or four times a year and you volunteer a few hours each month for the food bank, so clearly it's a nonprofit. But you may not know that the research institute is probably a nonprofit organization, just like the health clinic where the

arthritis research is being tested and the animal shelter where you found Plato. Cynthia's preschool and the community center where the preschool rents its space are likely nonprofit organizations. Whether you realize it or not, all of us — rich, poor, or somewhere in between — benefit from the work of nonprofit organizations every day.

Nonprofits find revenue from a variety of sources in order to provide services. Because most nonprofits serve a need in the community, tax-deductible donations are an important revenue source. Sometimes nonprofits charge a fee for the service they provide or the work they do. Other nonprofits may sign contracts with your city or county to provide services to residents. Usually, nonprofit organizations scrounge up their income from a combination of all these revenue sources.

The nonprofit sector isn't a distinct place — it isn't some plaza or district that you come upon suddenly as you weave your way through the day. It's more like a thread of a common color that's laced throughout the economy and people's lives. No matter where people live or what they do, it's not easy to reach the end of a day without being affected by the work of a nonprofit organization.

Perhaps your lifelong goal is to find a way to help others in your community, your state, your country, or the world. (If this statement is true of you, thank you, kind citizen.) You think about your options every day, but you haven't the foggiest notion about the next steps to take to help you reach this admirable goal. You have so many topics to research and tasks to determine how to complete — and so much necessary funding to nail down to help you get started. Think of this chapter as the beginning of the journey. Here we help you understand exactly what a nonprofit organization is and how to start and manage one.



TIP

Check out File 1-1 at www.wiley.com/go/nonprofitkitfd6e for a list of web resources related to the topics we cover in this chapter.

What Is a Nonprofit Organization?

People hear the term *nonprofit* and picture a different type of business where the owner isn't allowed, by tax law, to make a profit or draw a paycheck. But, in fact, some nonprofit organizations end their fiscal year with a profit, and that's good because surplus cash (also referred to as *reserves*) keeps a nonprofit operating in the black versus the red.

Comparing for-profits to nonprofits



REMEMBER

The main difference between a for-profit corporation and a nonprofit corporation is what happens to the profit. In a for-profit company like Amazon, Google, United Parcel Service, or your favorite fast-food chain, profits are distributed to the owners (or shareholders). But a nonprofit can't do that. Any profit remaining after the bills are paid has to be plowed back into the organization's service programs, spent to strengthen the nonprofit's infrastructure, or stored in reserve for a rainy day. Profit can't be distributed to individuals, such as the organization's board of directors.

What about shareholders — do nonprofits have any shareholders to pay off? Not in terms of a monetary payoff, like a stock dividend. Rather than shareholders, nonprofit organizations have *stakeholders* — they're the people who benefit from the nonprofit's mission and services to their target population (those in need, from animals to humans). These people are often called *stakeholders* because they're committed to the success of the nonprofit, such as board members, volunteers, community partners, and the people whom the nonprofit serves directly and indirectly.

Introducing the coveted 501(c)(3) status for nonprofits

When we use the term *nonprofit organization* in this book, for the most part we're talking about an organization that has been *incorporated* (or organized formally) under the laws of its state and that the Internal Revenue Service (IRS) has classified as a 501(c)(3) and determined to be a public charity. If the term *501(c)(3)* is new to you, add it to your vocabulary with pride. In no time, “five-oh-one-see-three” will roll off your tongue as if you're a nonprofit expert.



TECHNICAL
STUFF

Private foundations also have the 501(c)(3) classification, but they aren't *public charities*. They operate under different regulations, and we don't cover them in this book.

Other kinds of nonprofit organizations *do* exist; they're formed to benefit their members, to influence legislation, or to fulfill other purposes. They receive exemption from federal income taxes and sometimes relief from property taxes at the local level. (Chapter 2 discusses these organizations in greater detail.)

Nonprofit organizations classified as 501(c)(3) receive extra privileges under the law. They are, with minor exceptions, the only group of tax-exempt organizations that can receive contributions that are tax-deductible for their donors.

The Internal Revenue Code describes the allowable purposes of 501(c)(3) nonprofit organizations, which include serving religious, educational, charitable, scientific, and literary ends.



TIP

Check out File 1-2 at www.wiley.com/go/nonprofitkitfd6e for a more-detailed list of the activities that 501(c)(3) nonprofits take on.



REMEMBER

Being a nonprofit organization doesn't mean that an entity is exempt from paying all taxes. Nonprofit organizations pay employment taxes, employee salaries, and wages just like for-profit businesses do. In some states, but not all, nonprofits are exempt from paying sales tax and property tax, so be sure that you're familiar with your jurisdiction's laws and nonprofit reporting requirements. Also, check with the appropriate office in your state to see whether you're required to apply for a state tax exemption or a license to solicit funds.

A SECTOR BY ANY OTHER NAME

Not everyone thinks that *nonprofit sector* is the best name. That's because of the array of organizations with different types of nonprofit status. Some of these organizations are formed to benefit their members — such as fraternities and labor unions — and don't share a broad public-serving intent. Another reason *nonprofit sector* may not be the best choice of terms is its negative connotation. After all, what's worse than not making a profit? But, as we point out earlier, and we remind you again in later chapters, not making a profit isn't the determining factor. Here are some alternative terms you may hear:

- **Voluntary sector:** This term emphasizes the presence of volunteer board members and the significance of voluntary contributions and services to the work of 501(c)(3) organizations. In this definition, the organizations alone don't represent the meaning of *nonprofit*; the definition includes the vast web of supporters who participate as volunteers and donors.
- **Independent sector:** This term emphasizes the public-serving mission of these organizations and their volunteers and their independence from government. (Independent Sector is also the name of a nonprofit organization that provides research, advocacy, and public programs for and about the nonprofit sector.)
- **Charitable sector:** This term emphasizes the charitable donations these organizations receive from individuals and institutions.
- **Third sector:** This term emphasizes the sector's important role alongside government and the for-profit business economy.

We use the term *nonprofit sector* throughout this book, but we want you to understand its limitations and be familiar with other commonly used terms.

Knowing Your Mission Before Entering the Nonprofit World

People form nonprofit organizations in order to work toward changing some condition in the world, either for a specific group of people or for society in general. The overall goal or purpose of a nonprofit is known as its *mission*. Taking the time needed to clearly outline a nonprofit's mission is time well spent because the mission guides the activities of the organization, helps the nonprofit's directors decide how to allocate resources wisely, and serves as a measure for evaluating the accomplishments of the group. We think developing a mission statement is so important that we devote an entire chapter (see Chapter 4) to guiding you through this process.

You must also examine your personal mission before launching a nonprofit. You're creating a legal entity that has responsibilities for reporting to both the state and federal governments. If the organization grows to the point where you must hire employees, you're responsible for paying regular salaries and providing adequate benefits. And although you can be compensated for your work as a nonprofit staff member, you can't develop equity in the organization or take away any profits at the end of the year. Chapter 2 has more information to help you make this important decision.

Setting up a nonprofit

Nearly all nonprofit organizations are established as corporations under the laws of a particular state. If you're located in Iowa and you plan to do most of your work in that state, you follow the laws in Iowa to set up the basic legal structure of a nonprofit corporation. Although you'll find some differences from state to state, in general, the process requires writing and submitting articles of incorporation to the state and developing *bylaws*, the rules under which the corporation will operate.

After your nonprofit is established under your state laws, the next step is applying for 501(c)(3) status from the IRS. This step requires completing and submitting IRS Form 1023 or Form 1023-EZ. If you submit Form 1023, you will need to specify in some detail the proposed activities of the new organization, and you're asked for projected revenue and expenses for the year in which you apply and two years into the future. To be honest, you can't complete this form in one afternoon. It requires substantial time and thought to develop the necessary material and should be reviewed by an accountant and legal representative before filing. We discuss the incorporation and IRS application process in Chapter 5.

Making plans and being flexible

After you start managing a nonprofit organization, you'll discover that planning is your best friend. Every task from budgeting to grant-writing requires that you make plans for the future. This continuous planning process for nonprofit leaders (founders and board members) is called *strategic planning*. And you need to do a substantial amount of strategic planning before you're ready to send in your IRS application for tax exemption.

Don't be frightened by this recommendation to plan strategically early on in the nonprofit formation process. The act of strategic planning fundamentally comes down to thinking through what you're going to do as well as how and when you're going to do it and writing it down. Your strategic plan becomes the map that guides you toward achieving your nonprofit's mission, vision, and goals. Strategic planning is something you should pay attention to every day.



You should always begin with a strategic plan, but that doesn't mean that the original plans shouldn't be altered when the situation calls for it. Circumstances change; flexibility and adaptability are good traits to nurture if you're running a nonprofit organization. Chapters 8 and 12 cover strategic planning and budgeting. Chapter 9 addresses how to evaluate your work and know whether your plans are achieving the results you want to see. Chapters 13 and 14 discuss planning for marketing and fundraising.

BIGGER THAN A BREAD BOX

The nonprofit sector is larger than many people realize. Here are some figures from the National Center for Charitable Statistics, based on IRS data, and the Independent Sector, regarding 501(c)(3) public charities in the United States:

- Nearly 1.6 million organizations were registered as public charities with the IRS in 2020.
- Assets held by these groups in 2020 totaled more than \$3.79 trillion.
- Nearly 30 percent of public charities that reported to the IRS in 2019 had annual expenses of less than \$100,000.