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Nonprofit Kit

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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

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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.

Part 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.

Chapter 1

Journeying into the World of Nonprofit Organizations

IN THIS CHAPTER

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

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 preschool 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.



REMEMBER 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.