

ExpertAnswers: Expert Tips for Non-Profits



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Many people find that the best outlet for their entrepreneurial spirit is to improve the quality of their communities and their world by starting a non-profit organization. But while non-profit and for-profit organizations share many similarities, there are also key differences that can doom even the best of intentions.

Jim Maltry, a SCORE mentor with 26 years of experience in the non-profit community, discusses several of the most important factors to consider when planning and launching a nonprofit.

How is the process of starting a non-profit similar to that for starting a small business? How do the processes differ?

Both require you to file documents with the appropriate state and federal agencies. As a non-profit, you would file Articles of Incorporation with your Secretary of State and an Application for Recognition of Exemption as a 501(c)(3) non-profit with the IRS. Some states may also require non-profits to register with the Attorney General, apply for an Employer Identification Number (EON), and obtain tax exemption. Your Secretary of State's office can provide information on other applicable non-profit formation requirements.

Are there fees involved with this process?

Fees to file Articles of Incorporation vary from state to state. IRS fees are \$400 if your annual budget for three years will be under \$10,000; \$850 if your annual budget for three years will be over \$10,000. Also note that the IRS currently takes one year to approve a non-profit application.

Can you file non-profit Articles of Incorporation as a Limited Liability Corporation (LLC)?

While most states permit an individual to file as an LLC, the IRS will not approve your Application for Recognition of Exemption unless you are already a non-profit.

Are the day-to-day operational aspects different for a non-profit organization?

Most operational aspects are very similar. If you do not operate your non-profit as you would a business, your chance at success is diminished. Most individuals wish to start a non-profit because their heart has been touched by a need in the community. Their passion to help others becomes paramount, and they fail to recognize the importance of operations and management. The first order of business is to manage, then provide services.

Are there alternatives to establishing a non-profit if one wants to do philanthropy or promote a cause?

- *Become a program of an existing nonprofit.* Approach an existing non-profit that may have a similar mission, but lacks a program that would provide an additional service to the community.
- *Become an active board member of an existing non-profit.* Many non-profits lack active individuals willing to assist with the work of the Board and the organization. This will also provide you with experience in the operating a non-profit, improving your chance at success should you decide to form one of your own.
- *Become a volunteer for a non-profit's programs.* This allows you to directly provide the services to those in need.

Why are individual donations such a critical source of funding for non-profits?

Approximately 75 percent of non-profit contributions come from individuals. Even if a non-profit receives money from a government agency for services, it is never enough to cover the true cost of operations. There are no guarantees that a



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source of income today will be available tomorrow. Therefore, fundraising must be a constant in the daily operations of a non-profit.

What are the keys to developing a donor-focus approach to funding?

- *Develop a fundraising plan.* A part of each day must be devoted to fundraising. It's also essential to recruit a volunteer team to help execute the plan.
- *Establish a fundraising database.* Collect names, addresses, phone numbers, and email addresses from events, including those who do not give. A “no” today does not mean “no” forever.
- *Create a website.* When you ask for money, most people will visit your website to see what you are all about.
- *Make giving easy.* Be sure to have a “DONATE” button on the website, plus the ability to donate via credit card. Also encourage monthly giving, as those donors give 42 percent more in a year than one-time donors.
- *Use social media.* It is very important to motivate today's donors to give next year. Regularly share what you are doing with their money with testimonials or monthly email blasts. Social media is also a good way to announce an event, sell tickets, and recruit volunteers.
- *Develop personal relationships with your donors.* At a minimum, thank donors for their contributions, preferably with a personalized thank-you note.

Are there potential conflicts between focusing on donors and focusing on the non-profit's core mission? If so, how can it be resolved?

There is always a tension that exists between time devoted to donors—part of the non-profit's business side—and its overall mission. Sometimes, that tension exists because the founder started the non-profit with a desire to help others, but now must spend time connecting with donors.

What can be done to ease that tension?

- *Develop a strategic plan.* Every non-profit should have a strategic plan that should be updated each year—not unlike a for-profit's [business plan](#).
- *Manage your time.* At the outset, personnel are asked to wear many hats, making time management crucial.
- *Grow slowly.* Do not let demand outstrip the financial and human resources. The non-profit has to resist the temptation to help everyone when the resources are not there.
- *Seek volunteers to assist with certain tasks.* Volunteers are a great source of support for a non-profit, yet most are underutilized.

Does a non-profit always need a Board of Directors?

A non-profit must have a Board of Directors. In fact, some states may require a non-profit to have three board members to complete the Articles of Incorporation. The IRS also asks for the names and addresses of Board members.

What is the role of a non-profit's Board of Directors?

The Board of Directors bears the responsibility of ensuring that the organization fulfills its mission by setting policy and providing governance, direction, and advice. Board members fulfill their roles by utilizing their professional skills, community and business contacts, as well as personal commitment to the mission. When it comes to managing the non-profit, the Board is the “boss” and has ultimate authority. The non-profit's Executive Director/CEO operates the organization on a day-to-day basis under the Board's direction. Indeed, the non-profit's founder surrenders the right to unilaterally manage the organization the day the Board is formed.

What are some tips for identifying potential Board members?

Identify what skills you need and develop a job description for that particular Board position, as the first question a potential board member will ask is “what do you want me to do?” There are many resources to find people well-suited for those roles. For example, the United Way maintains a data base of individuals who would like to serve on boards. There are national websites such as [BoardSource](#), [BoardNetUSA](#), [VolunteerMatch](#), and [AARP](#) that connect non-profits to potential board members in their city. Also consider:

- *Social media.* Ask your friends and relatives to spread the word about your need for Board members. Be sure to prepare the message for them.
- *Community/Business organizations.* Speak to groups such as the Kiwanis, Rotary and *Lions Clubs*. Many skill sets non-profit needs can be found within the memberships.
- *Formation meeting.* Identify professionals within your community who may be desirable Board members. Invite them to a meeting where you talk about the new non-profit and how you need board members with certain skills.

What are some guidelines for developing affiliations with for-profit businesses?

Companies give to non-profits in order to build their brand, advertise their company, and help recruit employees. A non-profit must ensure that any affiliation with a business will not have negative consequences. You would not want to affiliate with a company that has negative publicity, a poor image in the community, or weak financial strength. Research the business through Dun and Bradstreet, the Better Business Bureau, the company's latest financial statement, and general Internet searches. Often, just checking with your friends can help you identify reasons why affiliating with a particular business is or isn't a good idea.

Are non-profits eligible for federal grants? If so, what are some tips for pursuing them?

There are federal grants for very specific purposes, and a list of what's available may be found at www.grants.gov. As with any grant, the added accounting and tracking requirements to report the results of that investment can be burdensome. Many grants provide for only 90 percent of the total project cost, so you must prepare to pay at least 10 percent for the project.

What are some other common sources of non-profit funding? Are there caveats to utilizing them?

Successful non-profits raise money from many sources in order to diversify and generally don't rely on any one source of income. Some common sources include:

- *Private foundations.* Grants from foundations are very competitive and typically go only to existing non-profits.
- *Special events.* Obtain sponsors for your event so that all expenses are covered.
- *Individual major donors.* This requires building a relationship before the individual will give. Seek high-profile individuals who will have an affinity for your mission.
- *Businesses.* Invite owners to a coffee/donut or lunch meeting to seek their advice about your new non-profit and discuss your needs.
- *Crowdfunding.* An average of \$9,237 was donated to crowdfunding causes in 2013.
- *Sale of products.* Your total income cannot come from this source or IRS may rescind your 501c3 designation.
- *Government reimbursable programs.* You must undergo an approval process to be eligible to receive funding for services.

What are some common reasons why non-profits struggle? How can they be avoided?

- *Lack of accountability.* Poor performance translates into poor quality in the delivery of services. Yet most working in the non-profit world struggle with disciplining or terminating an employee. The solution is to operate like a business—hold employees accountable, conduct performance evaluations, and terminate poor performers.
- *Lack of oversight by the Board.* Many Boards do not conduct meetings in a responsible way and, therefore, do not know what is happening within the non-profit. They should focus on numbers by comparing and questioning differences in year-to-year services and line-item fluctuations in the financials. Updates from the Executive Director on the challenges being faced internally and externally are a must, as are committee reports.
- *Uncontrolled growth without sufficient support for the demand.* The need for services continues to grow in the U.S., despite a growing number of non-profits serving more people. A nonprofit has to be realistic and recognize that it is limited in the services it provides, and live within its budgetary constraints.

Are there emerging trends in non-profit management or focus that you are watching?

- *Affordable Care Act.* Nonprofits have had to adapt to the changes in regulations and government funding.

- *Social media.* Using social media to advertise a non-profit continues to grow. A Facebook page is a necessity. Many non-profits have a video on YouTube about their organization.
- *Crowdfunding.* There is an increased use of crowdfunding on websites such as Indiegogo and Kickstarter.
- *Online donations.* They continue to grow, but remain minimal compared with traditional fundraising. Online donations are usually in smaller amounts.

SCORE is usually known for its work in helping small business owners. Can their advice be equally as valuable to a nonprofit?

The principles of managing a business—accounting, marketing, management—apply to both for-profits and non-profits. A SCORE mentor will adapt his or her knowledge and skills to the business need, regardless of what kind of venture the client is pursuing.

What's your best piece of advice to someone who's exploring starting a non-profit?

Write a business plan with the assistance of individuals with skills in writing, accounting, and marketing. Much of the information in the business plan is required for the IRS's Application for Recognition of Exemption. Many foundations require a business plan to accompany a grant request. The business plan is also useful for recruiting Board members, building credibility, and providing useful facts for presentations to major donors and groups.

Want more advice about non-profits? Get **free, confidential mentoring** from **Jim Maltry** or other **SCORE experts** today. And get more helpful tips and strategies delivered to your inbox by subscribing to **SCORE newsletters**.