

Running a Nonprofit

(This information is also available on the www.moneysmartchoices.org website.)

Programming

Nonprofits accomplish their missions through programs. Programs are activities that provide services. These services may be offered to the public or to the nonprofit's members. Programs are closely connected to a nonprofit's mission. Consider a nonprofit whose mission is to prevent forest fires. This nonprofit would run programs that help prevent forest fires in some way. Many programs might serve this purpose:

- One program might bring volunteers to schools, to educate students about fire safety.
- Another program might give fire safety brochures to hiking clubs.
- Another program might sell T-shirts with a logo. The logo could remind hikers to prevent fires when they hike.

To be effective, programs must understand the real needs of their clients. They must respond to those needs directly. Nonprofits often conduct research to learn how they can best help clients. This research shows what clients need, and how those needs can be met.

Programming research may be conducted by experts. However, it also should contain input from clients themselves.

Programs often start with a brief "test period." This test period is known as a pilot. Pilot programs run for six months to one year. They allow the nonprofit to see how well the program functions. After running a pilot, nonprofits may improve the program. When the final program is launched, it will run effectively.

Budgeting

Programs must fit within a nonprofit's resources. Programs cost money to run. This money must be generated every year, or the program will fail. To keep their programs running, nonprofits must manage their money well. For this reason, they use budgets, just like people do.

Like personal budgets, nonprofit budgets have two main sections. The first section lists income, also known as revenue. Here, the nonprofit names all of its sources of income. The second budget section contains expenses. Expenses normally include **salaries** and **administrative costs**. These are required just to keep the nonprofit open. Expenses also include **program costs**. These enable the nonprofit to run its activities.

Budgets help nonprofits determine how much money they need to operate for the year. In every budget, income should at least equal expenses. If expenses are greater than income, then the nonprofit has revenue need. It must meet this need by raising funds from different sources.

Support Sources

Sources of support for nonprofits include grants and donations, earned income, endowments, in-kind support and volunteer service. Each of these sources of support is described in more detail in the following sections.



Grants and donations

Nonprofits operate through many types of support. Grants and donations are cash contributions. They represent money that is given to the nonprofit directly.

- Grants often come from **foundations**. Foundations are organizations that support charitable activities.
- Grants also may come from **government sources**. Grants are provided by federal, state, and local government.
- Many donations come from **individuals**. These individuals may join the nonprofit as members. Individuals also may donate to a nonprofit even if they are not members.
- Some donations come through **major donors**. Major donors contribute large amounts of money. Major donors may be individuals or businesses. Corporations often support nonprofits through an arrangement known as sponsorship.

Earned income

Nonprofits also gain income by earning it. Nonprofits earn income just as businesses do. They provide a product or service in exchange for a fee. For example, a counseling agency might charge fees for counseling. Nonprofits also may earn income from investments. Earned income represents the main source of income for many nonprofits. A nonprofit becomes independent when it earns its own income. It need not rely on other sources for funding. Nonprofits often run programs that earn income on a regular basis. These programs are known as *sustainable programs*. They help sustain the nonprofit by keeping it running independently.

Endowments

Some nonprofits earn income through *endowments*. Endowments are very large donations, usually millions of dollars. Endowments are set up as investments. The donated funds are invested to earn interest. The interest is then used to help the nonprofit operate. Endowments are very important to nonprofits because they represent continued support. Organizations that have endowments never spend the money that's invested. They only spend the *interest* from the investments. The original investment continues to grow and to earn interest. Large endowments can support a nonprofit for a long period of time. There's no limit to the time of support, since interest is always being earned.

In-kind support

In addition to money, nonprofits also receive other types of support. Money enables nonprofits to buy the products and services they need. Sometimes, however, nonprofits receive these products and services directly. For instance, an animal shelter might need food to feed its animals. It could receive animal food directly from a pet supply business. Such non-cash support is called *in-kind* support.

Another example of in-kind support occurs when a nonprofit receives free office space. For example, a nonprofit might occupy space in a government building. The government might not charge rent or utilities to the nonprofit. No money is exchanged. In this way, the government contributes office space *in-kind*.

Volunteers

Volunteer support is crucial for nonprofits. Volunteers work without pay to serve nonprofit



goals. Though volunteers aren't paid, their time and services are valuable. An organization known as the Independent Sector conducts yearly research on the value of volunteer time. According to the Independent Sector, American volunteer time had an estimated value of \$18.04 per hour in 2005.

The value of volunteer time adds up quickly! Imagine a nonprofit with 20 volunteers. These volunteers deliver meals to the elderly each week. Each volunteer works 10 hours per week, or 520 hours per year. Together, the 20 volunteers work 10,400 hours per year. They contribute \$187,616 per year in volunteer time!

Raising Revenue

Each year, nonprofits must raise revenue to meet their needs. To raise revenue, nonprofits develop fundraising plans. Fundraising plans define the steps that a nonprofit will take to gain support.

- First, fundraising plans establish revenue goals. They also list steps for reaching those goals. These goals and steps are approved by the nonprofit's board of directors.
- Next, fundraising committees are formed to raise funds. Depending on the size of the nonprofit, different committees may be needed.
- An outreach committee often identifies the most likely donors.
- A membership committee often makes requests from individual donors.
- Board members may make requests from major donors.
- A grant writing committee may be formed to apply for grants. To obtain grants from foundations, nonprofits must submit applications in writing. Written applications must be submitted for government funding as well.
- Special events committees help coordinate fundraising events. The nonprofit may hold an annual dinner, dance, carnival, or other event. By charging admission for these events, the nonprofit raises income.

Fundraising continues throughout the year. If a nonprofit gains more income than it needs for one year, it may increase its programs. For example, it may serve more people. If the nonprofit gains less income than it needs, it often decreases its programs.

