Funding and Finances

It's easy to get so focused on your big dream to impact the world, that you can overlook the many practical questions about how to actually run the nonprofit! The most immediate question to answer is how you are going to fund your programs and services. And then once you begin receiving funds, you need to determine how you will manage the financials and compliance requirements.

Unfortunately, starting a nonprofit creates a "chicken and egg" problem. You need funding to start a nonprofit, and you need to have IRS approved tax-exempt status to find funding as donors typically want donation receipts for their giving. Hello…Chicken and Egg!

Thankfully, there is a viable solution to solve part of that dilemma.

Funding

A Partial Answer to the Chicken and Egg Dilemma

As soon as you file your 1023 Application (the paperwork you file with the IRS to apply for tax-exempt status), you can begin raising funds and issuing tax receipts. In fact, when the IRS grants you tax-exempt status and mails you the exemption letter, they will record your effective date of exemption as the date you filed your Articles of Incorporation.

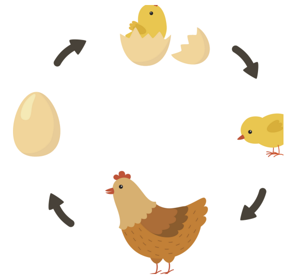
The only caveat here is that you need to let your donors know that you have filed for your tax-exempt status, and in the event your application isn't approved, their donations would not be tax deductible.

Upfront Costs

The cost to file the nonprofit application will range from $275 to $7,000+ depending on whether you DIY it (not recommended) or hire a document filer, a nonprofit consultant (like Kim Fisher), a CPA, or a lawyer to help you.

The IRS filing fee will be either $275 or $600 depending on how complicated your organization is, and how much money you intend to raise. There will also be a state incorporation fee. This is money that needs to be raised prior to submitting your application for tax-exempt status.

Return of the Chicken and Egg



You might think those upfront costs could be covered with grant funding or raising money via a crowdfunding site such as Go Fund Me, CrowdRise or Mightycause. Unfortunately, neither of those are great options.

The mechanics of grant funding is one of the most misunderstood concepts in the nonprofit world. Grantors expect an organization to already be operating successfully before they consider awarding funds. They will want to see that you have a variety of other funding sources before they invest in you. They also want to know the outcomes of your work. It's a similar concept to applying for a loan. Before making you a loan, a lender wants to know what other credit you have, and how well you have managed it.

Crowdfunding sites may be an option but realize that you don't "own" the donors and that donor receipts are mailed with the crowdfunding site's name on it, not that of your nonprofit.

Finding a Golden Goose or two

It's common for many nonprofit founders to self-fund their initial start-up costs. This money can be given as a donation to the organization, and the founder would get a tax receipt. Or a founder could make a loan to the organization that can be repaid once other funding comes in. It needs to be booked in your accounting system as a loan.

Friends and family may also be willing to help fund your initial costs. They are the people who are most likely to believe in the organization's vision before it has an established track record. That's because they're betting on YOU more than anything else.

When trying to raise seed money, nonprofit founders should reach out to family and friends by making phone calls, meeting in person, or writing a personal email appeal. Be ready to clearly explain three things:

1. Why you want to start the organization and what the vision is
2. How the money is going to help the organization take its first step towards realizing that vision
3. How family and friends can contribute (include donation instructions)

Nonprofits give donors the opportunity to identify with something larger than themselves. They give them the chance to feel good about making a difference and helping others. These intangible benefits can be thought of as the “return” the organization offers to potential “investors."

Again, this money can be given as a donation to the organization, or a loan to the organization that can be repaid once other funding comes in.

Budgeting

You’ve got your starter funding, now what?

Your next task is to create a budget. Not just for your first year, but the following two years as well (which is required for the 1023).

Obviously, you won’t know the actual figures nor every line item you’ll eventually track as part of your bookkeeping system. Just do your best to determine a reasonable estimate.

Consider which expenses might increase or decrease in the following years. For instance, you may plan to have paid staff starting in year 2. You may generate revenue from program fees. You may pay for professional assistance.

To begin, focus on providing estimates that answer two questions:

Question 1:
How much do you expect to spend on salaries, office expenses, fundraising costs, and program expenses?

Question 2:
How much income will you need to cover the expenses, and what is your plan for raising those funds?

Example Categories to Project

Expenses	Support & Revenue
• Accounting/Bookkeeping	• Donations
• Marketing Expenses	• Grants
• Fundraising Event Expenses	• Program Fees
• Program Expenses	
• Rent	
• Salaries	
• Office Expenses	

Managing the Money

The third question that should be dealt with sooner than later is:

Question 3: How will you manage the finances and issue donor receipts?

Bookkeeping is an essential component of every nonprofit. It is the meticulous process of recording and organizing financial transactions and represents the backbone of the financial system. You will need an effective way to track your income and expenses so that you can issue receipts to your donors and produce financial statements. And you need to be able to issue 1099s/W2s to your employees and contractors. Finally, you need to file an annual tax return.

Only the tiniest of nonprofit organizations can manage with a manual bookkeeping and accounting systems. Most rely on digital accounting software with QuickBooks being the most popular, or an Excel spreadsheet if funds are scarce.

Some nonprofits hire a finance manager or outsource their financial recordkeeping and reports. Once your nonprofit is approved, you can get QuickBooks at a discount through TechSoup www.techsoup.org.

Having integrity in your financial management is important to operating a legally functioning nonprofit. The IRS is very specific. Fundraising, bookkeeping, accounting, and tax reporting are handled differently for nonprofit organizations than for-profit businesses. Poor tracking of income and expenses, and not filing tax returns on time, can lead to significant issues down the road, and can even result in the IRS dissolving your nonprofit.

> Don’t let securing your initial start-up funds, pulling together your first budget estimates, and mapping out your money management structure dim your nonprofit dreams. Trust that if you believe in your dream of helping to change the world others will believe in it, too.
>
> Tackle these necessary funding and finance tasks head on. Once completed they will help propel you forward toward turning your dream into a reality.

⟶ **BTW, Vision Catalyst offers financial management services to nonprofits!**