## Building and Sustaining the Community-Based Nonprofit

by Stephen C. Jeanetta[1]

Nonprofit organizations play important roles in the development of rural communities. They are often small informal groups of people who work together for a short period of time on projects such as to raise money for a new park or host a one-time event. They may also be large community institutions such as churches, schools, community centers, and hospitals. Nonprofits reflect a community's charitable giving, associational life, and development efforts.

Many nonprofits operate in Illinois, and the number of nonprofits has increased in recent years. Table 1 looks at the growth of nonprofits in Illinois. In 2004, the State of Illinois had 61,577 nonprofit organizations registered with the IRS, an increase of 17.3 percent since the previous census in 1996. The increase was primarily due to the number of public charities that added 9,098 new organizations, a 43.7 percent increase, and private foundations that added 1,783 new organizations, a 51 percent increase (National Center for Charitable Statistics 2004).

Public charities and private foundations are 501(c)(3) organizations incorporated for charitable, educational, religious, or scientific purposes. The growth of private charities and private foundations was offset somewhat by a decrease in other nonprofit organizations such as civic clubs, labor unions, and business associations. A decline in "other nonprofit organizations" is alarming because it includes many of the groups working on economic development and civic engagement. The growth of the nonprofit sector in Illinois mirrors what is happening in general to the nonprofit sector in the United States. There has been an increase in the number of nonprofits, the revenues they have generated, and the diversity of purposes that are served.[2] Salamon's (2003) report explores key factors to consider when starting and operating a community-based nonprofit. It is divided into four sections: (1) structures, roles, and responsibilities; (2) keys to sustaining the nonprofit organization; (3) case examples; and (4) forming a new nonprofit.

## Structures, Roles, and Responsibilities

Nonprofits are businesses, and in many ways, they operate similar to a for-profit business. They develop business plans, serve clients and customers, and try to generate a positive return. They differ from for-profit businesses in several important ways, however. Nonprofits are not established to generate a profit that benefits the people running the organization, usually the board of directors. The term *nonprofit* is based in this concept. *Nonprofit* means that a person serves in the leadership of the organization for reasons other than to earn a profit; their

connection to the organization is "not for profit." Profits generated by the activities of the nonprofit are to be used by the nonprofit to achieve its mission. Nonprofits also differ in purpose from for-profit businesses. The purpose of most for-profit businesses is to provide a specific good or service that generates revenue for the business. A nonprofit is formed to provide a specific service. Many nonprofits are established for charitable, educational, religious, or scientific purposes. These organizations are concerned with providing a resource that benefits the

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[2]In Salamon's (2003) *The Resilient Sector*, the growth of the nonprofit sector in America is explored, and an overview of the challenges and opportunities faced by contemporary nonprofit corporations is provided.

**Table 1. Number of Nonprofit Organizations in Illinois**

| | 1996 | | 2004 | | |
| --- | --- | --- | --- | --- | --- |
| | Number of Organizations | Percent of All Nonprofits | Number of Organizations | Percent of All Nonprofits | Percent Change |
| All Nonprofit Organizations | 52,479 | 100.0% | 61,577 | 100.0% | 17.3% |
| 501(c)(3) Public Charities | 21,870 | 41.7% | 31,435 | 51.0% | 43.7% |
| 501(c)(3) Private Foundations | 3,496 | 6.7% | 5,279 | 8.6% | 51.0% |
| Other 501(c) Nonprofit Organizations | 27,113 | 51.7% | 24,863 | 40.4% | -8.3% |

broader community or society and are known as "public benefit" organizations (Runquist 2005). Other nonprofits are established to provide a resource or service for members and are referred to as "mutual benefit" organizations. A local chamber of commerce, producer association, or union is an example of this type of nonprofit. The main purpose of these organizations is to advance the interests of members. Sometimes these organizations also provide a broader public benefit, but their primary responsibility is to their members.

**Basic Organizing Structures.** Nonprofits have two basic organizational structures: (1) the "Membership" organization and (2) the "Board of Directors" organization. The Membership organization is typical of business associations such as chambers of commerce or networking groups like a community services organization. Membership organizations often elect an executive committee or board from the membership to manage the organization. The Board of Directors model is the most common governing structure for nonprofits and, in such organizations, the board of directors is responsible for managing the operations of the organization. The board of directors is typically responsible for identifying and recruiting additional directors.

Variations of these two models do exist, but most organizations operating at a community level use either a Membership or a Board of Directors operational structure.

**Membership/Board of Directors Responsibilities.** In both a Membership model and a Board of Directors model, the leadership plays a management role for the organization. In this section, the term *board of directors* refers to the leadership of the organization regardless of whether they are operating from a Membership or Board of Directors model (Runquist 2005).[3] The basic decisionmaking responsibilities

are very similar. The directors of the organization are legally responsible for governing the activities of the organization (Overton and Frey 2002),[4] and staff and volunteers work on behalf of the board of directors. This is a very important distinction because in some nonprofit organizations it may seem as if the board is working for the executive director. This is not an appropriate relationship between the staff and the leadership of the organization and often occurs because the executive director is responsible for the day-to-day activities of the organization and is the face of the organization to the broader community.

An inappropriate management relationship becomes problematic when the staff person runs the organization without much board oversight. If there are any issues with how the organization functions, the state and federal government will take up those issues with the board of directors. The board of directors is responsible for making sure the organization operates within the guidelines established by the state where they are incorporated and by the federal laws governing nonprofits.

The board of directors is liable for the actions of the organization. Most states have "good faith" laws that provide some legal protection to nonprofit boards as long as they make a "good faith" effort to govern the organization effectively. It is always a good idea to make sure there is adequate liability insurance to protect board members in case of a lawsuit, however. Often, homeowners' and renters' insurance will provide some protection to the individual directors with those kinds of insurance policies since it can be very difficult to recruit good board members without adequate liability insurance for the board.[5]

Kim Klein (1996), in *Fundraising for Social Change*, identified six board of directors' responsibilities: (1) ensuring organizational continuity, (2) setting policy and reviewing

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[3]Pages 69-82 include a very good discussion on the fiduciary responsibilities of the board of directors.

[4]Overton and Frey's (2002) guidebook provides a comprehensive look at the legal responsibilities of nonprofit boards and can serve as a good reference for the directors and staff of nonprofit organizations.

[5]Nonprofit Board Liability Insurance can be obtained through most insurance companies; however, in some smaller communities, it may be difficult to find an agent that understands the liability issues of nonprofit boards. If that is the case, contact the Insurance Board of your state, and they should be able to make a referral. In Illinois, the Insurance Board can be reached at **www.idfpr.com/DOI/Main/overview.asp**.

plans, (3) long-range planning, (4) ensuring fiscal account-ability, (5) managing personnel, and (6) funding the organization.[6] How a board addresses these responsibilities varies depending on whether it is a working board, a managing board, or an advisory board.

*Working Board Model.* Newer nonprofits normally have working boards. A newer organization is evolving in terms of defining the kind of work they will do, how they approach that work, and how they manage their efforts. They usually have limited staff and resources but lots of energy. Often, the success of the organization relates directly to how much the board actively engages in the day-to-day work of the organization. When selecting board members, it is important to ensure that the board members have a passion for the organization's focus, the time and interest for working on that issue, and the capacity to manage all aspects of the organization. Working boards tend to fail if they are unable to attract board members who will become engaged in the work of the organization. They need board members who can help effectively manage the work. Working boards also may have problems if they do not effectively manage board responsibilities or if they are only passively involved in the work of the organization. If nonprofits are not well-organized and motivated to get the work done, the organization will have limited success.

*Managing Board Model.* Once an organization becomes established with a stable resource base and adequate staffing, boards often are not heavily involved in the day-to-day operations of the organization but still provide important leadership and management functions. Staff are given responsibility for the work of the organization, and the board of directors takes more of a planning, policymaking, and evaluation function.

Managing boards have problems if they are not effective in balancing the need to let staff play leadership roles in achieving the work of the organization with their legitimate responsibility as the managing entity of the organization. For example, a managing board is responsible for the finances of the organization but most likely will have the staff of the organization prepare the budget and submit it for review and approval by the board of directors. An effective board member has management skills appropriate to one or more of the primary responsibilities of the board such as planning or accounting.

*Advisory Board Model.* The advisory board model is most common in mature organizations with checks and balances in place that require fewer management functions by the board of directors. The board is still responsible and accountable for the work of the organization, but in this model, the organization has well-established systems of accountability that make it possible for them to focus more on policymaking, planning, and other advisory functions. This model has problems if accountability systems fail and the board is not able to effectively intervene, or when members want to become overly involved in the operations of the organization. Effective board members are people with skills that can aid the organization in better understanding the environment in which the organization works and can help connect the organization to other resources in the community. Table 2 illustrates the relationship between the three operational approaches.

**Table 2. Nonprofit Evolution at the Board Level**

| | Stages | | |
|---|---|---|---|
| *Issues* | *Formation* | *Growth* | *Maturity* |
| *Board's Role* | Working Board | Managing Board | Advisory Board |
| *Board's Function* | Strategic guidance | Strategic guidance | Strategic reformulation |
| | Policy formulation | Policy formulation | Policy guidance |
| | Committee responsibilities | Committee involvement | Committee oversight |
| | Staff-line support | Issue leadership | Issue evaluation |
| | Operational funding | Operational and project funding | Institutionalize funding sources |
| | Leadership selection and support | Leadership support and evaluation | Leadership advice and succession |
| | Directing operations | Advising operations | Monitoring operations |
| *Board's Failure* | Selecting director | Advising director | Monitoring operations |
| | Managing board responsibility | Managing board composition | Failure to reevaluate strategic mission and board composition |
| | Passive involvement in operations | | Over-involvement in operations |

*Source*: Adapted from Wether and Berman 2001, 18

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[6]This book provides an overview of board responsibilities with a strong emphasis on the fundraising component.

**Organizational Finance and Fundraising.** One of the primary responsibilities of the leadership of a nonprofit organization is fundraising. The specific role can vary according to the needs of the group, but often direct contributions and assistance in fundraising efforts is an expectation of the board of directors. According to *Giving USA*, an annual publication of the Giving USA Foundation (America Association of Fund-Raising Counsel 2005), most of the resources that fund the work of charitable organizations comes from individuals (16). Table 3 illustrates where most of the money comes from that funds nonprofit organizations in the United States. In 2004, individuals accounted for 75.6 percent of all contributions to charitable nonprofits in the United States. Foundations accounted for 11.6 percent, bequests 8.0 percent, and corporations 4.8 percent. Effective fundraising programs have strategies that address all four funding sources.

**Table 3. Sources of Charitable Giving 2004**

| Contributor | 2004 |
|---|---|
| Individuals | 75.6% |
| Foundations | 11.6% |
| Bequests | 8.0% |
| Corporations | 4.8% |

*Source*: American Association of Fund-Raising Counsel 2005, 16

Organizations with few resources usually have more success when they focus on developing the resource base most accessible to them. For many organizations, especially those just beginning their work, this approach includes developing a strong outreach program to individuals who share a passion for issues that the organization hopes to address. These organizations cultivate relationships with foundations and businesses that have interests in the same issues and build networks accordingly. For instance, an organization interested in providing affordable housing to low-income families would do well to network with people engaged in the housing industry such as home builders, realtors, and mortgage lenders. While businesses may provide some support, persons associated with these businesses are more likely to have an interest and passion for housing. As individuals, they are more likely to understand the issues affecting low-income housing and may focus their own individual giving on the kinds of charitable efforts that relate to addressing the housing issues affecting their industry. Attending trade shows, networking events, and other housing industry programs can provide a venue for building a network among individuals likely to support the work of the organization. Once the network is established, fundraising tactics, such as special events and letter writing campaigns that target these individuals, are more likely to succeed.

Grant writing is another important tool for nonprofits; however, it is a strategy that is becoming increasingly competitive as more and more organizations are now applying for the same dollars. The small, community-based group that is just starting is at a distinct disadvantage. It is important for them to network with foundations and other organizations offering grants to nonprofits in order to focus their grant writing efforts on organizations most likely to support their work. The probability of obtaining funding is often not high until a group has operated for a while and has a record of success. Thus, a better strategy for most organizations just starting is to focus on developing their program and establishing a track record of success using the resources they can develop for themselves. Funders are more interested in supporting groups demonstrating some success. They want to be part of something that works.

An effective fundraising strategy often resembles the giving graphic provided in Table 3 in which 75 percent of the effort is focused on individuals, 10 to 15 percent on foundations, and 5 to 10 percent on businesses and bequests. It is also important to note that dollars received from individual donors often come with fewer strings attached and make it possible for the group to develop a program independent of the goals of the funding organization, bequest, or business.

## Sustaining the Organization

The first section focused on the structures of a nonprofit and the responsibilities of the leadership. Sustaining an organization over time can be a challenge as priorities change, community issues come and go, and retooling an organization to meet the needs of a changing environment can be costly. In this section, we will look at factors affecting the sustainability of a nonprofit organization. These factors are based on interviews conducted with leaders of community-based nonprofit organizations.

Those interviewed had been in their leadership position at least five years and were considered successful by those in the community who worked with the organization and by those who received services from the nonprofit.

**Networking.** Successful organizations are good at networking. The leaders of successful nonprofits understand the importance of being able to work with other groups in the community and the benefits of linking to support systems and

networks regionally, nationally, and internationally. These linkages help maintain a system of support, communicate changes that can affect an organization, and provide access to best practices that build the capacity of the organization. In a study of the capacity building efforts of 318 nonprofits, the researchers found that the more organizations reach out to other groups outside their community, the more they learn, increasing the capacity of the organization (Light 2004, 126). Local networking can help to leverage resources, protect autonomy, provide additional services, and make large projects possible. One community leader in the referenced study described a project where it took relationships with more than 40 other organizations to start a transitional housing program for 11 veterans.

**Securing Local Support.** It can take up to five years, sometimes longer, for a group to obtain a stable resource base for an organization. Often, that stability depends on the ability of the organization to develop sources of unassigned money—resources that can be used in any way the organization sees fit. These resources are often necessary to support the basic infrastructure of the organization and to leverage grants and contracts to accomplish important organizational outcomes. In many cases, these resources are a direct result of the entrepreneurial activities of the organization itself. The organizations interviewed were all effective at funding their organizations with the resources they secured locally, and they were often able to use those resources as leverage in applying for grants or winning contracts to provide specific services for their communities. Local support is often used by funders as a measure of local commitment to the organization and its work.

**Purpose, Values, and Principles.** Organizations with a clear purpose, transparent values, and strong principles tend to be very innovative and successful in attracting the attention of other organizations and funding agencies. A clear purpose helps a group focus on topics important to them (i.e., the critical issues they hope to address). Organizational principles articulate how a nonprofit plans to go about the work of developing relationships, managing the organization, and relating to other organizations. Principles often dictate to some degree with whom the nonprofit works and the conditions under which they are able to collaborate with others on programs and projects. Groups are concerned about preserving their identity and not getting lost in a collaborative arrangement. The purpose and principles help groups better manage these relationships and serve as a guide in choosing the work and assessing the organization's success. Values are also important to potential donors. In *On Being Nonprofit*, Peter Frumkin (2002) explores how values and faith often guide people when choosing to invest their charitable dollars. The more transparent an organization is in terms of the values that guide how the nonprofit governs itself

and approaches its work, the easier it is for people who share those same values to support the work of the nonprofit.

**Passion for the Work.** This characteristic is really focused on the leadership but also relates to the capacity of the organization to succeed. Successful organizations—those that are very effective at meeting the goals of the organization—operate on thin margins. Even nonprofits that have existed for years often operate from one month to the next not knowing from where their resources will originate. In other cases, the leadership has invested its own money in the work of the organization to sustain its viability. These leaders have a tremendous passion for their work. In *Creating Caring and Capable Boards*, Katherine Tyler Scott (2000) makes the argument that a passion for the mission of the organization is critical to achieving the purpose of the organization. She believes that by building the capacity of the leadership of the organization, it is possible to cultivate their passion and commitment to the work of the organization.

**Developing a Diverse Resource Base Using Networks and Relationships.** One effective strategy for nonprofits is to diversify sources of support. Successful organizations have funding plans that include a mix of individual contributions, grants, contracts, services, and even products. The most important resources tend to be those under their control such as local giving and some contracts. Finding the right mix of resources is crucial to organizational success and sustainability. Many successful organizations have found that their most stable source of support is local. This is even true in low-income communities. Nonprofits with the best cash flow tend to be groups that have many collaborative relationships. Persons associated with these organizations attend meetings, conferences, and invest in training. Through these networks and relationships, an organization can often secure funding because of the quality of its relationships as opposed to the quality of a grant proposal.

**Flexibility and Creativity (Working with Little Cash).** Most successful organizations can do much with very little support. They are adept at obtaining in-kind contributions and support that make it possible for them to conserve the little cash they have for other purposes. Often organizations negotiate inexpensive or free rent and utilities. Through their collaborative relationships, they can obtain important services free or at reduced rates from accountants, attorneys, and other professionals. Some organizations carefully recruit people with needed skills to serve on their boards, and others look for opportunities to network with other nonprofits or agencies that have resources needed to get a project accomplished. Successful nonprofits are able to identify the resources they have that can be leveraged to attract other resources and are thereby able to offer

many more services than their budget would allow. It could be something as simple as a place to meet. For example, one nonprofit interviewed in this study had the only public meeting space in their community. Since many services were needed in that community, they were able to offer their space for free to agencies and organizations with resources that could serve their community. As a result, they were able to offer healthcare programs, computer courses, and other educational services that otherwise would not have been available simply by offering their space.

**Visionary and Supportive Environment.** Many nonprofits rely heavily on the contributions of volunteers to complete the work of the organization. In the past, volunteers provided many support services but had little to do with the actual operation of the organization. Many successful organizations are now engaging volunteers to provide some of the professional services needed for success. This type of engagement requires that the volunteers participate in the planning and development of the organization's work. In order to keep volunteers engaged, the organization must have a clear vision that reflects the input of the volunteers and builds on their commitment to the work for the organization. Successful organizations create internal support systems that support the needs of the staff and volunteers. In the past, organizations often used volunteers to support the work of staff; whereas today, successful organizations often invest in systems that make it easier for volunteers to do the work of the organization. This tends to be more cost effective and increases the commitment of volunteers to the work of the organization.

**Faith and Commitment.** It is not possible to overestimate the importance that faith plays in the success of a nonprofit. It is not faith in a spiritual sense but, rather, a belief that if the organization does good work and does not give up it will receive the support necessary to keep going. This is especially important when resources and support are down. This faith makes it possible for the staff to continue their work at the beginning of the month not certain that there will be resources at the end of the month to pay for their employment. This kind of commitment is what makes it possible for nonprofits to navigate the sometimes erratic funding environment that many nonprofits operate within. It is not a lifestyle that is for everyone. Even those who have secured public funding or large grants eventually face these types of situations, and it is their faith, commitment, and willingness to do the work with few resources that make it possible for them to keep going even in difficult financial times. These groups tend to be community-based nonprofits, and their work is seldom funded by large foundations and/or government. These nonprofit organizations have a tendency to do the work because they believe in what they are doing (Smith 1997).[7]

**Healthy Collaborations.** Collaborations are not all created equal. There are good ones and bad ones. Since many nonprofits operate on thin margins, they cannot afford to make many mistakes in terms of whom they work with when committing their resources to a project. Often, larger organizations with more resources are not as "in tune" with the needs of the smaller groups and tend to bully them. It is the smaller groups that are often doing the more innovative work. There is a lot of pressure on nonprofits to work with others. Funders want to see evidence of how well groups are able to effectively collaborate with others in order to get the maximum benefit from their investment. All the nonprofits in this study were engaged in collaborative efforts, but they entered these relationships very carefully. Successful nonprofits are able to negotiate relationships in which their identity is protected, their contributions are appreciated, and the expectations are clear both in terms of their commitment of time and resources.

**Working with Funders.** Successful organizations are effective at developing relationships with funding partners. They understand what the funders need and are good at communicating their own needs to potential funders. It is not unusual for funders to have very little understanding of how small nonprofits operate. They are very interested in tapping into the creativity and effectiveness of nonprofits, but they often only recognize the operational and management structures of the larger organizations. It is safer for funders to support larger organizations with more experience managing funds. Effectively educating funders as to how the organization operates, its purpose, what funder investments will be used to accomplish the project, and the implementation of an effective accounting system will go a long way towards building strong relationships with potential funding partners. In the end, funders want to support good programs but often do not know enough about how a group works to support them. Successful organizations are effective at developing relationships with potential funding partners and at articulating the nonprofits' purposes and goals in a way that the funder can support (Klein 1991).[8] It is important for nonprofits to

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[7]D. H. Smith, in his article "The Rest of the Nonprofit Sector: Grassroots Associations as the Dark Matter Ignored in the Prevailing 'Flat Earth' Maps of the Sector," notes that people's passions and beliefs in the work of the organization are what drive them to continue the work even when there does not appear to be much support from funders for that work.

[8]In the book *Fundraising for Social Change*, Klein (1996) provides creative ideas for developing fundraising strategies and for developing relationships with potential funders.

think strategically about how they develop relationships with funders (Connolly and Lukas 2002).[9]

**Focus.** Focus is one of the biggest issues for newer nonprofits. It is complicated by two principle factors. One is that they often do not have sufficient financial support, so they must sacrifice focus to obtain funding. The second factor is that they have not committed to a clear purpose. For instance, a group may form to address issues of low-income housing. They might do a little education, provide rental assistance, develop some property when they have a chance, and participate in other housing-related tasks. These organizations have not developed a clear sense of what they can do well and have not clearly defined themselves relative to other organizations that may provide a similar listing of services. Such nonprofits may succeed for a short period of time, but, because they lack a clear purpose and identity, they often find it difficult to maintain support over time. Successful nonprofits define their purpose and relate their work to that purpose. These organizations may engage in related activities, but their focus on a core purpose makes it easier for the public to understand what they do and to support their work.

**Meeting the Basics.** The capacity to meet basic organizational needs is often the single most important factor affecting the long-term sustainability of an organization. The basics include a place to work (rent and utilities), communications infrastructure (telephone, e-mail, and internet access), tools (computers, fax machines, phones, and other tools depending on the type of organization), and other support necessary to keep the doors open. Often, the leadership of nonprofits is so focused on the work itself that it does not spend enough time on strategies for meeting the basics when resources are limited.

Some successful organizations have invested up-front in getting the basics met. When additional resources are available, rather than hiring new staff, they invest in things that will reduce long-term costs such as purchasing a building or office in which to work or developing relationships with long-term paybacks that reduce the cost of doing business. Strategic alliances are emerging among nonprofits and businesses. In *The Collaboration Challenge: How Nonprofits and Businesses Succeed Through Strategic Alliances*, James Austin (2000) explores how nonprofit organizations are able to respond effectively to change and build strategic relationships with businesses that advance the mission of the nonprofit and meet a need of the business. These relationships are often developed in ways that support the basic infrastructure of a nonprofit.

## Case Studies

In this section, three organizations are examined that participated in a study of the leadership of small community-based nonprofit organizations. Although they each deal with different kinds of issues, the organizations all successfully faced the challenges of running a small, rural, community-based nonprofit over time. One is a community land trust and community development organization that has been involved in housing, economic development, education, and infrastructure development. The second has focused on providing health and education services to immigrants in a rural Midwestern community. The third is an organization that has established a niche in the community by bringing together public and private resources to address issues affecting families and youth.

**Community Land Trust.** The Community Land Trust (CLT) is located in a rural community where land available for housing is very difficult to find. It is a mining region, and almost all available land is held by mining conglomerates. What little land is available is scattered around the region in small parcels. The existing community is a remnant of what was once a mining camp that in its heyday of the 1950s and 1960s had nearly 30,000 residents. The population declined to approximately 3,000 people and has stabilized at its present population of 5,000. The CLT was organized to acquire land suitable for building and to hold the land in trust, selling 100-year leases on the parcels it owned to families wanting to build small homes and remain in the area. There are approximately 40 homes currently located on the land trust. Over the years, the CLT has facilitated the acquisition of land, extension of utilities, and provision of basic community services for those with homes on the trust and others in the area. One of their early projects was the acquisition and development of a small piece of land to serve as a town square where there is a small store, library, post office, and health clinic.

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[9]Connolly and Lukas, in their book *Strengthening Nonprofit Performance: A Funder's Guide to Capacity Building*, provide a helpful resource for nonprofits that desire to better understand the work of funders because the book is written for funders to educate them on how they can best support the work of nonprofits.

The CLT is self-governing in that the board of directors that operates the trust is composed of people who own homes on trust land. It is an activist board; they make decisions about things like land acquisition, extension of utilities, and the selection of potential tenants as well as managing the day-to-day details of the organization. They often collaborate with others in the community on related projects such as getting a clinic located in the community. Funding for the trust comes from a variety of sources. The CLT began working with partners to finance small projects within the scope of their limited resources. After the CLT was established and had built a few homes, it became easier for churches, individuals, and other groups to support the work of the CLT because supporters could see how the project was developing. The CLT's program plan has been to secure five-year commitments from interested supporters so that when they go to bid on a piece of property, they are able to determine how much they can afford to bid and calculate how much they are able to borrow based on the five-year commitments they have received from supporters. This makes it possible for them to acquire larger parcels of land. Income derived from fees and services and volunteer labor from the community take care of most of the maintenance costs. They hold out hope that some day a major benefactor will support their development, but until then, they have managed to do a great deal of work using the few resources they have been able to acquire.

**Latino Center.** The Latino Center is an organization dedicated to helping new immigrants navigate the community and become self-sufficient, acting as a bridge between Latinos and the services available in the broader community that can help them more effectively integrate. The Latino Center provides a central place for Latinos to go. Many partners of the Latino Center are service providers who offer their resources through the Latino Center. They have many projects, focusing their resources on education and health care. According to the executive director, "We are a referral and resource center. The services we provide are provided because we have to do it; the need is there and we cannot say no."

One of the core programs is an after-school program for Latino youth. Volunteers from the Latino Center transport children from the school to the center to attend the program and then transport the youth to their homes after the program. This is an essential service for many working class Latino families because they work odd hours and have few resources or family ties in the community. The program serves about 40 children and their families. Many health programs such as health screenings, counseling, and nutrition programs are offered at the Latino Center. Services are provided in collaboration with community partners in an environment where the participants feel safe and the service providers are able to reach many people.

The Latino Center has an activist board. Board members serve as funders, volunteers, activists, and community contacts. The organization is resourceful in how they access and utilize resources. For example, one board member purchased the building where the Latino Center rents space. The organization receives a discount on the rent, and the first $150 a month towards the rent is paid by the board member. General fundraising is conducted in the community to meet the basics such as rent, utilities, phone, and the internet. Because most of the work is provided by volunteers, getting the basics met is the top priority. The executive director is the only paid staff person and is only paid when resources are available. Fundraising for program activities are tied to the activities themselves.

Grants are also important to the organization because they provide a set amount of resources over a fixed time period. In seeking grants, the Latino Center faces a special challenge. Most funders for education and health programs are not specific to Latinos, so they compete with other organizations and agencies with more experience and stronger ties to the funders. They have had some success with grants, but building the relationships is a slow process. Most of their fundraising success has been based on their ability to develop local resources. They receive some money from local government and the United Way. Most of their resources come from private contributions, solicitations, events, and local partners.

**Community Partnership.** The Community Partnership is an organization dedicated to building networks, engaging in the community, and addressing critical issues in a collaborative manner. According to the executive director, the purpose has been "to bring people together to work together on issues that require collaboration." This partnership has developed projects to address teen pregnancy, reduce homelessness, prevent students from dropping out of high school, and improve access to health care. They serve as the local convener, connecting people who need to be involved in order to make a project work in their small town of 20,000 people.

An example of how they work can be seen in the transportation project. The community was confronted with the closing of a local taxi service. Social service providers were dramatically affected because many of their clients needed transportation, so the Community Partnership facilitated the development of a transportation system.

The taxi service was the first of what became a three-phase project. They operated the taxi service collaboratively until they were able to find a private provider to operate the service. In the second phase, they assembled local partners to establish a fixed route bus system that made a loop

around the community, stopping at health clinics, service providers, schools, and shopping centers. In the third phase, they established a shuttle that took people to appointments with their doctors at the hospital 60 miles away. They used volunteer drivers and charged a nominal fee of $20.

The Community Partnership has a managing board that focuses on providing guidance to the organization's staff. The partnership serves as both a connector in the community and as a provider of services, but their identity is based in their role as the convener. They only play the lead in providing a service when there is no one in the community already providing the service. The Community Partnership has been very effective at acquiring grants and contracts. They have a semi-active board of directors, but most of the fundraising and grant writing is done by staff. They started out with a contract from the state that provided a core resource to get them started. Those resources have steadily eroded since that time. The Community Partnership

invested their initial resource in the hiring of an executive director and paying rent on a place for their work. They have since developed other sources of revenue both in the community and through grants and contracts.

Most of their grants and contracts result from relationships with community partners. They are regulars at community meetings and events. The executive director talks about how these events lead to chance meetings and result in funding opportunities:

> We just have chance meetings. I don't believe they are chance. Some people would call them a chance meeting, but we happen to be at a meeting and someone will be talking about something and you join in the conversation and the next thing you know you've made a connection and Catholic Charities is funding our educator for our teen pregnancy prevention.

## Forming a Nonprofit

Making the decision to form a nonprofit should be preceded by thoughtful deliberation regarding the need for another organization in the community. The process often starts with a group in the community concerned about a specific issue preoccupied with an "if only" consideration. "If only" there was an organization in town that focused on economic development, better jobs would be available. "If only" we had a group concerned about affordable housing, more housing would be available for the low-income people in the community.

Starting a nonprofit can be a relatively simple process, but sustaining such an organization is more difficult. Thus, it is important that an organizing group have a clear sense of purpose and an understanding of what they want to accomplish. It is not enough to say that a group wants to do economic development. The founders need to have a clear sense of purpose. On what aspect of economic development is the organizing group interested in focusing: creating new jobs, attracting new businesses, supporting existing businesses, or increasing investment in infrastructure? Once these questions have been answered then the organizers should scan the community and identify other organizations with similar interests. If a group finds potential collaborators, an initial step may be to work through these groups. This type of collaboration can help a group sharpen its focus, providing time to determine how to structure a nonprofit in a manner that will complement existing community efforts.

Once the decision has been made to form a nonprofit, there are essentially two steps to incorporation (Figure 1). The

first involves creating a formal organization. This includes registering with local and state governments, developing bylaws, and obtaining a federal identification number. The second is to register as a nonprofit with the Internal Revenue Service of the federal government.

Figure 1. Steps to Incorporation
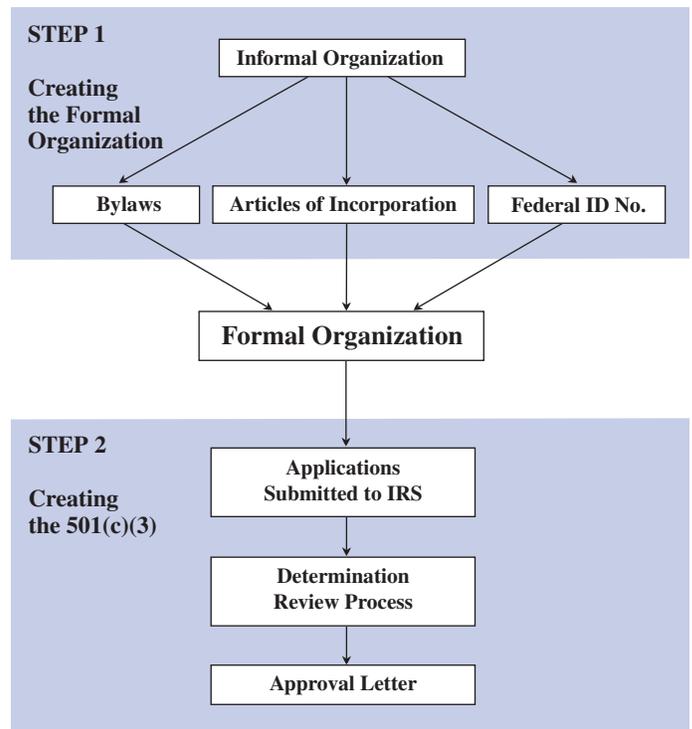
**Creating the Formal Organization.** The three components of Step 1, "Creating the Formal Organization," are not linear. They can all be completed simultaneously. In some states, it may be necessary to adopt bylaws prior to registering with the state where the nonprofit chooses to incorporate. Bylaws are not required prior to incorporating in Illinois.

*Registering with the State*. Actual requirements for registering as a nonprofit vary among states. Some states have fairly sophisticated and stringent incorporation procedures, while others are simple and straightforward. The State of Illinois incorporation process includes registering the name of the corporation, completing a short application, and paying a modest application fee to the Secretary of State.[10] When the registration is approved by the Secretary of State, the Articles of Incorporation will be returned to the organization. Once an organization is established as a nonprofit with the state, then it is important to check with municipal and county authorities to find out if there are local registration requirements. Many localities have no requirements for nonprofits, but it is important to make sure.

*Adopting Bylaws*. Bylaws are the rules and procedures governing the operation of the organization. Bylaws name the organization, describe its purpose, establish the corporation structure, and define how decisions will be made. The bylaws are important to the governance of the organization—spelling out the responsibilities of board members, officers, and others. Some differences exist between the bylaws for a Membership organization and a Board of Directors organization, but both sets of bylaws generally include the following articles:

Article I.      Name of the Organization
Article II.     Purpose or Mission of the Organization
Article III.    Type of Corporate Structure
Article IV.     Terms and Election of Directors
Article V.      Membership
Article VI.     Officers
Article VII.    Committees
Article VIII.   Amendments
Article IX.     Parliamentary Authority

It is important to develop a set of bylaws that reflect and support the purpose of the organization and capture the energy of the people behind the development of the organization, reflecting their values and principles. New organizations often have considerable energy for their work, with a strong sense of purpose and optimism that the work of the group will make a difference in their community. As new nonprofits develop structures to facilitate their work, it is important that they identify restrictions that drain the energy of the organization. An effective set of bylaws will balance the need for structure and the need to maintain an environment that facilitates creativity, maintaining the energy that brought the group together. Many model bylaws are available for an organization to use in guiding the development of a nonprofit organization. Before considering those models, however, it is important for the organizers to review the nine articles listed above and decide for themselves how they want to operate.[11] Once a group has a sense of how they want to govern their work, they can review model bylaws and the bylaws of similar organizations to find specific language that fits the needs of their organization.

*Obtaining a Federal Employer Identification Number*. The third aspect of creating a formal nonprofit corporation is to obtain a federal employer identification number (FEIN).[12] A FEIN is to nonprofit organizations and other businesses what a social security number is to people. It registers an organization with the federal government for the purpose of tracking an organization and its employees in the federal system. With a FEIN, a group can establish bank accounts and conduct business. Once a group has incorporated in their state of residence and received their articles of incorporation, adopted a set of bylaws, and received a FEIN number, they are ready to register the organization with the Internal Revenue Service.

**Registering with the Federal Government.** Many different federal designations for nonprofit organizations exist. All nonprofits that register with the federal government are considered 501(c) organizations and, as such, are exempt from paying taxes on their income. They still must file tax returns (990 form) if they have an income of more than $25,000.[13] They are further divided into categories based on general purpose. Charitable organizations are the most common type of nonprofit and are designated as 501(c)(3) organizations. They must be organized for charitable, educational, religious, or scientific purposes. This is a broad category and includes large institutions like hospitals, universities, and religious institutions as well as small community-based organizations such as neighborhood improvement groups, leadership organizations, food pantries, and faith-based programs. The 501(c)(3) is the most desirable of the federal designations because it has

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[10]The Illinois Secretary of State has published *A Guide for Organizing Nonprofit Corporations*, which is available at **www.cyberdriveillinois.com/departments/business_services/publications_and_forms/nfp.html**.

[11]*Creating a 501(c)(3) Nonprofit Corporation in Missouri* contains a set of questions regarding each of the various articles. These and model bylaws for both a Membership organization and a Board of Directors organization are available at **http://muextension.missouri.edu/cd/orgdev/creating_nonprofit.html**.

[12]The application for the FEIN is available from the IRS at **www.irs.gov/pub/irs-pdf/fss4.pdf**.

[13]More information on the federal tax filing requirements are available from the IRS at **www.irs.gov/charities/article/0,,id=96103,00.html.**

benefits that the other designations do not share. The principal benefit is that 100 percent of all personal contributions made to 501(c)(3) nonprofits are deductible from the donor's income taxes. Foundations, which are also 501(c)(3) nonprofits, are required to use their resources for the same purposes as 501(c)(3) corporations and provide most of their grant funding to nonprofit organizations with the 501(c)(3) designation. In order to receive 501(c)(3) designation, a nonprofit organization must complete the Internal Revenue Service form 1023.[14] The 1023 includes sections that consider the organization's purpose, structure, leadership, and financing. When the IRS reviews an application, they want to identify how the nonprofit organization plans to use the resources it generates and whether or not those resources are utilized for religious, charitable, educational, or scientific purposes.[15]

Most organizations, such as business associations, unions, and economic development organizations, are organized under 501(c)(4) or 501(c)(6) designations. These types of nonprofits are typically organized for purposes that do not qualify for 501(c)(3). Economic development is not a purpose that typically qualifies for 501(c)(3). The primary benefits for economic development activities are not considered broad enough to qualify. The application form is called the 1024 and is the same for 501(c)(4) and 501(c)(6) organizations.[16] If a group is not sure whether they are 501(c)(4) or 501(c)(6), the IRS will help them determine the appropriate status.

Once the paperwork has been filed with the IRS, the organization is formed with all the rights and responsibilities of a nonprofit corporation. While it might seem somewhat complicated to start a nonprofit corporation, incorporation is actually the easy part. The process of managing and recruiting the board of directors or executive committee, hiring and managing staff, program planning, and fundraising are actually more difficult for most organizations.

## Summary

Sustainable nonprofits incorporate many different elements. They establish structures that make it possible for the organizations to achieve their purpose, effectively engage the leadership in the work of the organization, connect with the broader community in ways that support their work, and work creatively to develop systems of support that enable them to continue their work over time.

When considering an organizational structure, it is important to remember that the Membership Model provide opportunities for engaging a large number of people in development but may complicate decisionmaking and slow the work of an organization. Perpetual boards provide a more efficient management model but may struggle to get people in the community engaged in their efforts. The key element in establishing an effective structure is to find a balance between meeting the needs and obligations of a formal organization and having the flexibility necessary to keep people engaged and passionate about the work.

Sustainable funding is the bane of most nonprofit organizations. There are very few reliable sources of funding that extend across time. The most effective strategies start local by tapping into the resources already at a group's disposal, leveraging those resources in creative ways, and thinking broadly about how to meet the organization's basic needs. In-kind contributions—those things an organization receives that are not cash such as donated office space, volunteer time, and other goods and services—are critical to a group's sustainability because they reduce the need for cash and provide more flexibility for the leadership in terms of how the cash is used.

Community-based nonprofits are often at the center of important community issues. They play an important role in helping people understand the impacts of issues and are often at the forefront for developing appropriate remedies. Occasionally, the staff and leadership of nonprofit organizations get so caught up in the work that they overlook the needs of the organization. Nonprofits are often very creative and passionate about how they address the issues that concern them or drive their work but do not bring that same creativity and passion to the development and maintenance of the organization. In order to effectively address the issues that people are passionate about, nonprofits need to set up effective organization and management structures that facilitate the work of the group. If a group can do this, they will increase their chances of doing their work effectively and sustain that effort over time.

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[14]A lawyer or accountant can assist with completing the 1023 form. For those organizations with few resources, assistance is sometimes available through the State Bar Association, Accounting Certification Board, or an area university. The 1023 form is available at **www.irs.gov/pub/irs-pdf/f1023.pdf**.

[15]The workbook, *Creating a 501(c)(3) Nonprofit Corporation in Missouri*, will walk a nonprofit organization through the 1023 application process. This workbook is available at **http://muextension.missouri.edu/cd/orgdev/creating_nonprofit.html**.

[16]The forms are available from the IRS at **www.irs.gov/pub/irs-pdf/f1024.pdf**.

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