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Housing Initiative Clinic Briefs

Management Strategies for Nonprofit Startups

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Much of the Housing Initiative Clinic's work is with nonprofit organizations developing or advocating for affordable housing. This Housing Initiative Clinic Brief reviews key management strategies of successful nonprofits and is intended as an initial reference point for startup organizations.

Overview

This Brief reviews information crucial to the smooth and successful management and functioning of nonprofit organizations. It covers only some of the practices and procedures that a successful nonprofit should employ. Broadly, the topics the document covers include the Board of Directors, the staff of a nonprofit organization, and financial responsibility. There are, of course, many other important practices, policies and procedures that cannot be covered in the short space of this document, including tax exemption and strategic planning.

The Board of Directors

In a legal sense, the Board is the responsible head of the organization. It sets policy and strategy. It is responsible for governing and overseeing operations. It oversees all financial matters. And,

in the end, it is responsible for ensuring the organization fulfills the mission for which it was founded.

Members of the Board of Directors of nonprofit organizations have a duty of care, which requires the Board to make reasonable, rational, well-informed, good-faith decisions on behalf of the organization. There is also a duty of loyalty, which requires the members of the Board to set the organization's interests above their own personal interests and also to avoid conflicts of interest. A written conflict of interest policy is essential.

The organizational documents of the nonprofit will specify the number of Directors. That number must fall within the range specified by the laws of the State in which the nonprofit is incorporated. The key is that the Board has multiple Directors and that, in some sense, a diversity of viewpoints is represented and some independence between Directors is maintained. The idea is that better decisions flow from having more than one person in charge of making them. Not only so, but even with multiple Directors, some independence among Directors should be maintained so that one strong personality does not dominate the group and so that the group does not fall into thinking about problems in only one way.

While the staff of an organization handles the day-to-day operations of the organization, the Board handles strategy and oversight. Thus, the Board may be less "visible" to an outsider than the staff. This is less true in a small organization, where Board members also fulfill staff functions. It is important for everyone in a small organization to keep clear, though, which hat they are wearing (Board or Staff) and what these different roles require of them.

The way the Board stays in touch with the operation of the organization (to ensure things are running smoothly and well, and to ensure the mission is being fulfilled) is by meeting regularly and by calling special meetings if emergencies or other situations requiring immediate attention arise. These meetings can be monthly, bi-monthly, or quarterly. Meeting more infrequently than quarterly may not allow the Board to fulfill its supervisory role effectively. The meetings should not get bogged down in minutiae but should address key areas in which the Board's leadership is essential, including finances, overall programming, and the like.

Typical activities of a Board include:

- Ensuring the nonprofit stays true to its mission
- Outlining the main programs designed to accomplish that mission
- Establishing and managing financial systems through developing budgets, monitoring finances, and setting up controls on the organization's accounting
- Leading and helping with fundraising efforts (tapping into connections in the community)
- Dealing with internal Board management – electing Board officers and finding new Board members to replace outgoing members
- Establishing and overseeing committees to handle special issues
- Hiring and managing an executive director, who oversees staff operations
- Helping promote the nonprofit to the public

Most Boards have a President, Vice-President, Secretary, and Treasurer, but it is up to the organization to determine what structure it wants the Board to have. The bylaws of the organization will usually specify this structure and the relevant duties of the officers.

The following are key policy and procedural considerations for any Board of Directors:

- Number of Directors: see above.
- Terms and term limits on Directors: the term a Board member serves should be specified. Two or three year terms are common. This gives Board members a time frame, both for accomplishing goals and for understanding the length of their commitment. It gives the organization a built-in mechanism for removing Board members who do not meet expectations. A board member whose term expires may be elected for a new term, unless the organization imposes term limits. Term limits may help ensure fresh perspectives, but could be detrimental, because they could cause the organization to lose its best Board members. They should be considered carefully.
- Board members' responsibilities: there should be a document outlining the responsibilities of Board members, in order to create accountability and clarify expectations.
- Performance practices and removal policies: one of the most important things for the Board is that Directors attend all meetings. Thus an attendance policy should be in place (e.g. two unexcused absences from meetings during the year means the Board member may be removed). The process for removing a Board member should be specified in the organization's bylaws, should it become necessary.

The Staff of the Nonprofit

In general, the size of the staff is tailored to the number of activities the organization engages.

Assuming the organization already has a strategic plan in place, which is one of the functions of the Board of Directors, it should have a good idea how many people it will need to carry out those goals.

The smaller the staff, the more informal the structure can be. If the organization only has several volunteer workers, these workers can probably communicate with and take direction from one or two Board members. If, however, the organization determines that it needs to hire paid staff members, it will likely need some formal oversight structure, with an executive director at the top (mirroring the structure of the Board, where the President is “at the top”) to oversee all staff and daily operations.

The following is a list of steps the organization can follow to ensure that it has the right number and right kind of staff and to ensure that the staff is working to fulfill the mission of the organization:

- Create a task list, or outline, of what needs to be done to accomplish the organization’s goals.
- Create positions that will cover the tasks that need to be done.
- For each position created, create job descriptions that are tailored to accomplishing the tasks that have been assigned to that position. Job descriptions are crucial when

interviewing potential volunteers or paid staff and for reviewing their performance once they are working for the nonprofit.

- Create some kind of staff hierarchy. Everyone needs to be accountable to someone. Even in a small organization, the few volunteers in the organization should report to an executive director or a member of the Board.
- Create review procedures. This also serves accountability, in that it regularly allows the person overseeing a staff member to check in on their performance and to suggest ways to improve it.
- It can be helpful to create a handbook for staff that outlines the mission of the organization, the various positions within it, and the policies that govern all employees. This handbook can address: hiring; hours; review procedures; workplace behavior; health and safety; grievance procedures; termination; and many other things that relate to paid staff (sick leave; benefits; parental leave; etc.).
- Create training procedures to orient workers to their jobs and working environment. All workers need basic information about the mission of the organization, its culture, and workplace expectations.

There are a host of issues that become important when paid staff enter into the picture. There are employment laws, tax laws, reporting and paperwork requirements, and a variety of other issues to consider. The regulatory issues governing paid staff are beyond this short document, and nonprofits will need to access lawyers, accountants, and other persons with appropriate expertise to make sure they are handling them appropriately.

Financial Management

It is absolutely crucial for the nonprofit organization to effectively track, manage, and report on its finances. The ability of the organization to attract funding depends on highly organized and effective management of finances. Donors want to know that their money will be wisely used, and they want to know that it will be used for the purposes for which they've donated it. In addition, mismanagement of finances can expose the organization to various types of legal liability. Thus everyone in the organization must view the management of its finances with the utmost seriousness.

The nonprofit needs to have in place a budget that tracks its expectations for both income and expenses for a defined period of time (usually a year). It is very easy to imagine programs that require money. It is much harder to find sources of money to support those programs. Activities should be informed by a realistic assessment of the income the organization expects to receive through grants, donations, and other sources. Once the organization knows how much money it expects to have available, it can then begin to picture the activities it can realistically accomplish. Good budgets cover a variety of different arenas, and it is important to be clear and comprehensive in creating them. The Treasurer for the organization and the Finance Committee, if there is one, can be helpful in taking the lead. Ultimately the budget is the responsibility of, and must be approved by, the Board of Directors.

Regular financial reporting is key to maintaining the organization's tax-exempt status with the IRS; to attracting, expanding, and maintaining the base of donors to the organization; and to ensuring compliance with all legal rules and regulations relevant to the organization's activities.

The necessary reports must be prepared diligently and competently. They should be considered a top priority of any successful nonprofit. Responsiveness to the organizations to which the nonprofit is accountable, particularly when it comes to finances, is a key to its success and vitality. The key reports and the information that must be included within them include:

- Financial statement: this statement has two parts, the Statement of Activities and the Statement of Financial Position
 - Statement of Activities: lists income and expenses over a certain period of time (often a year, but sometimes a shorter time period). The report, in essence, should note all income and expenses of the organization during the period of time being captured (a year, or shorter), so that the organization can track where money is coming from and where it is going. The report can be compared with the budget to track how well the organization has planned.
 - Statement of Financial Position: indicates the net worth of an organization at a certain time. The report, in essence, should note all assets and liabilities of the nonprofit, so that the net assets (assets minus liabilities) of the nonprofit can be determined.
- Independent audits: though not required by law unless the annual budget is greater than \$300,000 (for Illinois nonprofits), it is a good idea for the organization to have a CPA perform a yearly independent audit. This will give the organization greater credibility with donors, and it will often provide useful information for more efficient financial management.

- IRS Form 990 or other tax reporting: a nonprofit with 501(c)(3) status must file Form 990 every year. It reports basic information about the organization. The nonprofit is required by law to provide copies to the public on request. A nonprofit without 501(c)(3) status must file a tax return annually like any other business. State tax returns may also be required.
- Financial reports, whether audited or unaudited, may be required by the state office that regulates nonprofits. In Illinois, this function is performed by the Illinois Attorney General. See <http://illinoisattorneygeneral.gov/charities/index.html>.

Financial controls are procedures that allow income and expenses to be carefully monitored and used appropriately. The leadership (executive director and Board of Directors) set the tone for the organization in terms of the care with which money and financial resources are handled and managed. The following are some suggested methods for keeping the nonprofit's money "moving in the right direction":

- No one person should be allowed to handle all aspects of a financial transaction
- All financial transactions must have adequate documentation
- Require two or more signatures on all disbursement checks, one of which is a member of the Board of Directors
- All financial operations and transactions should have regular and appropriate oversight
- Place financial assets into safekeeping as often and as quickly as possible

- Be aware of the most vulnerable moments (for individuals and the organization) and act accordingly
- Handle any petty cash fund properly
- Purchase a fidelity bond or similar insurance in an appropriate amount each year

Resources

The Housing Initiative at the Mandel Legal Aid Clinic has further literature, presentation capacity, and staff who can explain any of these issues in greater detail. Please contact us if we can be of any assistance to you.