

## 20 Things to Know About Operating Your 501(c)(3)\*

*\*That have nothing (yet everything) to do with your mission*

*This list is not meant to be everything you need to know, nor is it intended to take the place of advice you should receive from your organization's attorney, CPA, or other professional advisor. This is a highlight list gleaned from CFCV staff's years of experience in the philanthropic field and nonprofit administration. We hope it's helpful!*

### Important Relationships

1. **Donors who contribute to your organization are expressing their enthusiasm for your mission and their trust in your organization's administration.** Maintaining and communicating the justification for that trust should be primary for everyone officially connected with your organization. Use donations meticulously for the purposes for which they were donated, and communicate your progress to your donors. It is easier to "do it right the first time" than to try to recover from an organizational mishap.
2. **Develop institutional relationships with an attorney and an accounting firm** with expertise in nonprofit work. You do not need to pay them a retainer, but you should expect to pay them to advise you on organizational setup work – and whatever you pay will be worth it. If your organization doesn't have the funding to establish these relationships, consider the extent to which you are likely to be able to effectively carry out your mission.

### Your 501(c)(3) Status, the IRS, and Receiving Donations

3. **IRS.gov** is your friend. The information is presented well in regular language, and their various publications on things like valuing and acknowledging contributions are extremely helpful.
4. You're **required to make annual filings with the IRS that detail your financial activity** – either a **Form 990, Form 990-EZ, or Form 990-N**. See "Life Cycle of a Public Charity" at [irs.gov](https://www.irs.gov). The reports you submit are public information and are now published on a number of accessible websites, including Candid/GuideStar ([candid.org](https://candid.org)) and the IRS' Tax Exempt Organization Search. Not filing for three years in a row will result in automatic revocation of your organization's charitable status. You may also have an annual state tax filing requirement.
5. You are **responsible for knowing the difference between – and the requirements for – an Employer Identification Number (EIN), your federal 501(c)(3) status, and annual registration with the appropriate state official's office**, both as an entity and as a charity in any state in which you plan to solicit donations (GA & AL links below). You may also need a local business license.

# NONPROFIT/ORGANIZATION

6. **Audits** are recommended by best practices and/or required by individual states for organizations at certain revenue levels. Know when an annual audit is right for you. (GA organizations see, below, the Secretary of State's "How-To Guide: Charities.")
7. **You are required by law to issue "contemporaneous" tax receipts for every donation that is over a specified amount** to confirm your donors' ability to deduct their gifts. There is specific language that must be included in the receipt that acknowledges the fair market value of any benefits received in exchange for the donation. Most organizations roll this language into their gift acknowledgement. See IRS Publication 1771 (IRS.gov). Managing this improperly can result in donors' tax deductions being denied.
8. In most cases, items "won" at an **auction or sale** sponsored by a charity are not tax-deductible except for the extent to which, generally, the "winning bid" exceeds the fair market value of the item as documented prior to the auction. You are required to know this and include such information in any tax receipts you issue. Rules for donors of items are likewise specific. See IRS.gov "Charity auctions," and Publications 1771 and 561.
9. **Raffles** aren't as simple as they may seem! They normally must be registered at a state and/or local level (Muscogee County, GA, registration link below). Also, see IRS Notice 1340 on Tax-Exempt Organizations and Raffle Prizes. Raffle ticket purchases are not tax-deductible, since purchasers are anticipating that they have a chance to win the prize.
10. Your organization is "**tax exempt**" in that it is exempt from federal income tax on its charitable activities, and donors are normally able to make donations to your organization that are deductible to some extent on their federal income taxes. But your organization still must pay state sales taxes and may be required to pay taxes on any Unrelated Business Income you generate.
11. Your public charity is likely to be required to substantiate each year on your Form 990 that you pass the "**Public Support Test.**" The test requires you to share the calculation that you receive at least one-third of your support from the general public, or that you pass a "facts and circumstances test" if you receive between 10 percent and 33-1/3 percent. The calculation is complicated and takes into account donors who are related to each other; we recommend you have the professional advisor who prepares your Form 990 calculate the equation. The stakes are high: if, after five years of operation, you fail to pass the public support test, you will be declared a private foundation, which has major implications on the gift limits of deductibility and what donations you can receive.

## Your Board

12. **Your board members are an integral part of your organization's team** and should represent levels of knowledge in addition to those that your staff holds. Never hide anything from your board: your policy should be total transparency. If you don't know how to do something, start with your board members for advice. They should set policy for your organization; staff (if applicable) should report on how operations relate to that policy and — ultimately — your mission.

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13. **Your board is legally responsible for overseeing the operation of your business.** If your organization does something wrong and is sued, your board members can be held personally liable. You should consider D&O and E&O insurance.
14. Your board should have a **Conflict of Interest Policy** that prohibits special business considerations for an organization, business, or individual due to a relationship with anyone on your board or staff. You likely want to have board members formally acknowledge the policy via signature on an annual basis.
15. **A formal Board Rotation Policy is also a good idea.** It's also important to codify, in your Bylaws or Policies, how your organization selects board members: who chooses them, when, and through what process. Consider a board job description and a written description of the board member characteristics your organization is looking for.
16. You should have regular board meetings throughout every fiscal year. **At every meeting the board should see a Profit and Loss Statement and have some picture of your progress toward your annual budget**, showing both revenue and expenses. You should HAVE an annual budget that, in almost every case, itemizes and balances anticipated revenue & expenses to -0-.

## Formal Financial and Operating Policies

17. **If your 501(c)(3) is paying employees or contractors, there are reporting and filing requirements for each.** Your organization is responsible for knowing the requirements and fulfilling them according to specific schedules. See included links for a good FAQ from the Georgia Department of Labor.
18. Have **written policies and procedures for handling incoming and outgoing money:** who handles it, where it is entered, how it is accounted for. Separate duties as much as possible. Ideally, have an accounting firm help your board and staff develop your policies.
19. Also consider a **Document Retention Policy**, developed in conjunction with your professional advisors, to make sure you're able to access the documents you need for your regular reporting or an audit. Other important policies to consider include a **Gift Acceptance Policy, Whistleblower Policy, Reimbursement Policy, Credit Card Issuance and Use Policy, Executive Compensation Policy, and Investment Policy.**
20. **501(c)(3)s must know the rules surrounding participation in advocacy versus political activity.** In general, the latter is prohibited but a limited amount of advocacy is allowed and can be an effective part of your charitable mission. See the included links for further information.



## Helpful Links to Learn More

IRS.gov - Life Cycle of a Public Charity:  
<https://www.irs.gov/charities-non-profits/charitable-organizations/life-cycle-of-a-public-charity>

Candid Knowledge Base – How do I start a nonprofit organization?

<https://learning.candid.org/resources/knowledge-base/starting-a-nonprofit/>

IRS Tax Exempt Publication Search:

<https://www.irs.gov/charities-non-profits/tax-exempt-organization-search>

GA Secretary of State Business

Registration: <https://ecorp.sos.ga.gov/>

GA Secretary of State “How-To Guide:

Charities”: <https://sos.ga.gov/how-to-guide/how-guide-charities>

AL Attorney General’s Charitable Organization Registration:

<https://www.alabamaag.gov/licensing-registration/charitable-organizations/>

The National Council of Nonprofits’ List of State-by-State Audit Requirements:

<https://www.councilofnonprofits.org/running-nonprofit/nonprofit-audit-guide/c/state-law-nonprofit-audit-requirements#:~:text=A%20charitable%20organization%20with%20gross%20revenue%20in%20excess%20of%20%24500%2C000,prepared%20by%20an%20independent%20CPA>

Raffle registration link for raffles in Muscogee County, GA:

<https://ccg.azurewebsites.us/Portals/3/Sheriffs-Office-Raffle-License.pdf?ver=BN-sCkAbEQCEGdXbnsQbCw%3d%3d>

Georgia Department of Labor –

Employers FAQs – Laws & Regulations:

<https://dol.georgia.gov/faqs-employers/employers-faqs-laws-and-regulations>

“Churches, Charities and Politics”:

<https://www.irs.gov/newsroom/charities-churches-and-politics>

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