

# Starting a Nonprofit Toolkit 2018

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# Nonprofit 101

Launching a new nonprofit organization can be a daunting task. This section helps you understand what it means to be a nonprofit and some of the questions you should consider before actually getting started. Have you done your basic market research? Have you considered alternatives? Have you gathered input from advisors, close connections, potential partners, and community stakeholders? Do you have the time and resources, and even the personality, to start a new nonprofit? Read below for more information to help you answer these questions!

## NONPROFIT ORGANIZATIONS

A nonprofit organization is one that exists for the public good and a mission that benefits society, rather than to benefit individual owners. Any generated income or property owned by a nonprofit, whether profit or not, is used to support the mission of the organization. However, just like any business, a nonprofit must make sure that its revenue exceeds its expenses. When an organization becomes a nonprofit, the nonprofit belongs to and is legally “owned” by the community, not by its founder(s). Thus, there is a board which represents the community and makes decisions for the organization.

In Virginia, nonprofit organizations are referred to as nonstock corporations and are governed by the Virginia Nonstock Corporation Act. As a nonstock corporation, the nonprofit is a separate entity from its members so it can own its own property and bank accounts and offer limited liability for its members.

Nonprofit organizations may be eligible for tax-exempt, 501(c) status with the IRS, which, if obtained, makes them exempt from federal income tax. Donations made to qualified charitable organizations - mainly 501(c)(3)s - are also tax-deductible. As part of this deal, nonprofit organizations are required to provide benefit for the public good in accordance with their mission.

You might consider starting a nonprofit if you have identified an unmet need in your community and believe that nonprofit structure is the best option for responding to the need. Starting a nonprofit corporation can be a way to formalize an existing charitable activity and to be eligible for grants and tax-exempt donations. However, it is important that you conduct your due diligence and basic market research, as you would with any business, to determine if there truly is a need for a new nonprofit.

*[“For Love or Lucre.”](#) Jim Fruchterman, Stanford Social Innovation Review.” Spring 2011.*

*[“To 501\(c\)\(3\) or Not to 501\(c\)\(3\): Is That the Question?”](#) Nonprofit Quarterly. December 21, 2003.*

*[“What are the Advantages/Disadvantages of Becoming a Nonprofit Organization?”](#) GrantSpace.*

*[“What are the Rules for Nonprofit Organizations: Boards and Governance.”](#) Board Effect. June 5, 2017.*

## ALTERNATIVES TO STARTING A NEW NONPROFIT

- Partner with an already established nonprofit compatible with your ideas and values
  - Join them as a volunteer, board, or staff member
  - Donate to support their work
  - Collaborate to develop a special project to meet a specific public need
- Organize a committed group of volunteers to address the need
- Start a local chapter of a national organization if there isn't already one
- Consider fiscal sponsorship: a fiscal sponsor shares its tax-exempt and tax-deductible status with the sponsored program, and the new program operates under the fiscal sponsor
- Become a social entrepreneur running a for-profit business with social goals and charitable causes in mind

*[“Alternatives to Forming a Charitable Nonprofit.”](#)* Gene Takagi and Emily Chan, The American Bar Association. August 2009.

*[“Alternatives to Starting a Nonprofit.”](#)* Joanne Fritz, The Balance. July 26, 2018.

*[“Fiscal Sponsorship: A Balanced Overview.”](#)* Nonprofit Quarterly. January 19, 2016.

*[“The Stigma Against Fiscal Sponsorship Needs to End.”](#)* Vu Le, Rainier Valley Corps. June 14, 2017.

*[“Fiscal Sponsorship: The What and Why.”](#)* Propel Nonprofits.

*[“Comparing Two Routes: 501\(c\)\(3\) vs Fiscal Sponsorship.”](#)* Inquiring Systems.

## QUESTIONS TO ASK BEFORE LAUNCHING A NEW NONPROFIT

- Have you conducted due diligence and market research to show that there truly is a need for a new nonprofit? (see below)
- Is incorporation necessary for what you want to achieve? Many charitable organizations choose not to incorporate or seek tax-exempt status
- Must you incorporate to receive the funds you need? You don't have to be a nonprofit to accept donations, only if you want the donations to be tax-exempt
- Are you comfortable with shared control with a board of directors?
- Do you have a clear idea of what success would look like? Do you have specific goals and outcomes to measure success?
- Will others in your community commit time and resources to your cause? An engaged board of directors will be essential in growing your nonprofit, and nonprofits belong to the community and can only thrive with community support
- Did you consider alternatives to starting a new nonprofit (see above), and have you decided that moving forward is the best route?
- Can you clearly state your mission, vision, and business model? See the next section for more information.

## OTHER THINGS TO CONSIDER BEFORE GETTING STARTED

- A nonprofit is often referred to as a business but with a double-bottom line of both financial and social impact. Starting and running a sustainable nonprofit requires the same market research, planning, resources, revenue, paying of bills, and work that a for-profit business does plus, for example, restricted funding, increased scrutiny from the government, and accountability to the community it serves.
- Nonprofits face increasing competition - there are already over 650 nonprofits in the greater Charlottesville/Albemarle area that address a comprehensive range of community needs: health, education, poverty, homelessness, arts, the environment, and more
- Many nonprofits end up dissolving, becoming inactive, or operating in financial distress
- There is no “free money” for nonprofits – you will have to apply for various grants and loans, all with their own applications and eligibility requirements. Foundations and corporations can establish how any money they donate will be used.
- A compelling mission and unbridled enthusiasm for your nonprofit are necessary but not sufficient attributes for nonprofit sustainability. If stakeholders and the community are not supportive, then the mission can’t be sustainable.

[“Starting a Nonprofit? Do You Really Want To?”](#) BoardSource. June 20, 2016.

[“Someone Wants to Start a Nonprofit? Quick, Grab the Torches and Pitchforks!”](#) Vu Le, Nonprofit AF. February 25, 2018.

[“The 4 Most Common Nonprofit Startup Mistakes.”](#) Joanne Fritz, The Balance. September 30, 2017.

[“How is a Nonprofit Different from a For-Profit Business?”](#) Joanne Fritz, The Balance.

## BASIC MARKET RESEARCH: KNOW YOUR CLIENTS AND COMPETITION

If you’re considering starting a new organization, you should begin by gauging community support and conducting basic market research on your potential clients and their needs. Conducting your due diligence can help prevent starting a new nonprofit only to discover that the services are not needed. Being able to demonstrate that the need exists helps validate your organization to the community, as well as to funders. To help gauge community support, you could share your ideas, ask questions, and gather input from advisors, close connections, potential partners, stakeholders, the population you would like to serve, and leaders of existing organizations.

As part of your due diligence, you should conduct basic market research on what related nonprofits are currently doing, and if they are already addressing the public need you would target. You will want to show (and, funders and donors will want to know) that you are addressing an unmet need in the community. If there are other nonprofits already doing similar work, then you will just end up competing with them for both clients and funding.

You will need to do research to establish that your nonprofit is needed because needs are not currently being fully addressed by the current programs in the regional area. This is known as a needs assessment. You start this process by doing what is known as an environment scan. Research all of the programs that are currently serving the greater regional area, and you may want to extend this to a broader search to see if there are national programs that are providing the service locally. In your research, you will want to collect the following information:

- What population do you serve?
- What do you provide?
- How do you provide your service?
- Are there eligibility requirements for people to receive your service?
- Are there people who you cannot currently serve due to eligibility requirements, location, overwhelming requests for service?

The second part of the needs assessment is researching the population that you would serve to determine that there truly is a need, and that you would be serving enough individuals to justify starting a new nonprofit, as opposed to, perhaps, a program under a currently existing nonprofit. Based on your criteria of who you would serve, how many individuals would meet your criteria? How many would be eligible for your services? How many would be interested in participating? This research will also be important to show that there are enough individuals going forward who would need your services, and to create a referral stream to your nonprofit and your resources.

Then, you'll want to review what you've learned about how many individuals would be eligible for your services as well as the environment scan of what organizations are already doing. If an organization doesn't already exist to provide the services you want to offer, it may be a good indication to start one, or it may mean that there isn't a need for the organization.

After the research, step two is business planning. The information collected during your needs assessment will be incorporated into the business canvas. See below for a nonprofit business canvas that provides a planning framework.

Check out CNE's [Member Directory](#), searchable by service and focus areas, to start researching organizations with potentially like-minded missions in Virginia. As part of your research, you could look into what grants may potentially be available to you if you were to start a nonprofit. You can make an appointment to use the Foundation Center, a searchable online database of grants, on-site at CNE in Charlottesville [here](#), or you can search [here](#) for a Foundation Center near you.

*["Competitive Positioning: Why Knowing Your Competition is Essential to Social Impact Success."](#)* Nonprofit Quarterly. March 20, 2018.

*["The One Page Business Plan for Nonprofits."](#)* Skylance.

*["How to Use an Environmental Scanning Tool."](#)* CNE.

*["How to Start a Nonprofit Organization."](#)* Authenticity Consulting, LLC. August 2010.

# Getting Started

If you've conducted your due diligence and market research and have decided that starting a new nonprofit organization is the way to go, a good place to start is formulating your organization's mission and vision statements as well as continuing to work on the business plan. Both of these will help guide the governance and operations of the nonprofit, especially in its early development stage.

## THE MISSION AND VISION STATEMENTS

A mission statement is a short (usually one sentence) description of the reason your organization exists – what you do and who you do it for – while the vision statement describes the future you are working towards. In general, the mission and vision statements should address the following questions:

- Why should this organization exist?
- What do you do and who benefits?
- What is the scope of services?
- What problem are you trying to solve?
- What will success look like?

Effective mission statements are focused, informative, and memorable. The mission statement will be important in guiding strategy and decision-making, as well as providing inspiration.

[\*"Mission & Vision Statement Worksheet."\*](#) Top Nonprofits.

[\*"Mission Possible: Improving Your Organization's Mission Statement."\*](#) Daniel J. Myers, Council of Nonprofits.

[\*"7 Ways Nonprofits Can Avoid Mission Creep."\*](#) Joanne Fritz, The Balance. November 24, 2017.

[\*"Mission, Vision, and Values."\*](#) Stanford Graduate School of Business.

## ARTICLES OF INCORPORATION

With the mission and vision statement and a business plan in process, the next step typically is to incorporate the nonprofit organization and file for tax-exempt status. We recommend that you seek legal guidance as you incorporate a new nonprofit organization and seek 501(c) status. It can be a tricky and tedious process, and of the assets and resources you have available, a lawyer who specializes in nonprofit organizations and formation can be a great investment. You can contact your local bar association for lawyers for suggestions, or contact CNE for names of attorneys who regularly work with nonprofits if you are located within Central Virginia.

To incorporate a nonprofit organization, you must file the organization's Articles of Incorporation with the Virginia State Corporation Commission. The Articles of Incorporation is a legal document that contains the nonprofit's basic information, including:

- Name of the nonprofit – before you file your Articles of Incorporation, contact the Clerk's Office of the Virginia State Corporation Commission to confirm availability of the corporation name
- Name and address of registered agent
- Legal address of the nonprofit
- Duration of the nonprofit corporation
- Name of incorporator(s)
- Name and address of directors
- Statement of purpose

["Nonprofit Formation Documents: Articles of Incorporation, Bylaws, and Organizational Minutes."](#) NOLO.

["How Do I Incorporate a Nonprofit? Where Can I Find Sample Articles of Incorporation?"](#) Grantspace.

["Articles of Incorporation for Nonprofits."](#) Digital Media Law Project. August 2, 2010.

["FAQs: Virginia Nonstock Corporations."](#) Commonwealth of Virginia State Corporation Commission.

## **BYLAWS**

You must also draft bylaws for your nonprofit. You are not required to file bylaws with the state, but you are expected to have them readily available. Bylaws are the main governing document for your nonprofit and answer basic questions about how the board of directors and nonprofit function. As such, it will be important to regularly review them. The bylaws should address items such as:

- Responsibilities of the board and how it will function such as size of the board, terms and term limits, electing and removing officers, and rules and procedures for holding meetings
- If and how committees will be set up
- Membership regulations, if any
- How the bylaws can be amended

It's important to keep bylaws flexible and reserve the details for policies, which can be changed at any time.

["What are Nonprofit Bylaws? Where Can I Find Samples?"](#) Grantspace.

["Bylaws Checklist."](#) Jan Masaoka, Blue Avocado. June 2, 2010.



*[“The 15 Most Common Nonprofit Bylaw Pitfalls: How to Avoid the Traps.”](#)* Jeffrey S. Tenenbaum and Kristalyn J. Loson, Venable. October 14, 2013.

*[“Nonprofit Bylaws and Template.”](#)* Harbor Compliance. September 17, 2013.

## **MAKING IT OFFICIAL**

While you are completing the organization's corporate documents, recruit and/or appoint the board of directors (see next section). Once you receive your Certificate of Incorporation from the State Corporation Commission:

- Hold an organizational meeting to appoint directors, adopt the bylaws, and review the business plan
- Create a records book to store the organization's important documents

Don't forget to get your Employer Identification Number:

- Request from the IRS, done via [online application](#)
- [Apply](#) for an account number with the Virginia Employment Commission

And register with the appropriate state agencies:

- Virginia Department of Agriculture and Consumer Services to [register](#) as a charitable organization
- Department of Revenue to [register](#) for state business taxes

Apply for tax exemption:

- [501\(c\)\(3\) tax exemption](#). The IRS recently has a [short form](#) for small organizations to file for tax-exempt status. For more information on this short form, please see [here](#).
- Incorporation with the state creates the legal entity, but filing with the IRS for 501(c)(3) tax-exempt status, if approved, allows for donations to be tax-deductible

*[“Starting a Nonprofit Organization.”](#)* Hurwit and Associates.

*[“How to Start a Nonprofit in Virginia.”](#)* Harbor Compliance.

*[“Virginia Nonprofit Compliance.”](#)* Harbor Compliance.

*[“Must-Have Board Documents.”](#)* BoardSource.

*[“Can I get funding while I am in the process of incorporating or getting tax-exempt status?”](#)* GrantSpace.

# Board of Directors

The final crucial step of launching your new nonprofit organization is to form the first board of directors, who will be essential in helping the nonprofit function as a healthy organization focused on achieving its mission. The board is the governing body of the nonprofit responsible for establishing the nonprofit's mission and direction. Boards at their best can amplify, leverage, catalyze, innovate, and strengthen the work of the organization. Organizations can be good, but they can't be great without an engaged board and strong governance.

## BOARD RESPONSIBILITIES AND TASKS

- Establish and evaluate the organization's identity and direction
- Build a competent board
- Protect assets and ensure sufficient resources
- Provide financial oversight
- Ensure legal and ethical integrity
- Enhance the organization's public standing
- Monitor programs and services
- Hire, support, manage, and evaluate the first executive director (see table below)

[\*"What Does Board Service Entail?"\*](#) BoardSource.

[\*"Checklist of Board Roles and Responsibilities."\*](#) BoardSource.

[\*"Board Responsibilities and Structures – FAQs."\*](#) BoardSource. June 2, 2016,

[\*"Board Size: Finding the Sweet Spot."\*](#) BoardSource. March 9, 2017.

## CHOOSING THE FIRST BOARD

At the beginning, you will want to recruit board members who have genuine passion for the mission, time and energy to commit, a good understanding of client needs, and useful expertise (i.e. start-up, finance, fundraising, strategy, etc.) You could consider recruiting a few board members who have served on boards before. You should also consider including recipients of the programs and services as board members. These individuals can provide valuable perspective on the formation of the organization as well as ongoing feedback, evaluation, and course corrections. Below are resources that can be helpful in terms of questions a potential board candidate might ask, and questions that an organization may ask. Individuals and organizations should conduct their own due diligence and vetting process to evaluate board fit.

[\*"How to Start a Nonprofit and Create a Board."\*](#) BoardEffect. July 27, 2018.

[\*"Questions to Ask Before Joining a Board."\*](#) BoardSource. June 18, 2016.

[\*“Questions the Organization Will Ask You as a Prospective Board Candidate.”\*](#) BoardSource.

[\*“Evaluate Board Candidates.”\*](#) BoardSource.

[\*“Connect with the Nonprofit Board.”\*](#) BoardSource.

## **BOARD DIVERSITY**

Boards thrive, ask tougher and better questions, and make more informed decisions with a diversity of skills, experiences, characteristics, and perspectives. You could consider articulating the board’s commitment to diversity and inclusiveness early in the recruitment process, and discuss alongside board member expectations and responsibilities. Below are a few resources on the benefits of diversity in the board room and tools for the board to begin and continue keeping board diversity top of mind.

[\*“Diversity, Equity, and Inclusion on Boards.”\*](#) BoardSource.

[\*“Diversity on Boards.”\*](#) National Council of Nonprofits.

[\*“Beyond Political Correctness: Building a Diverse Board.”\*](#) Bridgespan.

[\*“Board Profile Worksheet.”\*](#) Propel Nonprofits.

See here for more [Justice & Equity resources](#).

## **INDIVIDUAL BOARD MEMBER EXPECTATIONS**

Board members are fiduciaries of the organization’s resources and guardians of its mission. A fiduciary is one who acts legally on behalf of and in the best interest of another. Legally then, the board acts as a trustee of the organization’s assets and ensures that the nonprofit is well managed and remains fiscally sound. Board members, as stewards of public trust, must always act for the good of the mission, rather than for the benefit of themselves. They need to exercise reasonable care in all decision-making, without placing the organization under unnecessary risk. This breaks down into a:

- **Duty of Care:** Active participation, reviewing reports, complying with filing requirements, asking tough questions
- **Duty of Loyalty:** Disclosing conflicts of interest, confidentiality, adhering to policies, representing the organization well and acting as an ambassador and advocate in the community
- **Duty of Obedience:** Remaining faithful to the mission, acting consistently with the goals of the organization, complying with bylaws and applicable state and federal laws

[“Board Member Job Description.”](#) BoardSource. May 25, 2016.

[“Responsibility & Liability of Nonprofit Board Members.”](#) Virginia Society of Certified Public Accountants. September 2011.

## **INITIAL MEETING AGENDA**

This meeting is a time to come together and begin the formal activity of the board. Any decisions made should be recorded in the first meeting minutes. The board should consider the following actions during the first board meeting:

- Draft, review, or adopt the mission and vision statements, articles of incorporation, and bylaws
- Review and provide feedback on the business plan
- Elect officers
- Draft board member job descriptions, assign duties, and choose individual goals

[“7 Strategies for More Productive Nonprofit Board Meetings.”](#) Joe Garecht, The Fundraising Authority.”

[“Board Meetings: FAQs.”](#) BoardSource. May 25, 2016.

[“Compare Traditional and Strategic Board Agendas.”](#) The National Council of Nonprofits.

## **DIFFERENCES BETWEEN THE BOARD AND STAFF**

The board of directors is responsible for the governance of the nonprofit. Most often, board members are volunteers. Depending on your nonprofit’s lifecycle, you may choose to bring on paid staff members. It is best if voting board members are not also paid staff, and that business affiliations with board members are disclosed and managed to avoid the perception of a conflict of interest.

One common first staff position is the Executive Director (or President/CEO), the key leadership staff member whose main responsibility is to implement the vision of the organization and manage the day-to-day operations of the nonprofit. The Executive Director reports to the board, and staff hired later will report to the Executive Director. Whether a nonprofit has paid staff or is all volunteer, it’s important that the board make time for governance and looking forward.

[“Nonprofit Lifecycle.”](#) Social Impact Architects. 2017.

[“Board and Staff Responsibilities.”](#) Free Management Library.

[“Dividing Duties Between Board and Staff.”](#) Nonprofit Network.

*"The Board Chair & CEO Partnership."* BoardSource.

*"What Staff? Keeping Operations and Governance Separate in an Organization with No Staff."*  
Nonprofit Quarterly. September 27, 2013.

*"All Hands on Board: The Board of Directors in an All-Volunteer Organization."* BoardSource. 1999.