

Setting Up a Nonprofit

Should You or Shouldn't You?

Prepared by



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Are you thinking about setting up a nonprofit?

Have you considered that nonprofits are corporations, too? The most successful nonprofit organizations thrive when leaders understand that operating like a business while applying Best Practices helps to ensure mission delivery.

Starting any form of business enterprise—either for-profit or nonprofit—demands careful consideration.

What is your product or service?

Is it unique or duplicated effort? Will people buy it (or make gifts to it)?

Will investors support it (or make grants to it)?

As you fulfill your mission, what best practices, essential policies, and ethical applications must be applied?

The bottom line?

Filing the initial paperwork to create a nonprofit is only the beginning threshold associated with starting a nonprofit. There much more heavy lifting that follows:

- Managing volunteers
- Providing care and feeding for a board of directors
- Planning for the hiring of qualified staff
- Meeting (and exceeding) best practices
- Raising funds
- Managing a budget
- Raising funds (again)
- Developing programs and policies
- Measuring your impact
- Ensuring annual filings to meet state and federal requirements
- Publishing an annual report, (and, did we say, raising funds?)

These all require a unique set of skills and careful time management.

Many of us still take the plunge. For instance, in Loudoun County 2012, there were 350 public charity nonprofits. By 2018, that number had increased to more than 1,200. Such growth represents the entrepreneurial spirit of local residents. It also suggests potential duplication of effort and competition for the same funder dollars. In a community like Loudoun, with its lackluster charitable giving rate, this is less than ideal.

We offer these steps and resources to help our local Loudoun and Fauquier residents carefully consider the journey of creating a nonprofit:

1. Research

Understand the risks and challenges associated with starting a nonprofit.

If you identify charities with similar missions, reach out to them to better understand their niche. What makes your vision different? Or, are your personal resources better deployed by supporting that existing nonprofit?

2. Learn

Talk with experts in your community to understand the needs and services you hope to fill, gain insights into charitable giving patterns, and affirm services—or gaps—in existence.

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At this stage, we invite you to visit with the staff of the Community Foundation for Loudoun and Northern Fauquier Counties. In some cases, our services as Component Fund Builders may meet your needs without creating a separate nonprofit. To meet with the Community Foundation staff, email info@communityfoundationlf.org to request a meeting time.

3. Plan

A for-profit business would rarely think of starting without a business plan. Nonprofits are most impactful and successful when they approach their work with the same due diligence.

The Loudoun County or Fauquier County Small Business Association is an ideal second step to benefit from their expertise in business plan development.

Get ready for fundraising and more importantly, “asking.” In most cases, a newly formed nonprofit must seek individual donations,—and especially from its own board of directors—as most institutional funders shy away from granting funds to new enterprises. Think “investors” rather than special events or bake-sale tactics. No business would launch without ready capital. Position your nonprofit with start-up resources.

Some institutional funders require that you’ve filed at least one year of your IRS tax return and undergone some form of outside financial compilation, review, or audit before consideration for grant funding can be made.

More than a business plan, nonprofit organizations need to develop a specialized plan that includes financial sustainability with a **nonprofit fundraising plan**. Try searching the internet using that phrase; you’ll find numerous examples.

4. Launch

Creating a board of directors who are invested in your vision—as well as financially connected or personally generous—is a critical first step as you prepare to file paperwork with Virginia, and later, with the Internal Revenue Service. Look for individuals who have passion for your mission, but equally important, affluence or influence.

According to the National Center for Charitable Statistics (NCCS), more than 1.5 million nonprofit organizations are registered in the U.S. This number includes public charities, private foundations, and other types of nonprofit organizations, including chambers of commerce, fraternal organizations and civic leagues. It's important to understand how these challenges will affect your nonprofit, because the failure rate of new nonprofits is high. Plus with more than 1.5 million established nonprofits in the US, you could be facing some tough competition.

Below are a number of articles or links worth your time as you research and consider. Please note that some of these sites may require your email and encourage purchase of software and materials.

Virginia's Center for Nonprofit Excellence has a wealth of materials and go-to sources that can help, and nearby offices in Warrenton, Virginia.

Visit the Center for Nonprofit Excellence at: <https://www.thecne.org/>

Advice and Wisdom

Carol Smith, Founder of a newly emerging nonprofit, Crossroads Jobs, offers her own pearls of wisdom

Do your homework. Make sure another nonprofit or government agency isn't already filling the need in your community.

- Ask yourself **why you are doing this.**
- **Self-awareness** is critical. What are you good at? What are you not good at?
- **Put together a good board.** Create job descriptions for board members, e.g., treasurer, marketing, IT specialist, grant writing, etc.
- Unless you have a wealthy benefactor, **have basic financial support** before you start through committed donors.
- **Expect to squeak by for the first year or two** (maybe more) so be prepared for this. If you are not good at fundraising, make sure you have someone on board who lives and breathes for "the ask."



Starting a nonprofit is hard.
Sometimes it is overwhelming.
You will have sleepless nights. . . .

Suggested Checklist of Documents, Policies, and Requirements for a Nonprofit in Good Standing

- An Internal Revenue Services and Letter of Determination that the new entity is a 501(c)(3) public charity in good standing.
- Articles of Incorporation Bylaws List of current Board members (minimum of 3) Establish organization's fiscal year (eg, January 1-December 30 or July 1-June 30)
- Charitable Solicitation Registration in every state that the organization solicits donations (Virginia requires annual filing of Virginia Form 102 through the Department of Agriculture and Consumer Services Office of Charitable and Regulatory Programs)
- Annual filing of a Form 990, Form 990EZ or Form 990N, as required by the IRS.
- Annual filing of Virginia State Corporation Commission Annual Report. Board approved written Conflict of Interest Policy (required for 990); renewed and signed annually by every Board member.
- Board approved written Whistleblower Policy.
- Board approved written Document Retention and Destruction Policy.
- Board approved written statement for review and comparison of salary compensation for key personnel/executive director.

Documents Recommended as Best Practice and/or Often Required for Grant Funders

- A Board approved fiscal year budget, to be approved annually. Filing for Virginia sales tax exemption.
- For organizations intending to advocate or lobby for policy, filing of the 501(H).
- A Board membership of at least five individuals, with no more than 30% of the majority comprised of family members. The term "family member" with respect to an individual shall mean his or her spouse, and his or her brothers and sisters, ancestors, and descendants, and the spouses thereof.
- A Confidentiality Policy applicable for staff, board members, and volunteers.
- An Internal Controls Policy. Board Member and Committee Job Descriptions (includes Board member commitments and Board giving requirements).
- Position Job Descriptions for each paid staff position. Personnel policy or manual for paid employees.
- A strategic plan or strategic framework. A Gift Acceptance Policy.
- Director's and Officer's Liability Insurance Policy
- An annual financial assessment through compilation, review, or audit, conducted by an outside, independent accountant. In order to qualify for a certificate of exemption from the Virginia Department of Taxation, an audit is required with revenue of \$1 million or more; and less than \$1 million and at least \$750,000 for a review.

Still Thinking About Starting a Nonprofit?

Contact the Community Foundation for Loudoun and Northern Fauquier Counties:

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