Start Up for Success

A Step-by-Step Workbook for Planning, Founding and Initiating a New 501(c)(3) Nonprofit

Nonprofit Management Series
First Edition 2010
About this Document
This Workbook was developed to help meet the needs of individuals interested in starting a nonprofit organization—to help them weigh their options, start smart, and implement their early planning goals. The document was compiled and written by Kara Penn, Consultant / Trainer at Community Resource Center. Guidance, ideas, support and feedback were provided by CRC staff and interns including Maria Fabula, Director of Programs, Sarah Fischler, Director of Consulting and Special Projects, Lauren Price, Director of Rural Outreach, Kristen York, Marketing & Development Coordinator, and Sam Gallaher, Intern. Final comments and review were provided by nonprofit consultant Ellen Toomey-Hale, Esq.

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About Community Resource Center
The Community Resource Center (CRC) is a 501(c)(3) nonprofit organization that provides training, technical assistance and consultation to nonprofits and community-based organizations in Colorado and across the country. Since 1981, CRC empowers nonprofits to fulfill their missions by building capacity, strengthening skills, and providing strategies for success. CRC serves as a convener of communities to expand resources and stimulate change. CRC’s mission is to create opportunities, tools and strategies to develop nonprofits and community groups to strengthen Colorado.
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Section I. Background

About this Workbook

Is this Workbook the Right Tool for Me?

Chances are you've found your way to this workbook because you want to effect change on an issue you are passionate about, you have an idea about how to do it, and you want to get started. You may be wondering if founding a nonprofit is the most effective way for you to achieve your goals. You may be new to nonprofits and starting up an organization, and want some guidance on where and how to begin. If these goals sound familiar, then this is the tool for you.

This workbook is designed to be an interactive guide that helps you solidify your thinking, ideas and actions around your specific concept. This is not a resource that will educate you on the depth and breadth of nonprofits, the history of nonprofits, or why nonprofits are important to our society. The information here is focused on guiding you through your own process, informed by what you need to know about nonprofits, the 501(c)(3) legal structure and the process of incorporation.

This workbook (and the process it entails to complete it) is not for the faint of heart. Why?

(1) Starting an organization requires hard work and dedication (often upwards of 20+ hours a week for several months to a year);
(2) Most new nonprofits and small businesses cease operations within the first three years after incorporation; and
(3) The desire to meet an important societal social, environmental or spiritual need can be achieved in a variety of ways—the most difficult of these options may be founding a nonprofit.
Using this tool as a guide, you will get a sense of the commitment you will need to make, to succeed, the common reasons nonprofits fail, and alternatives to starting a nonprofit while still pursuing your mission. We want you to be prepared as you embark on this journey.

This tool will demand you do your homework and answer difficult questions. For example, do you have an initial understanding of the resources you need to start up and become sustainable? Is what you’re proposing really fulfilling an unmet need or would you be better off partnering with an existing entity that is already addressing the issues and population you plan to serve? Will your organization have the capacity and leadership to effectively raise financial resources and be the best possible steward of those resources to meet your mission?

However, after completing this workbook and the process it entails, you should have a clear sense of whether starting a nonprofit is the right choice for you. If it is, you will know exactly how to go about organizing your effort utilizing planning and management best practices, and completing the legal process of incorporating. You will have guidance on the process of early start up implementation. You will have access to tools and resources which will serve you throughout your startup journey and beyond. And you will have the confidence that comes from knowing you’ve taken the time and put in the effort to give your organization the best chance of success.

If this sounds like what you’ve been looking for in terms of information, reality checks, and guided action, then you’ve come to the right place!

What you’ll need to get started:

- Several hours of focused time, preferably with all team members involved in your startup process
- Any organizational planning materials you’ve completed in the past
- A printed or online copy of this workbook
- Writing utensil or computer
- Place to take notes and jot down ideas
- Internet access (to download IRS forms, to conduct market research, etc.)
How to Use this Workbook

Like most people interested in founding a nonprofit, you’ve likely been toying with the idea for a while. You may already have board members committed, or written up a mission statement which encompasses the “who, why, and what” of the organization. You may have bits and pieces of ideas scratched on the backs of napkins or started a document you hope will turn into a business plan. Regardless of where you are in this process, this workbook is designed to help you work through in a streamlined way—gathering all the ideas floating about in your head, honing them down, and getting them on paper. It is also designed to provide you with “reality checks” at various points—starting a nonprofit is hard work and many organizations do not survive. It is important that you go into this process with eyes-wide-open so you can anticipate challenges and navigate them successfully.

Our focus has been to streamline the most important information and get it to you in easily digestible, logical chunks. Therefore, each step is accompanied with just enough background information to ground and guide you forward. From there, each step has a series of tools to help you complete that step—this may be in the form of a checklist, a series of questions, a table for you to fill in, or a worksheet designed to guide your thinking.

This workbook is designed for you to work through beginning to end. Chances are, you would prefer to jump from section to section—after all you may feel better about having a board already committed to your organization than the process of writing a draft mission statement. If this sounds like you, we certainly recommend you read all the way through the book first before writing in what you already have. You may find that in the process of working through the book, your organizational mission, logic, resources and implementation steps will unfold in a way that will have you reworking things you already thought were set in stone.
Remember, this is an ongoing process—how you view your organization now is likely not how it will end up forming and operating as you continue. You may decide starting a nonprofit is not the best option for you or the mission you hope to achieve. If this tool can help you make an informed decision on the best next steps for you, we hope you will feel you have succeeded and that this was a useful process.

This tool is more informal than formal. You can print out this booklet and jot down your ideas, notes, answers to planning questions, key data points and so on within the allotted space on these pages or use this document on your computer, typing in your answers in the fields provided. However, when you are done, you will not be able to drop this document into an envelope and send it off to the IRS with hopes they will grant you tax exempt status. We can assure you, they will not. Instead, you can use the information you capture here to do the following:

- Write your business plan
- Recruit board members and advisors
- Draft a grant proposal
- Develop informational, marketing and fundraising materials on your ideas
- Identify other organizations with similar goals

What Do We Know about Starting Nonprofits?

This workbook has been developed by the Community Resource Center (CRC), a 501(c)(3) nonprofit organization that provides training, technical assistance and consultation to nonprofits and community-based organizations. Since 1981, CRC has been empowering nonprofits to fulfill their missions by building capacity, strengthening skills, and providing strategies for success. This includes nonprofit organizations in the startup phase. In short, those who have contributed to this workbook have a great deal of first-hand thought and action experience in the startup process, and have provided consultations to many people seeking to answer the same types of questions and get to
the same place in manifesting their ideas as you. In addition, CRC partnered with the Colorado Nonprofit Association in 2002 to develop The Colorado Nonprofit Startup Handbook. This handbook helped demystify the start-up process in the state of Colorado.

CRC staff and board care deeply about the nonprofit sector and the role the sector serves in meeting many of society’s most pressing needs. CRC supports a robust sector made of purposeful organizations with the ability to steward resources to elicit real change. CRC can help strengthen the sector as a whole by helping those individuals who are considering starting up a nonprofit to do so in the most significant, responsible, and sustainable way possible. You can learn more about CRC by visiting us online at www.crcamerica.org.
Section II. About Nonprofits

What do I need to know about nonprofits?

There are some basic things to know before proceeding. Consider this a crash course in nonprofits. The first is understanding if 501(c)(3) status is the right type of organizational structure for your nonprofit. We also feel it is important to review the differences and similarities between for-profit and nonprofit status, since creating a for-profit structure might be an option you haven’t considered. We review key distinctions that make nonprofits unique, and consider the question “are nonprofits businesses?” Finally we look at the legal obligations and public duties of nonprofits.

Tax Exempt Status and Types of Nonprofits
The Internal Revenue Service (IRS) recognizes more than 20 different types of 501(c) nonprofit organizations as being eligible for exemption from federal income tax. A complete list and description of the varying types can be found on the nonprofit section of the IRS website (http://www.irs.gov/charities/nonprofits/).

While there are a large number of nonprofit organization types as recognized by the IRS for tax exempt status, this workbook deals solely with charitable nonprofits seeking to organize under section 501(c)(3) of the Internal Revenue Code. Charitable nonprofits organized under section 501(c)(3) of the code differ from other types of organizations eligible for exemption in one notable respect: people who contribute to them may be eligible for a tax deduction on their gift.
To be tax-exempt under 501(c)(3) of the Internal Revenue Code, an organization must be:

(1) organized and operated exclusively for exempt purposes;
   The exempt purposes set forth in section 501(c)(3) are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals.

(2) none of its earnings may inure to any private shareholder or individual; and

(3) it may not be an action organization that attempts to influence legislation as a substantial part of its activities nor participate in any campaign activity for or against political candidates.

The term “charitable” is used in its generally-accepted legal sense and includes: relief of the poor, the distressed or underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.

Some typical nonprofit 501(c)(3) organizations include: arts groups, museums, theaters, libraries, universities, hospitals and clinics, homeless shelters, youth centers, disaster response organizations, neighborhood organizations, religious entities, and environmental protection groups, among others.

Two other common 501(c) options you may have considered or come into contact with include:

- 501(c)(4) Social Welfare Organizations, which refers to public organizations whose primary purpose is to advocate and lobby state and federal legislatures for changes in the law to further their cause, and to encourage their members and
the general public to do so as well. Donations to these organizations are not tax-deductible.

- 501(c)(6) Business leagues, which include organizations that promote the interests of their members, but are not entitled to solicit tax-deductible contributions. Chambers of Commerce are examples of organizations filed in this way.

Tax information on types of nonprofits can be found at:

We encourage you to become familiar with the variety of options to ensure that your own concept falls within the legally-acceptable bounds of nonprofits and, specifically, for the use of this workbook, that you meet the requirements of 501(c)(3) status discussed above. You can use the following questionnaire to think through whether your conceptualized organization meet the requirements for 501(c)(3) status:

Is Your Organization Likely to Qualify for Exemption under 501(c)(3) Code?
(1) The purpose for which you have organized falls into one of the following categories:
   o Charitable
   o Religious
   o Educational
   o Scientific
   o Literary
   o Testing for public safety
   o Fostering a national or international amateur sports competition
   o Preventing cruelty to children or animals

(2) If you selected “charitable,” the charitable purpose for which you are organized falls into one or more of the following categor(ies):
   o relief of the poor, the distressed or underprivileged
   o advancement of religion
(3) My organization aims to influence legislation as a substantial part of its activities:
  o yes
  o no

(4) My organization plans to participate in campaign activity for or against specific political candidates:
  o yes
  o no

(5) My organization is designed so that its earnings may be shared with a private shareholder or individual, or would be closely associated with a for-profit entity:
  o yes
  o no

If you answered “no” to questions 3-5, and your organization falls into the categories of organizational purpose listed in questions 1, you are on the right path to qualifying for 501(c)(3) status.

**Differences between a Not-for-Profit & For-Profit Organization**

The term “nonprofit” can be misleading. Relating to day-to-day activities, there are very few differences between a well-run nonprofit and a well-run for-profit business. The same labor laws apply, as do most other state and federal regulations. The most notable differences are that nonprofit organizations are organized to meet a specific
social, environmental, or spiritual/religious mission and therefore their primary goal is not how much money they make but how effectively and sustainably they meet their mission. Also, nonprofits cannot have public or private shareholders. Nonprofits are owned by the public and their assets must remain dedicated to public purposes. Therefore, all proceeds, after expenses, must be reinvested in the organization in helping it to meet its mission. In the event that a nonprofit corporation dissolves, any remaining assets must be given to another 501(c)(3) or a government entity.

While nonprofits do not have shareholders (individuals who "own" a piece of the organization), they do have stakeholders (individuals and organizations who have a vested interest in the mission and success of the organization.) Stakeholders can include board members, volunteers, clients, staff, partner organizations, funders, and the communities the organization serves. As such, nonprofit organizations are accountable to their stakeholders—ethically (after all, public resources are being invested to help your organization meet an unmet societal need through the form of forgone taxes) and legally (through funding and service contracts and in terms of maintaining tax exempt status.) Nonprofits, because of the special benefits like tax exemption and tax deductibility of donations, have a unique responsibility to the public. Maintaining this public trust means that nonprofits have certain responsibilities that for-profit entities do not.

**Overview of Key Distinctions between Nonprofits & For-Profits**

Differences at the state and federal level are identified below:

**At the State-level:**
Organizational Structure

- For-profit corporations may have shareholders; nonprofit corporations may not
- For-profits' primary purpose is to distribute its profits to shareholders, while nonprofits may not make distributions of earnings and assets (except in specific instances as with dissolution.)
State Taxes

- Nonprofits may apply for other state tax exemptions, such as state and local sales tax and property tax. Nonprofits may be under the same obligation as for-profits to collect sales tax on products they sell. For-profits must pay all state-required corporate taxes.

State Labor Laws

- Both for-profits and nonprofits are subject to all applicable state labor laws, including workers compensation insurance and unemployment.

At the Federal Level:

Tax Exemption/Tax Deductibility of Donations

- 501(c)(3) nonprofit organizations are exempt from paying federal income tax on the proceeds of their charitable mission, and donors to their cause are eligible for tax deductions. This is the primary reason organizations apply for tax-exemption status. For-profits must pay all federal-required corporate taxes. For-profits are not eligible for tax-deductible donations.

Political Activity/ Lobbying

- 501(c)(3) nonprofits are strictly prohibited from any political activity involving candidates for elective office and there are clear restrictions around the amount and kind of lobbying they can do before losing their tax-exempt status.

Unrelated Business Income Tax

- Nonprofits must pay income tax on profit from an activity that does not directly further their charitable purpose (even though proceeds from that activity may be used to fund charitable purposes.) For example, a large nonprofit who provides after-school activities for youth may own and operate an ice-cream truck. Proceeds from sales of ice-cream must be taxed according to state and federal law, and remaining funds can be used to further the charitable aims of the organization's mission.

* Note that too much unrelated business income can put a nonprofit's tax exempt status in jeopardy.
Federal Labor Laws

- All federal labor laws apply to both nonprofits and for-profits, including payroll tax withholding, minimum wage standards, overtime pay, Occupational Safety and Health, Americans with Disability Acts, Family and Medical Leave Act, Equal Employment Act, and others.
- Employment Taxes must be paid by Exempt Organizations: http://www.irs.gov/charities/article/0,,id=128716,00.html

Are Nonprofits businesses?

A consultant who works with start up nonprofits shared with us that “The most difficult thing about starting a nonprofit was getting people with altruistic dreams to look at the business aspect of what it takes to run a nonprofit on a day-to-day basis.” From the onset, think about your organization as a small business. Taking this approach, developing sound business skills, and recruiting board members and advisors with strong business skills, will help you meet your mission and steward resources more effectively.

Like all businesses, nonprofits have expenses (for staff, administration, equipment, and office space, among others) and revenue streams (earned from services provided, through grants or other funds raised).

For-profit organizations will often look at their company in terms of "Return on Investment" or ROI to analyze or compare different ways they can invest their resources into products or services that will make the company money. In short, they are looking for impact-- for every dollar spent on the business how much profit is earned back.

For example:
- A t-shirt company screens tees with trendy images and sayings, then resells them through their internet site. If they invest $2 to purchase a basic Tee, then
spend another $3 on the screening process (ink, equipment and labor), and then sell it for $20 their profit after expenses is $15.00 or a 3 to 1 return.

As a nonprofit, it can be difficult to think of your own impact in similar terms, but it is important to try—not necessarily in dollars of profit, but in how resources you steward as an organization can be transformed into the most effective means of meeting your mission. This may be in terms of homeless people sheltered, historic buildings restored, at-risk youth graduating from high school, and so on. Many of the most successful nonprofits make program evaluation (measurement of the key mission-related outcomes of their programs) a core component of their organization. Measuring impact is one way nonprofits can illustrate their own ROI to key stakeholders—community members, funders, board members, and populations served.

While for-profits primarily earn revenue through the sale of goods or services, and take on investors to finance their business during times of start up or expansion, there are a variety of funding models nonprofits employ to meet their missions. Nonprofits may charge fees for specific services, sell mission-related products (for example, medical supplies at a healthcare clinic) or charge membership dues. Others are funded through grants and individual donations. The most successful nonprofits diversify their funding sources and use many opportunities to generate revenue. We will go into much great detail on funding your organization in step two: building a strong foundation.

In short, nonprofits and for-profits share many similarities, both legally and operationally. Leaders of the best run nonprofits understand they are running a business and therefore manage their organizations with financially and operationally sound practices. They also understand, though, that they have a mission-based bottom-line. Their goals are not associated with how much money they can return to shareholders, but instead on how much social benefit they can provide to their stakeholders as trusted providers of public good. Nonprofit organizations continue to learn and innovate how to measure and communicate their impact to others, and we encourage you to keep this objective at the forefront of your program design. In some ways, the dual focus on social benefit and
financial soundness makes running a nonprofit successfully doubly challenging, but provides many rewards to all involved.

**Adhering to Nonprofit Law & Standards of Conduct**

Adherence to the law is the minimum standard for conducting nonprofit business. In addition, nonprofits are held to high ethical standards by the public. Even if an activity is not illegal, if it contributes to a loss of trust by the community served, the negative impact on reputation can be irrevocable and can unfairly impact an entire community of nonprofit organizations. This section explores basic nonprofit law as it relates to reviewing legal requirements for 501(c)(3) status, IRS reporting requirements, standards of conduct, and nonprofit accountability and transparency.

**IRS Legal Requirement for 501(c)((3)Status**

We already touched on the requirements for 501(c)(3) status in an earlier section, but it bears repeating. To be considered exempt from taxation:

- Your organization must have a specific tax exempt purpose (charitable, educational, scientific, or religious)
- No individual can derive profits or earnings beyond an appropriate salary and benefits
- Your organization cannot work on any political campaigns supporting individuals for elective office, and can lobby only within specific limits on federal, state, and local legislation
- Should your organization need to dissolve at some point in the future, all assets must continue to serve the public good by being turned over to another 501(c)(3) nonprofit or public agency serving a similar mission.

If you have any specific questions regarding the legality of your organization, it is important to check with the IRS or seek legal counsel.
IRS Reporting Requirements

Specific reporting requirements are required by the IRS at regular intervals.

- As of 2009, the law requires most tax-exempt organizations, other than churches,
  to:
    - file an annual Form 990, 990-EZ, or 990-PF with the IRS, or to submit a 
      Form 990-N e-Postcard to the IRS. If an organization fails to file an annual 
      return or submit an annual notice as required for three consecutive years,
      it will lose its tax-exempt status (http://www.irs.gov/pub/irs-pdf/i990ez.pdf)
    - make available to the public, upon request, a copy of the Form 1023 
      applying for tax exemption, as well as copies of 990 filings from the 
      previous three years meet specific requirements for acknowledging donors 
      for donor tax purposes. These types of acknowledgements are based on 
      the type and amount of contribution made.

State Law Legal Responsibilities

It is important for you to understand laws governing nonprofits within the state you are 
incorporating. Nonprofits derive their legal existence from the state, and many 
standards governing nonprofit activity come from corporate law. One resource where 
you can find legal requirements, filing fees, offices and addresses for your state is the 
Nonprofit Resource Library, maintained by Hurwit & Associates 
(http://www.hurwitassociates.com/).

Standards of Conduct Required of the Board of Directors

All states require your organization to have a board of directors to incorporate as a 
nonprofit. Boards are responsible for ensuring that a nonprofit organization is meeting 
its duties to the public and, as such, have certain legal responsibilities. In addition, 
board members can be held personally liable for an organization’s bad behavior.
Because they hold legal responsibility for your organization, your board of directors is required to meet three standards of conduct. These standards include:

**Duty of Care.** While directors are not expected to have expert knowledge when they make financial or legal decisions, they must demonstrate they have taken “reasonable care” with all relevant factual information. This standard is determined by comparing a director’s “level of care” to the level exercised in a similar position and under similar circumstances by other “ordinarily prudent persons.”

**Duty of Loyalty.** Board members must avoid conflicts of interest and provide undivided loyalty to your organization. This means board members cannot make decisions from which they stand to benefit without disclosing those interests.

**Duty of Obedience.** Board members must be true to your organization’s mission and all decisions rendered must be consistent with this mission and the core goals of your nonprofit. This standard is designed to maintain public trust and to ensure donated funds are applied as intended.

**Nonprofit Ethics: Accountability & Transparency**

Nonprofits must adhere to general civil and criminal law, while meeting all legal requirements set forth for nonprofits by federal and state law. In addition, your must think through the ethics and values that will fulfill the public trust. There are areas of accountability and transparency you should consider to operate a morally-sound, trustworthy organization. These areas include:

- Focusing all organizational actions on furthering the mission and supporting that mission with prudent use of funds.
- Fundraising with clear, honest materials and methods which do not exert undue pressure on potential donors or apply deceptive approaches. Donor confidentiality is maintained when requested, while financial transparency of your organization is provided.
- Providing good governance through a board of directors that operates in a transparent, open way and reflects the community served.
By meeting federal and state legal requirements, as well as maintaining a high standard of ethics, your nonprofit will build public trust in the sector as a whole.

**Section III. Before You Begin**

**Should I start a nonprofit?**

Now that you have a sense of what qualifies as a nonprofit, the legalities governing nonprofit activity and some basic differences between a not-for-profit and for-profit entity, you can begin the work of really thinking through whether starting a nonprofit is the best way for you to proceed—both for you on a personal level, and for the public good on a larger societal level.

Here are some common reasons people decide they want to start a nonprofit. Some of these may look familiar to you. As you go through the list, mark the ones which are current motivators for you. If your reasons are missing, please take a moment to jot them down in the space designated.

- **Passion.** You want to make a difference on a particular issue you feel strongly about.
- **Personal Experience.** Your lives have been affected in powerful ways by exposure to an issue firsthand.
- **Professional/Career Objectives.** You may not have the background or experience to break into a particular field through traditional means, so you are interested in founding a nonprofit as means of bypassing these barriers to pursue a particular passion or career.
- **Meeting needs (perceived or real.)** You perceive a specific need in society is under-met and you want to fill the gap.
- **Raising Money for a Particular Cause.** You want to raise money for a particular cause, event or nonprofit as a third party.
- **Desire to Pursue Charitable Opportunities that relate to an existing For-Profit.** You want to provide a charitably-subsidized service or product to a client or group who would otherwise be unable to afford it.

- **Desire to convert an existing for-profit to a nonprofit.** You feel the mission of their current organization fulfills charitable purposes and that the organization would have a better chance of surviving if it became a nonprofit.

- **(Mis)perceptions about availability of funding.** You believe money is easily available to nonprofits because they are eligible for grants and donations.

- **Improvement on existing options.** You are dissatisfied with the current organizations currently trying to meet a particular need and feel you can meet it better.

- **Leadership.** You have a desire to be the "boss" as opposed to working for others or being constrained by structures/ organizational cultures developed by others.

- **Other.**

Now, take the time to answer the following questions, using the above list as a resource:

(1) What are the specific reasons you want to start a nonprofit?

(2) What is in it for our larger society if you are successful in meeting your proposed mission?
(3) What is in it for you if you start a nonprofit?

(4) What benefit would the population or community you serve receive as a result?

Now you know the basics about nonprofits and have identified the main reasons you are interested in starting a nonprofit, let’s look more closely at both the big picture of starting nonprofits, as well as the nuts and bolts preparation.

**The Big Picture: Starting a Nonprofit**

The charitable sector plays an essential role in addressing the unmet needs of society—needs where profit models of organization often cannot align incentives in a way to fill these gaps, and where government structures may be too unwieldy to innovate and pilot new models in an efficient fashion. Nonprofits have a great deal more flexibility, and while they are accountable to their stakeholders, this does not include the entire body of tax payers—unlike government.

The flexibility and diversity of charitable applications which the 501(c)(3)serves has led to a burgeoning of nonprofits in the United States. Nationally, according to Giving USA 2008 Data, one nonprofit exists for every 97 households. According to an analysis of Internal Revenue Service data by the Urban Institute, a think tank in Washington DC, the nonprofit world continued to grow at a steady pace in 2009. The tax agency classified 46,663 new groups as charities and private foundations under Section 501(c)(3) of the Internal Revenue Code last year. In 2008, 40,124 organizations received the designation, and in 2007, there were 47,002 designated. The figures do not necessarily represent the number of nonprofit groups created in a given year. For example, a charity could have started operating in 2008 and applied for tax-exempt status that year but have not received the designation until the following year.
The number of registered charities has averaged 5% growth annually in the last decade to almost 1.2 million, with the number of registered charities from 1998-2008 increasing by 53% overall. However, in the last three years, funding resources (individual and foundation giving) has decreased. As the number of nonprofits increases, and the amount of funds available to nonprofits decreases, organizations are facing stiff competition for dollars. What does this mean to you? Nonprofits need to be efficient with their resources and effective with their delivery of services to be able to successfully compete for available funds. It also means it is important to determine whether or not and how the problem and population you are targeting is already being addressed to understand how much competition you will face when requesting funds.

However, don't be discouraged-- be realistic and stay positive! Despite all of the nonprofits out there, there are unmet social needs that need addressing. Understand that having all your ducks in a row will go a long way in giving you a competitive edge in helping you to achieve your goals. You have your best chance to survive and thrive if you start smart.

**What does it really take?**

What is it really going to take to start a sustainable, successful, high impact nonprofit? The standard "blood, sweat and tears" goes without saying. It will also take jumping through some legal hoops to get up and running. You will need a clearly defined mission and goals; state and federal applications; a committed board of directors with relevant skills and expertise; financial resources, and scalable products, programs and services which make a measurable impact on the issues you care about.

Not to be overlooked is the need for specific skill sets which can give your organization the boost needed-- financial and organizational management, inspirational leadership, and strategic thinking. You must have within the capabilities of your leadership team both the ability to paint a picture of the change you wish to make and the know-how to
achieve the change. Think of it as possessing both the ability to envision the cathedral you are building and the way to build it, brick by brick.

Here are some comments from founders, board members, and advisors who have helped start nonprofits:

- “Be clear that you want to spend your life energy on your particular idea.”
- “Expect that it will take more time than you anticipated and be patient.”
- “Be totally open to drawing upon other people’s skill sets that you don’t have—realize you can’t do it all and you need to create a team of people that cover necessary skills.”
- “Good ideas and intentions are not enough.”
- “You are starting a business—to do it exceptionally well takes total commitment.”
- “Founding a nonprofit is so much more than advancing a cause or mission. It is building an organization that will exist in a complex environment, with all kinds of opportunities, challenges, barriers, and requirements to navigate.”

The following list is designed to help you think through what it will really take to start a nonprofit from a personal standpoint:

- Dedicated time (sometimes more than 20 hours a week while you continue to work)
- Ability, energy and willingness to recruit others to your vision
- Emotional support from your family and friends
- Financial resources to bridge you from idea to reality
- Ability to be flexible
- Ability and willingness to develop new skills
- Ability to take risks as you pursue the unknown
- Passion for your idea that will continue to drive you through setbacks

Why Some New Nonprofits Fail
Here are some of the key reasons new nonprofits fail, and some recommendations on how to avoid or address these trouble areas. Thinking about these issues now can help prevent major challenges to the success of your organization later. Take a few minutes to highlight areas you feel may be trouble spots for your organization.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Solution</th>
<th>Trouble Spot?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack strong, effective leadership</td>
<td>Do you have a leadership team? If not, you need to identify and recruit 3-4 individuals who believe in your mission and bring needed skills to the table. If you do have a team, are current members committed and reliable? Are your meetings and planning sessions effective? Do tasks get done efficiently and well? If not, identify the core areas where your team struggles. Replace people who are dragging down the effort or who lack commitment. If you feel you lack personal leadership skills to lead a team forward, consider developing these skills through inexpensive trainings, online tools and readings. Creating a nonprofit is a team effort. Legally, an organization must involve more than one person – you need to make sure you have a team to support making your idea a reality.</td>
<td>Y/ N</td>
</tr>
<tr>
<td>Lack realistic understanding of work involved</td>
<td>Running a nonprofit is about a lot more than advancing a charitable mission through programmatic activities (like providing direct services or raising money for a cause). Make sure you are ready to run a small business with the added complexity of the requirements that accompany nonprofit status. Talk to others who have founded nonprofits and learn from their experience. Ask them tough questions about the realities of starting and managing an organization.</td>
<td>Y/N</td>
</tr>
<tr>
<td>Lack relationships or connections to</td>
<td>Do your homework! Find out who is doing work you admire or have resources/skills you need. Contact them</td>
<td>Y/N</td>
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<tr>
<td>Lack a clear mission and programs with demonstrable impact</td>
<td>Complete the mission exercise in this workbook to really focus your mission. Does each of your programs contribute meaningfully? Come up with ways to measure and document the ways your programs make a difference. Eliminate the ones that don’t or assess them for key weaknesses and address these before continuing or raising funds.</td>
<td>Y/N</td>
</tr>
<tr>
<td>Lack of organizational management</td>
<td>Who is managing day-to-day operations? Make sure you have key operating systems in place and that a key leader within the organization is actively managing these and accountable for their effectiveness. Consider skilled volunteers to help you gain important skill sets and use this workbook to help you think through your needs.</td>
<td>Y/N</td>
</tr>
<tr>
<td>Lack of real need for your mission</td>
<td>Prevention is the best medicine here—do your homework now! Make sure there is a true demand for your services and that the need you hope to address is significantly documented. Look to this workbook for ideas on how to do this.</td>
<td>Y/N</td>
</tr>
<tr>
<td>Money</td>
<td>Developing a realistic funding plan now is key to your success. This means knowing what you need to financially support your organization at the beginning and a sense of how to fund the organization with more than</td>
<td>Y/N</td>
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</table>
one source of funding. Diversity of funds will help your organization be much more successful and robust. This workbook will help you think through funding sources and identify your true needs. Raising money, especially from foundations and government, is a complicated task. Have a plan that recognizes this reality and includes a lot of diversified sources.

A lack of money is usually symptomatic of a deficit in several other items in the table presented above. Not having enough money to start up or run your organization is usually a symptom or side-effect of how well your nonprofit is conceptualized and run. Starting a financially sustainable nonprofit that makes a real difference in achieving the mission will take a lot of time and energy from its founders and from its new leaders.

In a recent survey conducted by the Community Resource Center, 40% of respondents indicated spending 20 hours or more each week. Time commitment will just be one piece-- using those hours wisely in a way which leverages the abilities of the leadership team for their highest impact takes planning.

**Are You Ready to Start a Nonprofit?**

Forming a nonprofit is a serious undertaking, both personally and professionally. Now that you’ve thought through the personal impacts, we recommend you and your leadership team (if you have one formed) complete the following checklist as it relates to the readiness of your organization to move forward. Taking the time to do this initial assessment will help you identify whether or not nonprofit incorporation is the right next step for you or if you should pursue some additional work before moving forward. Later on, we will also present you with some alternatives to founding a nonprofit that may still help you effectively follow your dream.

**Unique position**
Is your idea meeting a real need in the community? What empirical evidence do you have to support your position that the need exists?

What research have you conducted to determine whether other organizations exist which address the issue at the core of your idea?

**Funding your Idea**
How much money will you need to incorporate, file and initiate operations?

Where is the money for start-up costs coming from?

**Leadership**
Who are the people you would like to recruit to your board of directors? Are they a group of diverse, committed and skilled people?

What role will you play in leading your organization?

**(Mission**
What is your organization’s clear, well-defined statement which captures who your organization is, what you’ll do, why you’ll do it and who you’ll serve that will guide the work your organization does?

**Start-up Funding**
Where specifically will your funding come for start-up costs, and funds for your first year of operations?

**Accounting**
Who will set up and maintain your accounting system?

**Management**
Who will run the day-to-day operations?

What kind of staffing, volunteer or paid, will be required during the first year of operations?

What know-how will you have at your disposal to ensure that your organization complies with nonprofit legal requirements and provides effective stewardship of the organization’s resources?

**Measurement**
How will you know you are succeeding each step of the way?

**Constituency**
Do you have a community that embraces the mission of your organization and the guiding ideas behind your programs?

**Vision & Plan**
Where do you see the organization in three years?

How will you get there?

Below is a table with specific areas of ability which will help enable the smooth start up of your organization. Take a few minutes to identify the level of skills and experience of your current leadership team by indicating where you feel you currently stand and why. It is very likely you will not have all these areas as strengths. You should also think about which areas are the most essential to the success of your organizational mission (for example, are you depending on volunteers to deliver programming? If so, volunteer engagement would be an important capacity to develop.)
<table>
<thead>
<tr>
<th>Area of Capacity</th>
<th>No Ability (0)</th>
<th>Some Ability (1)</th>
<th>Strong Ability (2)</th>
<th>N/A (explain)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Professional expertise in the industry/mission area</td>
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<tr>
<td>(2) Business planning experience</td>
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<td>(3) Strategic planning capability</td>
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<td>(4) Nonprofit IRS/State Compliance</td>
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<td>(5) Nonprofit Accounting &amp; Bookkeeping</td>
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<tr>
<td>(6) Fundraising/ Grant Writing</td>
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<tr>
<td>(7) Nonprofit Board Development and Governance</td>
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<tr>
<td>(8) Volunteer Engagement</td>
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<tr>
<td>(9) Program Development &amp; Management</td>
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<tr>
<td>(10) Civic Engagement &amp;</td>
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</tbody>
</table>
### Scoring

**0 – 9:** Your total score indicates there are multiple skill areas which may need development before launching your nonprofit. Who do you know who may bring some of this expertise to your organization? If you don’t know anyone directly, you may need to approach capacity-building organizations for nonprofits that can help point you in the right direction.

**10 – 15:** You have a good start. Review the skills where you have little expertise and determine how critical they are to the success of your organization. Is it something essential? If so, recruit an advisor or board member who can expand this capability for your organization.

**16 - 20:** You are well on your way to having many of the skills and areas of expertise that can help your organization be successful at your fingertips. Continue to find ways to retain those skill sets and keep your skilled volunteers/advisors/board members engaged.

If your current leadership team is weak in one or more areas, how can you bring a particular skill set on board or develop it internally? We will look more closely at building the right kind of board and assembling the necessary skills for your organization in Step Two: Laying the Foundation. Are You Ready to Start a Nonprofit?

### What are Alternatives to starting a Nonprofit?

You may have realized your primary motivation for starting a nonprofit is to fill a perceived unmet need in your community and to-date you’ve thought forming a charitable organization is the best or possibly the only way of achieving this. Before
making your final decision, make sure you know all of the options. Some of the options presented below are long-term structures, others provide breathing room while you further develop your concept, continue with planning, and acquire the needed skill set before launching your own nonprofit.

**Find a Fiscal Sponsor**

*What is it?*

This option is a fiscal management arrangement using the existing nonprofit status of another organization. This option allows you to develop your new program under the guidance of an experienced nonprofit. Any willing nonprofit can serve as your fiscal sponsor, but we recommend finding an organization pursuing a similar mission to your own, a community foundation or an organization that provides technical assistance to nonprofits.

*Who is it for?*

This option works best for groups that already have sound fundraising and strategic plans in place, and are well-organized. This is a good stepping stone to forming your own nonprofit.

*How does it work?*

Fiscal sponsorship is a cost-effective way to implement new programs, bring together groups to collaborate on an issue, and test new approaches. It enables individuals and organizations to start new programs without establishing a new, separate nonprofit organization. With this arrangement, an existing nonprofit agrees to be accountable for your operations to funders and the IRS. Any money you raise will be channeled through your fiscal sponsor. These arrangements should always be governed by a written, time-limited (but possibly renewable) memorandum of understanding. Because the fiscal sponsor will be allowing you to, in effect, use their federal tax exempt status, they will likely have some expectations and reporting requirements to ensure that your actions
do not jeopardize their status. Generally, fiscal sponsors will charge a fee of between five and ten percent of your organization's revenues or a flat fee for their services.

Advantages

- This option provides you with the opportunity to develop and prove your program and ideas, and to further develop your business plan, leadership team, and so on.
- With this option, you can learn as you go with lessened risk
- Some nonprofit incubators exist and provide fiscal sponsorship services as their mission. This arrangement can help you get more intense assistance early on.
- Working with a fiscal sponsor can give a chance to test drive your idea and level of commitment.
- You do not need to immediately set up a governance board or financial management system, as the fiscal sponsor's governance board will be responsible for oversight of your organization. Additionally, your financial information will likely be tracked in the fiscal sponsor's system, with a separate category set up to track your revenues and expenses.

Disadvantages

- Some funders will not allow you to apply for their grants or have specific requirements for organizations who apply for funding through a fiscal sponsor.
- It may be difficult to determine whether a nonprofit will be a good fiscal sponsor ahead of time
- It may be hard to find an organization willing to serve as your fiscal sponsor as it often means additional work for their staff

For More Information, visit:
http://www.tidescenter.org/fiscal-sponsorship/nnfs/index.html
http://www.cndc.org/fiscal_sponsor_program.html

Developing your program or service with an established nonprofit
What is it?
You can work in partnership with an existing nonprofit organization to launch a program or service which helps meet the needs you see currently unfulfilled. The new offering would be a part of this existing nonprofit.

Who is it for?
This is a great option for people who aren’t sure they have all the resources, leadership, skills, time or desire to start completely from scratch, and also a good option when an existing well-known organization already exists where your concept could be a great fit.

How does it work?
First, you will need to identify an organization that you think will be a good fit. Develop a short informational plan about what your program or service is, what needs it will meet, why it is a good fit for the organization you are approaching, how much it will cost, and suggestions on how it could be funded. Begin by volunteering with an organization you hope to partner with to learn how the organization works and to develop relationships. This will build your credibility. Once your idea is fully developed and you have an idea about how it could be implemented (man power, funding, etc), set up an informational meeting with leadership from the organization you are interested in to talk through your idea, answer questions and brainstorm together. Be prepared to approach more than one organization with your idea if at first you don’t succeed. Remember, your mission must closely fit within the organization’s mission that you are approaching because their tax exemption is granted by the IRS based upon the parameters of their mission.

Advantages
- Not needing to start from scratch
- Not needing to file with the state or apply for tax exemption from the IRS
- Not needing to develop your own leadership team
Disadvantages

- When you collaborate with others, your idea may change significantly and it is unlikely you will have direct control over your program
- You may not have say as to how the program develops or is implemented
- You may not play a lasting role in the organization or development of the program (meaning this may not translate into a job for you)
- You may not receive recognition for your part in developing this idea
- You may not find an organization that wants to take on your program or service

Become a For-Profit Entity

What is it?
A for-profit structure means you and any investors you have own the company, whereas a nonprofit that has received tax exempt status is owned by the public. A for-profit will give you more say in how your organization is run, what you can do with the profits, with less regulation.

Who is it for?
If you are someone who wants to be in greater control of your organization and have ownership in what you create, a for-profit might be a good option for you. If you have products or services that generate earned revenue (meaning people pay for the item or service) and do not require grant funding or donations, a for-profit structure may give you more flexibility and control.

How does it work?
You will need to register your for-profit business with appropriate city, state and federal agencies. If you will have employees you must open federal, state and local wage
withholding and payroll tax accounts. You must also identify if there are any special licenses or property/ sales tax implications. It is still possible to provide services and programs that serve your mission as a for-profit, but make sure you know all the ins and outs of starting a for-profit, having shareholders if you are not a sole proprietor, and tax and financial implications.

Advantages

• Greater flexibility and say over your organization
• Ownership over earnings and how they are spent

Disadvantages

• You will not be eligible for certain types of funds—individual tax exempt donations, grant funds
• You will not be eligible for federal, state or local tax exemption
• If you do have investors, it may be difficult to balance mission with for-profit goals; community stakeholders may perceive you differently as a for-profit and may misunderstand your mission-based intentions

For More Information, visit:
http://www.t-tlaw.com/fin-10.htm

Become a L3C (A Low-Profit Limited Liability Company) or a B Corporation

We provide more complete information about L3C as this structure has been around for a longer time period at the time this book was completed. We have included a general overview and a link for updates on B Corporations at the end of this first section, so you can monitor for changes as they develop.

What is it?
An L3C is a new legal form of business entity that was created to bridge the gap between nonprofit and for-profit investing by providing a structure that facilitates investments in socially-beneficial, for-profit ventures while simplifying compliance with IRS rules for "Program Related Investments".

B Corporations are a new type of corporation which uses the power of business to solve social and environmental problems. B Corporations are unlike traditional responsible businesses because they:

- Meet comprehensive and transparent social and environmental performance standards.
- Institutionalize stakeholder interests.

Legislation has passed in Maryland and Vermont as of June 2010 introducing this structure. More information can be found at http://www.bcorporation.net/

Who is it for?
The L3C is a relatively new structure, and there are many potential applications. Museums, concert halls, symphonies, recreational facilities, newspapers and organizations that perform service for the government under contract, with the government as their primary source of revenue, are all options. If there is a definable revenue stream, the L3C is a potential vehicle.

How does it work?
The L3C is a form of limited liability company (LLC) and is a for-profit entity. Like a traditional LLC, the L3C offers a flexible ownership structure, wherein each member’s management responsibility and financial stake may vary according to individual needs. An L3C is classified as a “pass-through entity” for federal tax purposes.
However, the primary purpose of the L3C is not to earn a profit, but to achieve a socially-beneficial objective, with profit as a secondary goal. Whereas a traditional LLC may be organized and operated for any lawful business purpose, the L3C must be organized and operated at all times to satisfy the following requirements:

1. The company must “significantly further the accomplishment of one or more charitable or educational purposes,” and would not have been formed but for its relationship to the accomplishment of such purpose(s);

2. "No significant purpose of the company is the production of income or the appreciation of property" (though the company is permitted to earn a profit); and

3. The company must not be organized “to accomplish any political or legislative purposes.”

These three requirements, which must be specified in the L3C’s organizing document, mirror the requirements in the IRS code governing Program-Related Investments (PRIs). Thus, the L3C is designed to meet the IRS requirements for qualifying as a recipient of PRIs. However, the IRS has not ruled on whether investments to L3C’s will qualify as PRIs and has publicly stated that foundations may not rely on L3C status in determining whether or not an investment qualifies as a PRI.

Advantages

- The L3C structure decreases the burden of nonprofit regulation and maintains the flexibility and ownership of a for-profit
- Increased funding options exist for L3C’s compared to a traditional LLC/ for-profit entity
- Partnerships between government, foundations, and private entities can be organized to deliver a public good under the L3C that would otherwise be difficult to provide under traditional organizational forms
Disadvantages

- Individual tax-deductible donations can't be made
- Organizations are not tax exempt
- The L3C is a relatively new structure, with legislation existing in a limited number of states at this time so there is a steeper learning curve

For More Information, visit:
http://en.wikipedia.org/wiki/L3C
http://www.americansforcommunitydevelopment.org/about.html
http://www.intersectorl3c.com/

Remain Unincorporated

What is it?
Some states may allow you to remain unincorporated while continuing to recognize you as a legal entity. Many clubs, cooperatives, and neighborhood associations operate under such auspices.

Who is it for?
If your group does not generate much revenue and has no need to hire staff, remaining unincorporated may suit you. It may be a great first step when you are trying out your idea and building support.

How does it work?
Know the law in your own state regarding what you can and can't do as an unincorporated entity.

Advantages

42
• No hassle or costs associated with incorporating and having employees
• The ability to organize and operate to meet your mission within a limited scope

Disadvantages
• you may feel restricted in what you can accomplish and ability to raise funds
• May not suit you as you grow and become more complex

Form a Different Type of Nonprofit (other than a 501(c)(3))

What is it?
Earlier in this workbook, we mentioned there are over 20 types of nonprofit structures. It may be the 501(c)(3) is too restrictive for your purposes. If this is the case, you can look at other structures that might better enable your goals.

Who is it for?
This is a good option for anyone who thinks their organization may fall outside the categories of a 501 (c)(3) like you want to focus primarily on influencing campaigns and legislation, would like to serve in more of a grant-making role using funds from a particular family trust, or organize a group of workers into a union.

How does it work?
The IRS offers detailed descriptions of alternative tax-exempt structures on their website. Compare descriptions of the various types of nonprofits as well as specific organizational structure requirements to understand where your organization best fits.

Advantages
• Selecting an alternate structure may enable you to better pursue your mission
• Comparing options and choosing the best fit will help ensure you will have appropriate tax exempt status

Disadvantages
• Only the 501(c)(3) status allows for tax deductible donations made by individuals
• 501(c)(3) status is the most commonly known and understood. It may be harder to find advisors who have experience in an alternative structure

For More Information, visit:
http://www.muridae.com/nporegulation/documents/exempt_orgs.html

Volunteer in your Field of Interest

What is it?
Many nonprofits will gladly take on people willing to donate their time and skills for free. If you want to learn more about an area of interest or explore what programs and services are already being offered on an issue you care about, volunteering your time by working for free can be a good option.

Who is it for?
This is a great choice for individuals who are passionate about an issue, but want to learn more and become more familiar with nonprofits before going out and starting their own. Volunteering can provide a way for you to have a real impact on issues you care about with a time commitment you control. This is a good option if there are organizations that already exist which address the issue you care about.

How does it work?
Some nonprofits have formal volunteer projects, others do not. If the nonprofit you are interested does not have formal guidelines about how to volunteer, you can contact them to see if you can volunteer in a way that meets your needs and theirs.

Advantages
• Doesn’t cost you anything but your time and you get to learn more about the cause that interests you
• Provides on-the-job learning if you there are skill sets you would like to develop and you want to know what it is like to work/run a nonprofit
• Provides you time to think through your options and to become more educated without taking any risks
• Allows you to determine the amount of time and effort you would like to expend, while you balance other demands in your life

Disadvantages
• You will have limited control in your role as a volunteer and you may want more say
• You may find there aren’t any organizations or programs meeting the need you care about
• Volunteering may not create the scale of impact you hope to achieve

For more information, visit:
http://www.volunteermatch.org/
http://www.serve.gov/

Whatever your choice, we hope knowing your options helps you make an informed decision. You can see that there are ways to dip a toe into the nonprofit water before diving in head first. Consider remaining unincorporated or volunteering if this sounds good to you. If you are ready to move forward, make sure you have explored all of the possible legal structures that might make sense before committing to the 501(c)(3).
Section IV. Steps to Starting a Nonprofit

Overview of Steps to Starting a Nonprofit

You should now feel confident that you’ve gained some basic knowledge about nonprofits, weighed a variety of options for meeting your mission, attained insight into the real challenges of starting a nonprofit, and completed some initial assessment as to the current foundation for your organization, and it’s time to move on to the real work! Use the chart below for a visual representation of the steps explored in the remaining chapters and to keep a checklist of your progress. Remember we take the stance that upfront planning and organizational development are essential to the success of an organization, so these will factor heavily into the early work.

The Steps to Starting Up for Success: An Overview*

<table>
<thead>
<tr>
<th>You Must…</th>
<th>You Should…</th>
<th>You Can…</th>
<th>Complete?</th>
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<tbody>
<tr>
<td>Define your theory of change</td>
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<tr>
<td>Formulate a Mission Statement</td>
<td>Develop a robust leadership team</td>
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<td>Form a Board of Directors</td>
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<td>File Articles of Incorporation</td>
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<td>Draft Bylaws</td>
<td>Develop a Business Plan</td>
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<td>Develop a funding</td>
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<td>Plan</td>
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<td>Develop a budget</td>
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<td>Develop a record-keeping system</td>
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<td>Develop an accounting system</td>
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<td>File for 501(c)(3) status</td>
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<td>File for a Federal Employee Identification Number</td>
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<td>File for state tax exemption</td>
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<td>File for local tax exemption</td>
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<td>Fulfill Charitable solicitation law requirements</td>
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<td>Apply for a nonprofit mailing permit</td>
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<tr>
<td>Get Up &amp; Running the Right Way</td>
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*Chart developed by National Consumer Supporter Technical Assistance Center, National Mental Health Association, in their guide “How to Establish a 501c3” ([http://www.ncstac.org/content/materials/501c3.pdf](http://www.ncstac.org/content/materials/501c3.pdf)) We have modified the chart to place filing articles of incorporation and creating bylaws as a must, before filing for 501(c)(3) status.*
Step One: Building the Foundation

Before embarking on the process of incorporation and filing for exemption, it is important to build your organization. If you invest the time, thought and consideration now needed to get off to a strong start, the filing process will become much easier for you. This step walks you through all of the areas you should pursue before beginning the legal process, including:

- Articulating your theory of change
- Writing your Mission, Vision and Values Statements
- Defining the need for your Organization
- Developing your Board and Leadership Team
- Developing a Budget
- Creating a Funding Plan
- Drafting a Business Plan
- Developing an Evaluation Method for Measuring Success

Articulating Your Theory of Change

It is important to define the change you hope to make through your nonprofit organization. A Theory of Change can help you think through the impact you intend to have and solidify the thinking and logic behind your ideas. Your Theory of Change can become a compelling message you share with potential supporters, funders, board members and community members to help them understand your purpose and outcomes. It also will help you identify the assumptions underlying your thinking. Identifying the kind of change you want to make within a charitable context will help you find partners, identify potential competitors, and build community support.

Another way to think about this: no one is in a better position to articulate why your plans will make a difference on the issue area you care about than you! If you can’t clearly communicate this, then no one else will have a comprehensible vision and clear
reason to become engaged, either emotionally or financially. The following exercise will help you craft your theory of change.

A theory of change puts your ideas into a framework of cause and effect or "if" ____________, "then" ____________. For example, if Community Resource Center supports the formation of new nonprofits by helping their founders start strong through capacity building and education, then the nonprofit sector as a whole will be more robust and achieve greater mission-based impact.

Assumptions are the underlying beliefs and relationships which support your theory of change. In this case, assumptions include: organizational founders who are educated on the process of forming a new nonprofit as well as equipped with certain key capacities (like business planning, developing a leadership team, and so on) will found stronger, more effective organizations; and organizations founded on strong plans with strong leadership teams will have a better chance of surviving and thriving in the long run.

Take some time now to articulate your theory of change, and the assumptions underlying it:

If ____________________________________________________________________,
then__________________________________________________________________.

Key Assumptions:

(1)

(2)
What data supports your assumptions?

Are there any weak points in your theory of change? Areas where an alternative unintended outcome might exist?

Stating your Case

Now that you have developed your theory of change, it is important to create a compelling case for your organization. Think about what you would need to know before investing in an organization like yours. This is similar to a market analysis for-profit companies use to launch a business or a new product. Here are some exercises to get you started (you don’t need to be able to answer all of these questions now, but these are good thought exercise and something you will return to during the planning process):

What need(s) do you fill?

Who Benefits?

Who do you serve?
How many do you serve?

How do you fill those needs?
  What services or products do you provide?

  How do your services/products meet the needs of the population you are trying to affect?

How will the success of your organization improve the community you serve?

Why is your organization more deserving than others for funding or other resources?

Who else is addressing the issue you care about?

**Developing Your Mission, Vision & Values Statements**

As preparation for clarifying your mission, vision and values, take some time to complete the following exercise:

What are the values you hope to uphold as an organization?

What Impact do you intend to have?

How will you achieve this impact?
Who will you serve (population & location)?

Why will you do what you do?

What are your unique attributes as an organization?

**Mission Statement**

A mission statement is a succinct statement of your organization’s reason for being and communicates who you are, what you hope to achieve for whom, and through what means. The mission statement serves as a guide for your organization at all times and allows you to measure new programs, services and opportunities against your focused purpose. Everyone in your organization and on your leadership team should be familiar with your mission and be able to explain it to others. The mission statement should be one of the first orders of business your board discusses and formally approves.

Using the answers to the previous questions, you can craft a mission statement for your organization. The following basic template can serve as a guide:

*The mission of [Organization Name] is to [verb] the [population/ community served] of [location] through [core services/ actions].*

Here are some additional pointers to help your mission statement be as strong as possible:

- A mission statement should
- be only one to two sentences in length;

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1 Read more at Suite101: [Writing a mission statement: A free how-to on creating a mission statement](http://nonprofitmanagement.suite101.com/article.cfm/writing_a_mission_statement#ixzz0napmxJUt)
• provide just enough information so all services you currently provide and anticipate providing in the future are encompassed without including an exhaustive, specific list;
• be crystal clear in language and avoid jargon, professional lingo and acronyms;
• simple to remember and communicate to others;
• specific enough that funders and other stakeholders know who you serve, what you do and how you do it (avoid statements like “Nonprofit X exists to change the world for all people by doing all things.”)

With a small team of board members or advisors, consider developing three to five possible mission statements and run them by your full leadership team for feedback.

In the space below, develop a working mission statement for your organization. This can serve as an example to share and discuss with your board as you move further along in this process.

**Working Mission Statement:**


---

**Vision Statement**

Most nonprofits have separate mission and vision statements. A vision statement serves as the inspiration for your organization and describes the social change you wish to achieve (what will the world look like if you are successful.) It is a longer statement (3-5 sentences) which exists to paint a picture of the positive impact you hope to have. It should motivate the stakeholders you serve.

Vision statements are critical to business planning. How can you create a plan without articulating the destination you are trying to reach. For example, if your vision is to
create a more socially-just city with less poverty, you must articulate this as your end goal and then develop a specific plan on how you will achieve it. You can think of the mission statement as a more practical and succinct action-oriented statement guiding your organization and the vision statement as a more lofty articulation of the change you wish to achieve.

Here are some additional ways to make your vision statement as powerful as possible:

• share it with others, and by doing so, keep it alive and vibrant
• use it as the basis for your business plan
• make your vision statement measurable where possible (as an example,” Nonprofit X’s vision is to eliminate the spread of HIV-Aids in the United States by 2020.”)

Now write a draft of a vision statement for your organization. It can be a few bullets, phrases or ideas jotted down, but this will provide a good place to start further discussions as your organization continues to develop.

**Working Vision Statement:**

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

**Values Statement**

Your values statement communicates the ideals and morals which guide your work and how you deliver your services. In the exercise at the beginning of this section, we asked
you to think through some of those values. If your list is long, think about prioritizing your list to represent the top three to five values that best express the foundation your organization is built upon.

Share your values statement with stakeholders, and make sure anyone joining your organization is familiar and supportive of those values. Periodically evaluate your operations through the lens of your statements to make sure vision, values, and actions are all aligned. Your values statement will serve as a powerful compass during difficult times.

Take a moment to develop content for your values statement below.

Working Values Statement:

Your mission, vision, and values serve as a guide you will be able to return to again and again as you make decisions that affect the direction of your organization. Your mission statement grounds the purpose and work of your organization, your vision statement captures your aspirations and goals for change you hope to see as the result of your work, and your values statement reveals the manner in which you intend to go about your work. Together, these statements become the core pillars of your organization and from these you can build a strong planning foundation.

Developing Your Board & Leadership Team
In this part of the workbook, we concentrate on building the leadership base for your nonprofit. We focus on the building of a board and team of advisors first because they will be critical to your planning process later.

**Board of Directors**

The most valuable thing you can do before you incorporate is to place a good team around you. This means building a strong, diverse board of directors (a minimum of three members to apply for federal tax exemption, and likely more to really build and sustain the work of the organization.) Don’t be tempted to make your board too big during this initial start up phase as large boards can become unwieldy. Think about finding five to seven quality members who have the availability and know-how to contribute. As your organization develops you can assess your needs and identify additional members.

*Purpose of Boards-- Why Nonprofits have them*

Nonprofit corporations are governed by boards of directors that are given specific legal and ethical responsibilities that cannot be delegated. Nonprofit boards hold the legal responsibility for the organization’s activities.

*What are the responsibilities of board members?*

Being a board member is a legal obligation and there are legal requirements of a board. Board members must understand their legal liabilities as defined by the state in which their organization is incorporated. They must comply with the organization’s governing documents (articles of incorporation and Bylaws.) But there are additional responsibilities beyond legalities. The following categories provide an overview of the scope of expectations board members must meet:

- **Legal and Fiduciary**
  
  Board members must ensure the organization meets all legal requirements, and is operating within the purpose for which it was granted tax-exemption, and within the bounds of its mission. Individual board members must safeguard the public
trust, and therefore are responsible for protecting organizational assets. Board members must meet the duty of loyalty by placing the interests of the organization before private interests and personal gain through organization activities. They must meet the duty of obedience by being true to your organization’s mission. All decisions rendered must be consistent with this mission and the core goals of your nonprofit. This standard is designed to maintain public trust and to ensure donated funds are applied as intended. They must also exercise the duty of care—meaning they are up-to-date on the organization and its operations, responsibly carry out their duties, and make informed decisions.

- **Fundraising**
  - Board members should be actively involved in making sure the organization is adequately funded. This may include organizing fundraising events, soliciting for donations, and making a personally significant financial gift to the organization.

- **Organizational Oversight**
  - Board members must ensure that the organization is run well. As part of this, the board has the power to hire and fire the chief executive managing the organization. Board members must monitor the financials and operations of the organization.

- **Stakeholder Representation**
  - Board members may bring a particular viewpoint of a constituency served by the organization. The board’s makeup can be, in part, representational of the stakeholders served by the organization’s operations. While a board member is responsible for voting with the nonprofit’s best interests in mind, they can often bring key insights to the table that help their organization remain in touch with the needs, trends, and views of their constituents.

*What are the specific expectations board members should be prepared to meet?*
Individual board members should engage in some specific behaviors to successfully help the board meet its responsibilities. Namely, board members should attend all board and relevant committee meetings, make a personal financial contribution to the organization, spread the word about the organization, be informed about the mission, services, policies and programs, review past minutes, agendas and other supporting materials prior to meetings, follow relevant policies like conflict of interest and confidentiality policies, and serve on special projects or committees that help further the goals of the organization. Board members should not be passive observers, but should instead be passionate advocates and partners in achieving your organization’s mission.

**What should you look for in a board member?**

Highly effective board members often contribute one or more of the following to your organization:

1. They have the ability to roll up their sleeves and **get things done**. These are the folks who volunteer a lot of hours and help complete the tasks of the board, from organizing a fundraising event to keeping the board mailing list up-to date.

2. They bring essential **knowledge and experience** to the board, from nonprofit best practices to topical expertise to fundraising know-how to legal advice. These individuals are invaluable for the insight they provide to help your organization succeed.

3. They are financially generous and can either write a check themselves, or leverage their networks of people with the **financial capacity to support the organization**. These individuals help keep your organization connected and funded.

4. They are **well-known and well-respected** in the community you serve. They use their high profile to bring increased visibility to your organization and your mission. Their star power becomes your spotlight.
You are also looking for board members who care about the issues your organization cares about, who are professional, reliable, have good leadership skills, and who can work as part of a team.

In the start-up stage, it is likely that your founding board will be made up of passionate, hard-working people with strong community relationships and/or specific areas of expertise. With a new organization, it may be difficult to recruit big donors until your organization is more tried and true (but this shouldn’t stop you from trying!) A nonprofit is a changing organization, so the “right” board make up will change as your organization grows and evolves.

Be wary of people who bring only passion to the table. You need a team that can provide professional guidance, fundraise, motivate others to your cause and get work done. You also need people who will bring different points of view and challenge your thinking from time to time.

Also be mindful about having family and friends as board members, as perceived conflicts of interest can arise-- raising red flags with funders and the IRS during the tax exemption application process. Additionally, do not recruit people to serve as warm bodies or fill up the list for the IRS 1023 application. Board members have important legal and ethical responsibilities to an organization. Only people who are prepared to fulfill those responsibilities should be selected for your organization’s board.

Think through your current list of potential board members. What does each bring to the table? Use the following matrix to evaluate your current board makeup and connect this information with the skills and abilities assessment.
<table>
<thead>
<tr>
<th>Name</th>
<th>Title/Organization</th>
<th>Strengths</th>
<th>Challenges</th>
<th>Interest Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex. “Sally Smith”</td>
<td>VP, Bank of America</td>
<td>Significant donor, ability to leverage others to give; financial management skills</td>
<td>Limited availability, time-constrained, little experience with our services</td>
<td>High interest in organization, medium interest in serving on board due to time constraints</td>
</tr>
</tbody>
</table>
For more information on board development and responsibilities, please visit:
http://www.boardsource.org/

Professional Advisors

Professional advisors are individuals who can offer their expertise and insight to you and your boards throughout the start-up phase and beyond. Advisors do not make the commitment that board members do, but their services can be invaluable. Relationships can be formal or informal, paid or volunteer. Legal, financial, fundraising, marketing, nonprofit start-up, and administration are all key areas where advice might be sought.

Why do you need advisors?
Advisors can help save you time and money by putting you on the right path early on, instead of learning the hard way. Having a strong team of advisors can also help your organization receive seed funding early on.

In addition, outside advisors can help settle impasses within your board of directors. If your board is in disagreement about an issue, an outside expert might be able to provide the insight needed to move forward.

How do you find and recruit advisors?
Nonprofit technical assistance organizations may have a volunteer bank of advisors willing to assist nonprofits on topics of expertise. In addition, board members may be able to make suggestions. If you know of a leader or professional in your community that you admire, or if someone who runs an organization similar to yours (whether it be in another county, state, or country) is successfully achieving their goals, don’t be shy! Reach out via e-mail or phone call. Tell them why you’ve contacted them, make a
specific ask (you’d like to talk or meet) and share some brief background information. Be reliable, trustworthy, well-prepared, and to the point and people are more likely to want to assist you.

*Making Good Use of your Advisors’ Time*

It is essential you identify ways in which a potential advisor can assist you before you reach out to him or her. Respect their time—be prompt in your responses, show up on time, set and stick to an agenda, and stay within the limits of the availability they’ve offered. Set specific goals for your time together and make it easy for them to assist you by providing all background information they request, meeting them at a place of their convenience or talking at a time that works for them. Take notes and jot down their recommendations for further information. Express your appreciation for their time by sending a follow up thank you note or e-mail. Recap how you will use the information they have shared with you and keep follow-up questions brief and to the point. If you make good use of their time and expertise, they are likely to point you in the direction of other advisors who could be helpful.

*The Role of the Founder*

Be mindful of the role of the founding individual or team as you embark on this journey. Make sure that the organization you are building is close to the heart and needs of the community you are serving, and not just about your passions, drive, and circle of influence. If you are charismatic and inspirational, you may naturally draw people to you, but don’t put yourself at the center. You want to build a lasting organization that withstands the test of time and extends beyond your own influence. Focus on building trust in your organization and build an internal structure that can uphold that trust with or without you present, and you will be on the right track to long term viability and a legacy that will extend beyond your immediate presence.
Additionally, founders should identify their preferred role in the organization early on. Most nonprofit governance experts advise against having staff members serve as voting members of a nonprofit’s board. This means that founders should decide if they want to serve as an employee, board member, or volunteer for the organization. It is also important to note that the decision to serve as a staff member means that the founder will not have a legally formal role in governing the organization and the board will have the authority to replace a founder who is serving as the executive director if they determine that such a decision is in the best interests of the organization. All of these considerations are an important reminder than no individual owns or controls a nonprofit organization and its resources.

Defining the Need for Your Organization

Other organizations may already be addressing the issues you care about. Who else is doing this work and why does it matter to you? It is important for you to know about others doing similar work, particularly in the region you hope to serve. First, you want to ensure there is an actual need for your organization and its services. If another organization is already effectively meeting this need, you will have difficulty finding resources to support your work or to make the type of impact which inspired you in the first place. The good news in this situation is that there is already good work being done to address the issues you care about. If this is the case, there may be opportunities to partner with these organizations to expand services or to carve out a specific niche.

You will be much more successful if you establish relationships with existing organizations and find a logical place to fit in and meet unmet needs or innovate current systems. Funders and other supporters will appreciate that you've done your homework and understand how you fit into the fabric of charitable activities supporting your community.
You can also learn a lot from organizations who are established in your interest area--from both their successes and failures. Look at organizations across the country to learn from their ideas and programs to inform your own efforts.

Here are some places you can look to find other organizations addressing your particular issue(s):

- www.Guidestar.org
- Google (keyword search, zip code or city name)
- Community foundations, chamber of commerce or United Way

Use the following chart to document your research on other organizations:

<table>
<thead>
<tr>
<th>Organization Name</th>
<th>Geographic area served</th>
<th>Mission</th>
<th>Overlapping Programs/Services</th>
<th>Contact Person</th>
<th>How I am Different</th>
<th>How I am the Same</th>
<th>Potential Partner y/n</th>
<th>Potential Competitor y/n</th>
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Drafting a Business Plan

Now that you have a sense of your mission, vision and values, as well as the way you believe your organization can affect change in a way not already being done in your community, we recommend beginning to gather your ideas into a cohesive plan for your organization. The business plan is an essential tool for exploring the feasibility of and ability to implement your ideas and for communicating those qualities to other stakeholders.

We know that developing a business plan can be daunting, but don’t skip this step! Taking time on this activity now will pay dividends towards your success in the future—mainly because of the many applications this tool will provide to support you in your goals. The business plan will assist you in a variety of ways, including serving as background for others new to your organization, as a method to inform and recruit partners, advisors and funders, as language that can be used in future fundraising proposals, and most certainly as a tool to help you design, establish and run your organization. You will also be asked for a summary of most of the information in a business plan as part of your 1023 application under the “Narrative” section.

A few caveats about business planning before we begin-- much is likely to change as you go through the process of implementation. However, don’t ignore the data you gather during this process. If your program or service doesn’t seem to have a market, or the model you propose for funding your organization doesn’t quite pay the bills, make the necessary changes to your concept in this stage. Don’t just forge ahead with
blinders on. Moving forward without “facing the truth” of your data can certainly hurt your organization, its longevity and its impact in the future.

To begin the business planning process, have your answers to other sections of this workbook handy, and engage your board members in this process. Schedule a series of meetings to work through each section of the business plan. Don’t focus on getting the language right in the beginning, focus on the quality and thoroughness of your team’s thought process, data, and ideas. Initially, jot down the key points for each section, and later come back to flesh out the concepts in more narrative form.

Also, we certainly encourage you to avoid recreating the wheel. There are a variety of business plan templates you can use, and most will be adaptable for the purposes you will have—from filing to fundraising. We present you with basic components in the order they should appear, descriptions of those components and some practical writing tips to guide you. We then provide a section that allows you to fill in each plan component for your own organization. Fill in each section as you go, and refine as you gather additional information. Your final business plan should be approximately ten to fifteen pages of text using an outline similar to the one presented below, with additional appendices / supporting material where needed.

**Business Plan Components**

**Title Page**

*Overview:* This page professionalizes your final product when you share your plan with others and provides important contact information for your organization, as well as introducing your leadership team at a glance. This page simply gives the name of your organization, your contact information (address, phone, e-mail, and website), and lists the executive director and members of your board.
Practical Writing Tips: Think of it as the type of title page you put together for a school report. Most word processing programs have templates for these that you can use, without wasting too much time on formatting.

What a Reader Should Know After Reading this Section: A reader should know the basic organization information (name and contact information) and names of those on the leadership team.

Executive Summary

Overview: This section summarizes the need for your organization within the geographic scope you plan to serve, communicates your mission and objectives, as well as highlighting the services you will provide with what anticipated impact. You should also include a brief statement about your budget and fundraising needs.

Practical Writing Tips: Write this section last and limit it to one to two pages. Once you have worked through a full business plan, the executive summary will be easier to write. Take your time to do this portion well, though, as often funders, potential partners, and other stakeholders will only read this portion of your plan before forming an opinion about your organization.

What a Reader Should Know After Reading this Section: A reader should have a basic understanding about your organization, its services, and the need it fills. They should be interested in your organization and want to learn more.

Organization Description & Vision

Overview: This section should provide the reader with a good understanding of your organization’s mission, vision, values, and theory of change (all components you’ve already written in earlier sections of this handbook.) You should provide a brief history
on how your organization was formed and why, and give a sense of the scope of impact you intend to have for what population/community. Briefly introduce your main methods of achieving change (objectives, goals and methods.) You can also give some sense of the projected size of your organization and scale of services.

Practical Writing Tips: Use this section to tell the story of your organization and inspire trust in your concept, structure and leadership team. This is approximately a one page description, so make sure every word is working for you.

What a Reader Should Know After Reading this Section: A reader should know who the organization is and what it stands for, as well as your perception of the organization’s scope & potential. A reader should also understand your specific goals and objectives of the organization and know background information about how you were formed.

Market Analysis

Overview: In this section you will document the conditions and trends affecting the need your organization is trying to meet. This is a data-driven section and should detail the need for your service and the actual demand for it (these are not the same! You may see an unmet need but the population you want to serve must also be aware of or made aware to demand/use your services.) Describe how your services will be unique in the realm of other providers. This is also the place to describe your major competitors (both for-profit and nonprofit organizations), how much of the need your competitors currently address, and your specific methods and strategy for becoming relevant in the landscape in which you will operate.

You will need to explain any barriers that you will have to face at the beginning in terms of gaining access to the population you wish to serve, beginning operations, and working with partners, and how you plan to overcome those barriers. If you have identified a clear gap in services, take the time to describe that gap (using data wherever possible), why you believe it exists and how you will narrow it. Place the demographics about the need for what you want to do in this section.
Practical Writing Tips: Gather data for this section—use publicly available statistics to describe the community you wish to serve and to detail any gaps in services your organization plans to fill. If other organizations exist which are trying to fill the needs, identify the limitations of those programs. Anecdotal evidence is not enough. Don’t skimp on your efforts to document the need for your organization. This is a critical part of your plan and of great interest to funders. Use approximately one page of your plan.

What a Reader Should Know After Reading this Section: A reader should know basic information about the industry/service landscape you operate in and the client and community needs you are fulfilling. A reader should also understand the scope of the need, and who the target recipient or client for your services is.

Services

Overview: In this section you want to detail the specific products or services you will provide and how they will help you fulfill your mission and vision. You should link your description of services to the change they will achieve, and wherever possible indicate how you will measure that change and know when you have been successful.

Practical Writing Tips: In this section, focus on giving greater detail on the products or services you will provide. Consider using the following format:

- name of the program, service or product
- the scope, goals, and objectives of this offering
- who will be served and how many
- resources used (staff, etc)
- user fees or revenue earned from a service (if relevant)
- the anticipated outcomes and how you will measure those outcomes

This section will vary in length depending on the extent of the organization’s activities.
What a Reader Should Know After Reading this Section: A reader should have a good understanding of each of the offerings of your organization, who they serve, and what impact these activities will have.

Organization & Management

Overview: This section outlines the specifics about how your organization will get started and keep going. It has multiple components, including information on how your organization is organized as well as an organization chart, if available. It will describe the legal structure of your organization (501(c)(3) or other) and identify necessary or special licenses and/or permits your organization will need to operate. It should also provide a brief bio description of board members and leadership within the organization.

Here are some components of this section to develop:

Organization, Governance & Staff

- Who are your board members?
- Who will lead the organization and be in charge of day-to-day operations?
- What other staff or volunteers will be required?
- How will your staff and board be organized?

Timeline

- When will specific steps for setting up the organization occur?
- Who is accountable for making sure they happen?

Start-Up Requirements

- What items, resources, services, licenses, insurance and expenses will be required to start up successfully?
- Where will you get the resources you need?

On-Going Needs

- What do you need to keep the organization running on a day-to-day basis (consider space, staff, equipment, marketing, IT, travel, etc)?

Possible Organizational and Management Challenges & Proposed Solutions
• What are some potential obstacles you might face that could undermine the functioning and success of your organization
• How will you overcome those obstacles should they present themselves?

Practical Writing Tips: If you answer each of the sections above, you will be providing a relatively thorough view of your leadership team and operational strategy. Help the reader feel as though you’ve thought of all the major components it will take to be successful, even anticipating some of the challenges you might face and how to overcome them. Make sure this section has a logical flow.

Marketing Plan
Overview: This section details how your organization will promote its services and activities. It should detail how clients can access services or participate in activities, and how they will learn about your offerings. This should include your on-line strategy (web site, social media like Facebook or Twitter), and flyers or materials distribution or placement, press and publications, and any community partnerships which increase access.

Practical Writing Tips: Focus on describing the different channels (web, print, word-of-mouth) in which stakeholders can learn about your organization and its offerings. How will you use each of these channels successfully and what scope of communication/outreach do you hope to have through these methods. This section should be approximately one page in length.

What a Reader Should Know After Reading this Section: A reader should know how you plan to promote your organization and its services, and how this promotion will help you achieve your mission.

Financials
Overview: This section demonstrates the ability of your organization to adequately support itself financially. This section should realistically project financial revenue and expenses. The narrative in this section should describe how sufficient income will be generated to cover all expenses. This description will be part of your overall funding plan for your organization. You should highlight any key assumptions you are making regarding your estimates, and adequately address cash flow periods where you anticipate not having enough revenue to cover expenses.

In addition to this narrative, the financials section should include the following:

- An estimate of start-up costs
- Projected balance sheet (1 year forward)
- Projected income statement (1 year forward)
- Projected cash flow statement (1 year forward)
- Three year budget (which is required as part of your form 1023)

For both your funding plan, and budget development, please refer to the next two sections of this workbook for details. Your cash flow statement and budget-to-actual statements will be important financial management tools for you and your board once you begin operations, and should be reviewed monthly at board meetings.

Practical Writing Tips: Spend time identifying what you anticipate your expenses will be, then identify your potential revenue sources—when will the money come in (on what timeline) and how likely are these sources to come through? What gaps do you need to fill? Develop a spreadsheet to capture your cash flow. Include any assumptions in footnotes. Develop your narrative from this spreadsheet. Finally, make sure you have this section reviewed by an accountant or other individual with financial expertise to make sure you are on the right track.

What a Reader Should Know After Reading this Section: A reader should understand the projected financial operations and capacity of your organization through the first year, and have a sense of ways program objectives will be funded over the first three
years of operations. The three year budget gives a sense of how your organization will gain and maintain sustainability.

Appendices

Overview: The appendices are a place to put more detailed information that would otherwise bog down your short 10-15 page narrative. If you have detailed demographic data or maps of services, board member resumes, letters of support for your services, copies of your articles of incorporation and bylaws, or other lengthy documents, place them in your appendices and reference them in the areas of the narrative where they will most enhance the readers understanding.

Practical Writing Tips: Keep your appendices current as you go. Insert placeholders if there is something you know you want to include, and reference it in the section on which you are working. Make sure you have a system for identifying each addition to the appendices, like “please see Appendix 1 for additional data.” Avoid throwing in everything but the kitchen sink into your appendices. A few well-considered items are better than a large assortment of data, charts, website references and so on.

What a Reader Should Know After Reading this Section: A reader should feel that all the necessary supporting documentation was at their finger tips for them to reference, should they so desire, without the need for additional research. They should definitely have access to your bylaws and articles of incorporation, once your organization has these in place.

Finalizing, Distributing, and Using Your Business Plan

Your business plan should be a living, breathing document not something to store away and collect dust. If something isn’t working down the line, update your plan. In the meantime, take this version of your plan and make it look important and professional. Anticipate who might be viewing it in the future and take pride in a job well-done.
Consider having a review process where a trusted outside reader or two looks over the document for you and raises questions, proofreads, and makes comments on the plan’s effectiveness at meeting its intentions.

In your final version, include all components detailed above, as well as a table of contents. Consider distributing digital copies in pdf form or hard copies to board members, staff, volunteers, key stakeholders in the community, community partners, and funders. You can also provide a downloadable copy of the full business plan or the executive summary online at your website. You can use text from the business plan to complete grant applications and file for nonprofit and exempt status with local, state, and federal government.

Use your business plan, especially your operations, marketing and financial plans to guide your organization through the implementation phase. Use the timeline you created to monitor progress and update as needed. Make an effort to review your plan monthly to keep your organization on track or to see how the plan’s underlying assumptions are holding up as you actually begin to implement your services.

**Developing a Budget**

A budget is a key organizational tool which directly connects organizational funds and resources to organizational operations and goals. Creating a budget is a critical part of your start-up planning process, and provides direct comparison on how funds are being brought in and utilized to achieve operational and mission goals.

While you may not yet be sure where all of your funding to start and maintain your organization will be coming from, it is important to identify all of your anticipated needs and expenses as part of the budgeting process. You will develop a separate funding plan which details how you anticipate generating the income needed to support your organizational objectives.
The budget process involves everyone in your organization, wherever possible. The individuals developing programs and services should definitely have input as they will be managing to the approved budget throughout early implementation. Be extremely specific about current and future expenses. Also consider what can be donated in terms of goods and services that can be of value to your organization. This is not the time to be vague, especially in the start-up phase.

Here are some important tips to remember about creating a budget:

- Any budget is only as good as the time, effort, and information put into it.
- No budget is perfect, since none of us can totally predict the future.
- All budgets must be monitored and changed as time goes by.

Here are some items you will likely want to consider on the expense side:

- Salaries and benefits
- Furniture
- Insurance
- Office supplies
- Licenses
- Computers and tech needs
- Program supplies
- Fundraising costs
- Legal fees
- Marketing materials
- Facilities—rent and utilities
- Travel
- Phone and internet
- Equipment
- Staff development
On the revenue side, some sources from which you might generate income include:

- Grants
- Contracts
- Special events
- Fundraising appeals
- Fees for service
- Product sales
- Membership dues

Use the following income projection worksheet to help guide you in the process of determining your sources of income and how likely you are to secure these sources:
## Income Projection Worksheet

<table>
<thead>
<tr>
<th>SUPPORT</th>
<th>Government Grants</th>
<th>Foundation Grants</th>
<th>Individual Contributions</th>
<th>Other</th>
<th>REVENUE</th>
<th>Contracts</th>
<th>Earned Income</th>
<th>Total</th>
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<td>REVENUE</td>
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<tr>
<td>Membership Fee</td>
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<tr>
<td>Total Support &amp; Revenue</td>
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<td>$</td>
<td>$</td>
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<td>$</td>
<td>$</td>
<td>$</td>
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</tbody>
</table>

Total: $
In the funding plan section which follows, you will have opportunity to think through and plan for funding support in a much more detailed way. Work on this section of income generation in conjunction with your funding plan, as they will inform each other and make your financial planning more robust.

Here is a budget template to help get you thinking about your programs and services, as well as the costs of fundraising and administration:

**Program-based Budget Worksheet**

**For the Period of: _________________**

<table>
<thead>
<tr>
<th>Income/Support</th>
<th>Total</th>
<th>Program A</th>
<th>Program B</th>
<th>Program C</th>
<th>Program D</th>
<th>Fundraising</th>
<th>General/ Admin.</th>
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<td>$</td>
<td>$</td>
<td>$</td>
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<td>$</td>
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<td>Trustee Contribution</td>
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<td>Interest Income</td>
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<td>In-kind</td>
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<td><strong>Total Income/Support</strong></td>
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<td><strong>Total Personnel Expenses</strong></td>
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<td>Audit/Account. Fees</td>
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<tr>
<td>Training/Ed.-Staff</td>
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<td>Consultant Fees</td>
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<td>Office Equip./Repair</td>
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<tr>
<td>Postage</td>
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</tbody>
</table>

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Creating a Funding Plan

For now, your major need as a new organization is securing operating revenue to get you up and running. A funding plan is a key tool for you to identify where that revenue will come from. Your funding plan is a critical component of your business plan, and also is a required component of Form 1023.

Each organization will have different networks of individuals, foundations, and government organizations with which they will partner for funding needs, and each organization will have a unique situation. As your organization develops overtime, these relationships will grow and your sources of revenue will become clearer. However, during the start up phase, funding can be hard to come by. You need to be very realistic about fundraising goals.

Think about the needs you are likely to have:

- General operating
- Special projects and programs
- Endowment (long-term financial stability)
- Capital needs (facilities and equipment)
- Operating reserves (should your organization hit a rough patch—this is typically 3 to 6 months of reserves)

Consider all your potential sources of funding:

- Individual donors
- Government contracts
- Other contracts
- Private Foundation grants
- Earned revenue from programs and services
- Corporations
- Others like religious organizations who fund programs

**Key Fundraising Questions**

Consider the above sources and jot down some answers to the following questions (you can incorporate your answers into your funding plan):

What do we need money for? What are our strategic priorities and goals?

How much money do we need to raise?

Where is it going to come from? What funding relationships do you already have?

Which funding sources are likely to be most supportive and connected to your organizational mission?

Whom will we approach and how?

What research do we need to do?
How Planning Boosts Your Fundraising Results

Creating a funding plan, in addition to your business plan must seem like a lot of work! Here are some of the benefits of developing a well-researched funding plan:

1. Planning prepares the organization for the long-haul because it recognizes that fundraising requires continual effort, relationship-building and relationship-maintenance.

2. Planning can make individual donors a top priority in your fundraising, and individuals account for 70-75 % of all contributions to nonprofits.

3. Planning helps you take into account the people who are already your supporters; paying attention to your core constituents and their needs can help improve your standing in your community as well as generate prime giving prospects. (Over 75 % of people who volunteer for an organization also contribute financially.)

4. Planning helps the organization put its best foot forward because successful fundraising materials require you to articulate your value and goals in order to give people positive reasons for supporting your project.

5. The planning process strengthens the organization by clarifying vision, message, and roles within an organization. Successful planning builds a stronger team that is unified and energized around its mission and able to work efficiently and effectively toward developing resources to support that mission.
Here is a start up funding template you can use for your funding plan. Modify according to your needs:

**Sample Fundraising Plan Template**

Name of Organization: ____________________________________________________

Period of Start-Up Fundraising: __________________________________________

Financial Goal of Fundraising Efforts: ________________________________

**Projected Income:**
(For your start up purposes, estimate for the first three years.)

<table>
<thead>
<tr>
<th>First Year</th>
<th>Second Year</th>
<th>Third Year</th>
</tr>
</thead>
</table>

**Plan and Rationale:**
Include an overview/ summary of this fundraising plan here, including total projected revenue, major focus of support per your business plan; as well as the resulting benefits to the community of achieving your fundraising goal. Consider using language from your business plan.

**Strategy:**
In this section, include an overview/summary of all strategies you plan to employ to meet your fundraising goal (grants, corporate support, contributed income, earned income, etc.) Point out which strategies are being emphasized and why. This is a good place to state overall development goals like, “Our goal is to successfully secure support from a variety of sources to ensure that XYZ Organization’s revenues are diversified, stable, and sufficient to support our mission and goals.”
Staff Time:
Indicate number and type of staff participating in the organization’s overall fundraising efforts. You should indicate volunteer involvement here, too.

Board Time:
Indicate the extent to which the board participates in contributing to the resources of the organization, as well as the variety of volunteer fundraising activities engaged in by the board.

Direct Cost:
Overall cost of annual fundraising efforts should be estimated here. As you become more established it will be helpful to include cost per dollar raised to indicate efficiency and effectiveness of your fundraising efforts.

Timetable:
Characterize the annual efforts by short/intermediate/or long-term efforts; give a preview of the activities in a summary that participants, upon reading, would know what to expect throughout the year/years.

Provide information as follows for each fundraising source. “Individual Gifts” and “Grants are given as examples:

Individual Gifts Solicitation

Plan and Rationale:

Strategy:
Methods:

Staff Time:

Board Time:

Direct Cost:

Timetable

Projected Income:
First Year  Second Year  Third Year
Grants from Foundations and Corporations

Plan and Rationale:

Strategy:

Staff Time:

Board Time:

Direct Costs:

Projected Income:

Source 1:
First Year          Second Year          Third Year
Measuring Success

How will you know if your organization is set up to have the impact you want and when organizational objectives have been met? You may be thinking “If and when I get this organization started, I’ll deal with such questions then” or alternatively, “I’ll know success when I see it.” We want to encourage your give some thought to measuring your success now, in the planning phase, because implementation will keep you very busy.

Evaluating your impact as an organization is critical on several levels: (1) You are a mission-based organization that wants to effect positive change on issues you care about—are you being as effective at achieving this as possible? (2) You are a steward of public trust and funds, as a tax exempt organization—are you making good on the public’s investment? (3) Funders and other stakeholders need to put your success in perspective and understand the results you are achieving for continued support and buy-in, and (3) Real time feedback on operations and programs can help you make course correction before it’s too late.

There are many ways to structure evaluations. As your organization becomes more sophisticated, you may want to explore your options. Our recommendation to you, though, in the start-up phase, is to give evaluation some thought (answer the questions...
below) and then come up with a few simple measures of success for both internal operations and programs and services.

Consider the following key questions when designing evaluation criteria for your organization.\(^2\)

1. For what purposes is the evaluation being done, i.e., what do you want to be able to decide as a result of the evaluation?

2. Who are the audiences for the information from the evaluation, e.g., clients, bankers, funders, board, management, staff, clients, clients, etc.?

3. What kinds of information are needed to make the decision you need to make and/or enlighten your intended audiences?

4. From what sources should the information be collected, e.g., employees, clients, clients, program documentation, etc.?

5. How can that information be collected in a reasonable, time-efficient manner, e.g., questionnaires, interviews, examining documentation, observing clients or employees, conducting focus groups among clients or employees, etc.?

6. What resources are available to collect the information (staff or volunteer time, free on-line survey tools, interns, organizational partners)?

In addition, in the final section of this workbook, we provide a best practices evaluation tool for you to monitor your progress from an implementation/operations stand point.

\(^2\) This series of questions was adapted from the Basic Guide to Program Evaluation written by Carter McNamara, found at http://managementhelp.org/evaluatn/fnl_eval.htm#anchor1578833
This is not a tool to monitor programs and services, but your own organizational progress.

**Step Two: Incorporation**

Congratulations on making it this far! You’ve done a lot of work to get here, and it is time to begin the legal process of incorporating in your state. This section includes insight on the following:

- Choosing and reserving a corporate name
- Completing Articles of Incorporation
- Drafting Bylaws
- Completing Official Business: Initial Board Meeting

**Choosing and Reserving a Corporate Name**

If you haven’t already decided on a name for your organization, it’s time to do so. Choosing your name is an important marketing decision. Consider the various stakeholders who will interface with your organization—staff, volunteers, clients, funders, community members, among others. Is your name memorable? Does it distinguish you from others and communicate what type of work you do? Does your name match well with your mission, and inspire others to learn more?

There are legal issues to consider when selecting a name—to be approved by the Secretary of State, your name must be unique from all others, and not deceptively similar to another name (Red Cross 2, for example.) You want to be mindful about infringing on trade names or trademarks, and therefore will want to do your own research into what is available. Even if the Secretary of State approves you name within your state, make sure you are not infringing on national groups. If you are planning to use an acronym, make sure it doesn’t overlap with other well-known names. Well-known nonprofits and for-profits will defend their trade names. As a new nonprofit, the
last thing you want to do is find yourself in the middle of court case or wasting precious resources (business cards, letterhead, website design) and marketing efforts by having to change your name.

You will also want to think about the IRS approval process and avoid raising any red flags. Names with political references or suggesting a political purpose, that appear to be associated with traditionally for-profit activities, or names which suggest you have specific professional capabilities and licenses that you do not, should be avoided. These types of names can slow you down.

A Process for Picking a Name

1. Don’t get too attached to one name, without knowing whether or not it is available. Instead, brainstorm a list of potential names with your board.

2. Once you have brainstormed a list of names, have board members narrow it down to your top 3-4 names.

3. Test those names out with potential recipients of services, friends, family, professional advisors, and community members to get feedback on whether or not they achieve your goals from a marketing and mission perspective.

4. Contact your Secretary of State directly or search their on-line directory of names if one is available to see if your top-ranked names are available.

5. Conduct your own additional “national” research by searching for other organizations with your name or similar names on-line. Use a search engine like Google, type in your names one by one, and see what comes up.

6. Once you feel confident your name is available, and a good match for your organization, apply to reserve your name with your Secretary of State’s office.
Completing Articles of Incorporation

Your Articles of Incorporation are the primary rules governing the management of your organization. Nonprofit articles contain the organization’s basic information (name, registered agent, office address, etc.) and tax exemption information. Filing articles of incorporation brings your nonprofit into legal existence, and is done at the state level, through your Secretary of State. There are three ways you can go about drafting and submitting your articles of incorporation:

1. Doing it yourself, following the instructions given by your state
2. Using an on-line incorporating service to help you draft and submit your paperwork
3. Hiring an attorney to guide you through the process

For purposes here, we focus on those who need guidance to complete the process themselves.

Most Secretary of State web sites will have templates and/or instructions for nonprofit Articles of Incorporation. Visit your Secretary of State’s website for more information about the process of incorporating. In most states you can fill out and submit your application on-line. You could also search the Internet for the keywords “nonprofit articles of incorporation”, plus your state and type of nonprofit.

States generally have a "fill-in-the-blank" form that meets their requirements for incorporation. You can download your state's nonprofit corporation "one-size-fits-all" incorporation document from your state's website. Make sure you download the
"nonprofit" Articles of Incorporation, not the "for-profit" articles. You should read the instructions carefully. You should also read over the state statutes that govern formation, operation, and dissolution of a nonprofit corporation in your state.

Keep in mind that the articles you download meet your state’s minimum requirements to form a nonprofit corporation. The IRS requires additional language in your Articles of Incorporation in order to qualify for tax-exempt status.

**Your Articles of Incorporation should satisfy both your state and IRS requirements.** In order to qualify for tax-exempt status as a 501(c)(3) charitable organization your organization's Articles of Incorporation must limit the organization's purposes to one or more of those described in that section of the IRS code. The purpose clause in your Articles of Incorporation must limit the activities to those described by the IRS as charitable.

Additionally, the assets of a charitable organization must be permanently dedicated to an exempt purpose. This means that if an organization dissolves, its assets must be distributed for an exempt purpose to another nonprofit, or to the government for public purposes. Your Articles of Incorporation must contain a "dissolution" clause requiring proper distribution and dedication of assets upon dissolution.

A sample set of Articles of Incorporation is below. This is not an interactive section of the workbook, and the sample provided below is given simply to familiarize you with the language and general contents of such Articles. You must adhere to your specific state’s rules to draft and file your articles.
SAMPLE
ARTICLES OF INCORPORATION
OF
[ORGANIZATION NAME]

The undersigned persons do hereby associate ourselves together for the purpose of forming a nonprofit corporation, pursuant to the provisions of the Colorado Revised Statutes, Title 7, Articles 121-137.

Article I
The name of the corporation shall be [Organization Name]. The principal address of the corporation shall be 1111 Main Street, Anywhere, Colorado 80000.

Article II
The period of duration of said corporation shall be perpetual.

Article III
Said corporation is organized and shall be operated exclusively for charitable, education, religious and scientific purposes [chose one or all of the above], including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law).

Article IV
The business and purpose of the corporation shall be to [mission statement].

Article V
The registered agent of said corporation shall be [name registered agent], and the registered office of the corporation in Colorado [state street address, City of xxx, County of xxx, State of Colorado, Zip Code].
Note: This can either be the name of an individual or of the organization itself.

Article VI
The name and address of the incorporator(s) of said corporation is as follows:

Name and address of incorporator(s) here.

Note: This can either be the name of an individual or of the organization itself.

Article VII
No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to its members, trustees, officers, or other private persons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth in Article Three hereof. No substantial part of the activities of the corporation shall be the carrying on propaganda, or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office. Notwithstanding any other provision of these activities not permitted to be carried on (a) by a corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law) or (b) by a corporation, contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law).

Article VIII
Upon the dissolution of the corporation, the Board of Directors shall, after paying or making provision for the payment of all of the liabilities of the corporation, dispose of all of the assets of the corporation exclusively for the purposes as shall at the time qualify as an exempt organization or organization under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States
Internal Revenue Law), as the Board of Directors shall determine. Any such assets not so disposed of shall be disposed of by the Court of the county in which the principal office of the corporation is then located, exclusively for such purposes or to such organization or organizations, the Court shall determine, which are organized and operated exclusively for such purposes.

**Article IX**
The number of directors constituting the initial board of directors shall be [state number]. The names and addresses of the persons who are to serve as initial directors shall be as follows:

[Names and addresses of directors]

**Article X**
The corporation shall have such classes of [voting or nonvoting – use one or the other] members as described in their manner of election, qualifications, tenure, terms of membership, rights, powers, privileges and immunities stated in the Bylaws.

OR

The corporation shall not have members.

[Note: Do not use both of these options: choose one or the other.]

**Article XI**
Subject to the limitations contained in these Articles of Incorporation, and to the provisions of law requiring corporate action to be exercised, authorized, or approved by the members of the corporation, all the lawful powers of the corporation shall be vested in and exercised by or under the authority of the board of directors, and the business and affairs of the corporation shall be conducted and controlled by such board.
**Article XII**
The corporation shall indemnify any director, officer, or former director or officer of the corporation or any person who may have served at its request against expenses actually and reasonably incurred by him or her in connection with the defense of any action, suit or proceeding, civil or criminal, in which he or she is made a party by reason of being or having been an officer or director of the corporation, except in relation to matters as to which he or she is adjudged in such action, suit, or proceeding to be liable for negligence or misconduct in the performance of his or her duty to the corporation.

**Article XIII**
The articles may be amended in the manner provided under the Colorado Revised Nonprofit Corporation Act in effect at the time of amendment, and as prescribed by the corporate Bylaws.

**Article XIV**
The initial Bylaws of the corporation shall be adopted by the board of directors. The powers to alter, amend, or repeal the Bylaws or to adopt new Bylaws shall be vested in the board of directors.

**Article XV**
The incorporator(s) of this corporation is/are: _____________________________
The undersigned incorporator(s) certify(ies) that she/he/they execute(s) these articles for the purpose herein stated.

Name______________________________________________
Address____________________________________________

Name______________________________________________
Address____________________________________________

Name______________________________________________
Address____________________________________________
Drafting Bylaws

Your organization will be governed by operating rules called Bylaws. Bylaws are your organization’s operating manual. They define:

- Roles and duties of directors and officers
- Size of the board and how it will function
- How grant monies will be distributed upon dissolution
- Rules and procedures for holding meetings, electing directors, and appointing officers
- Other essential corporate governance matters

Bylaws can be changed by a simple vote of the board, or if you are a membership organization, by a vote of the members. If your bylaws have been adopted by your board of directors you should include them with your 501(c)(3) application to the IRS.

While Bylaws are not public documents, making them readily available increases your accountability and transparency. It also encourages your board to pay closer attention to them. Your board should review them regularly and amend them accordingly as your organization evolves over time.

Sample bylaws are below. This is not an interactive section of the workbook, and the sample provided below is given simply to familiarize you with the language and general contents. It is important that you draft and adopt your own bylaws in accordance with the way your board will operate.
Sample Bylaws

ARTICLE I - NAME, PURPOSE

Section 1: The name of the organization shall be ________________________________.

Section 2: The ______________________________ is organized exclusively for charitable, scientific religious and educational purposes, more specifically to ________________________________.

ARTICLE II - MEMBERSHIP

Section 1: Membership shall consist only of the members of the board of directors.

ARTICLE III - ANNUAL MEETING

Section 1: Annual Meeting. The date of the regular annual meeting shall be set by the Board of Directors who shall also set the time and place.

Section 2: Special Meetings. Special meetings may be called by the Chair or the Executive Committee.

Section 3: Notice. Notice of each meeting shall be given to each voting member, by mail, not less than ten days before the meeting.

ARTICLE IV - BOARD OF DIRECTORS

Section 1: Board Role, Size, Compensation. The Board is responsible for overall policy and direction of the organization, and delegates responsibility for day-to-day operations to the Executive Director and staff. The Board shall have up to ________ and not fewer than ________ members. The board receives no compensation other than reasonable expenses.
Section 2: Meetings. The Board shall meet at least __________, at an agreed upon time and place.

Section 3: Board Elections. Election of new directors or election of current directors to a second term will occur as the first item of business at the annual meeting of the corporation. Directors will be elected by a majority vote of the current directors.

Section 4: Terms. All Board members shall serve _____ year terms, but are eligible for re-election.

Section 5: Quorum. A quorum must be attended by at least _____ percent of the Board members before business can be transacted or motions made or passed.

Section 6: Notice. An official Board meeting requires that each Board member have written notice two weeks in advance.

Section 7. Officers and Duties. There shall be four officers of the Board consisting of a Chair, Vice Chair, Secretary and Treasurer. Their duties are as follows:

The Chair shall convene regularly scheduled Board meetings, shall preside or arrange for other members of the executive committee to preside at each meeting in the following order: Vice-Chair, Secretary and Treasurer.

The Vice-Chair will chair committees on special subjects as designated by the board.

The Secretary shall be responsible for keeping records of Board actions, including overseeing the taking of minutes at all board meetings, sending out meeting announcements, distributing copies of minutes and the agenda to each Board members, and assuring that corporate records are maintained.

The Treasurer shall make a report at each Board meeting. Treasurer shall chair the finance committee, assist in the preparation of the budget, help develop fundraising plans, and make financial information available to Board members and the public.
Section 8: Vacancies. When a vacancy on the Board exists, nominations for new members may be received from present Board members by the Secretary two weeks in advance of a Board meeting. These nominations shall be sent out to Board members with the regular Board meeting announcement, to be voted upon at the next Board meeting. These vacancies will be filled only to the end of the particular Board member's term.

Section 9: Resignation, Termination and Absences. Resignation from the Board must be in writing and received by the Secretary. A Board member shall be dropped for excess absences from the Board if s/he has three unexcused absences from Board meetings in a year. A Board member may be removed for other reasons by a three-fourths vote of the remaining directors.

Section 10: Special Meetings. Special meetings of the Board shall be called upon the request of the Chair or one-third of the Board. Notices of special meetings shall be sent out by the Secretary to each Board member postmarked two weeks in advance.

ARTICLE V - COMMITTEES

Section 1: The Board may create committees as needed, such as fundraising, housing, etc. The Board Chair appoints all committee chairs.

Section 2: The ____ officers serve as the members of the Executive Committee. Except for the power to amend the Articles of Incorporation and Bylaws, the Executive Committee shall have all of the powers and authority of the Board of Directors in the intervals between meetings of the Board of Directors, subject to the direction and control of the Board of Directors.

Section 3: Finance Committee. The Treasurer is chair of the Finance Committee, which includes ____ other Board members. The Finance Committee is responsible for developing and reviewing fiscal procedures, a fundraising plan, and annual budget with staff and other Board members. The Board must approve the budget, and all expenditures must be within the budget. Any major change in the budget must be
approved by the Board or the Executive Committee. The fiscal year shall be the calendar year.

Annual reports are required to be submitted to the Board showing income, expenditures and pending income. The financial records of the organization are public information and shall be made available to the membership, Board members and the public.

ARTICLE VI - AMENDMENTS

Section 1: These Bylaws may be amended when necessary by a two-thirds majority of the Board of Directors. Proposed amendments must be submitted to the Secretary to be sent out with regular Board announcements.

These Bylaws were approved at a meeting of the Board of Directors of _____________ on _______________________, 20XX.

Completing Official Business: Initial Board Meeting

You will want to schedule and initial official board meeting once you’ve received your certificate of incorporation from the state in which you’ve filed. The purpose of this meeting will be to formalize your activities. You will want to record minutes that will serve as your first corporate entry on file.

Your State law may provide for the minimum agenda for the first meeting of the organization. State statutes may provide that the Board shall adopt bylaws, elect officers, provide for initial members if there are to be members and transact any other business that may come before the first meeting.

An agenda should be developed and circulated to members of the board before the ________________

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3 You can receive your certificate as soon as you file your Articles, since in most states you can print your certificate off the Secretary of State website where you’ve filed.

100
initial meeting. Each item on the agenda should be the subject of a motion to approve, a vote and recorded in the minutes.

The agenda at this initial meeting may include the following:

- The board may approve the filing for the Federal Employer Identification Number (FEIN or EIN). A EIN is similar to a Social Security number, but for businesses. You will need an EIN to file the IRS Form 1023.4
- The Board may approve the opening of a bank account in the name of the organization subject to receipt of the EIN and approval of the Articles/Certificate of Incorporation by the State. You will not be able to open an account without the paperwork noted above. The motion to open an account should name the bank and branch address, the names of the two or more persons who are approved to sign checks and deposit funds. All checks should require at least two signatures. No check should be signed that is blank.
- The Board may adopt the Bylaws, have the election of officers according to the operating rules laid out in your bylaws, begin the process of naming members if there are to be members and transact other business that may be raised. Thereafter, the corporation will be governed by the Bylaws.
- The Board may approve the filing of Internal Revenue Service Forms 1023. The name of the person approved to sign the forms should be named in the motion. The motion should include the payment of the appropriate fee to be sent with this material to the IRS.

Further meetings and board business should be conducted according to the rules put forth in the bylaws. Congratulations—if you’ve come this far, you are an official legal entity with an operating board!

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4 You can apply for and obtain an EIN in a matter of minutes on the IRS website.
Step Three: Filing & Tax Exemption

This section of the workbook provides high level recommendations on filing for tax exempt status with the IRS. Most applications can be completed by staff or board members of the applicant organization without the assistance of attorneys or accountants.

This section does not provide detailed guidance on the process of filing your 1023. Some excellent resources do exist for people seeking additional help:

- The IRS promotes a free mini course on applying for exempt status—this course, entitled “Applying for Tax Exemption: An Overview,” can be found by clicking [here](#).  
- The IRS offers a step-by-step application tool to help guide you through the exemption process, which can be found by clicking [here](#).  
- We have also found the following website and resources useful: [http://www.form1023help.com/](http://www.form1023help.com/). Free information and news on form 1023 is presented at this site along with the opportunity to purchase a very detailed and useful guide prepared by Sandy Deja. The eBook, entitled “Prepare Your Own 501(c)(3) Application: How to Make the IRS Love Your Form 1023” may be purchased and downloaded for a small fee. A direct link to the eBook can be found at [http://501c3book.org/](http://501c3book.org/).

Filing for a Federal Employee Identification Number

You will need an EIN before you can submit your 501(c)(3) application. Some tips for filing your EIN are below:

- You can obtain your EIN for free—there is no fee associated with this process.  
- You can file online (strongly recommended) by filling out Form SS-4 at the IRS web site and submitting it electronically. The IRS assigns your EIN to you within a matter of seconds and make it available for viewing. If you view at this time,
make sure print several copies and record this information in a safe place, as you will not have opportunity to view this screen again. Alternatively, you can request your EIN be mailed to you within 10 to 12 business days.

- To find the online filing form, simply type in Online Form SS-4 in the top search box on the IRS home page ("Search IRS Site for").

Filing for 501(c)(3) Status

When to Apply
Your organization should apply for tax exemption soon after incorporation (within 27 months.) If you file within 27 months of incorporation you benefit from retroactive tax exempt status. If you do not apply within this time frame, tax exemption is effective from the date exemption status is granted. Filing for tax exempt status early on will also serve you well with funders, who often require a copy of your exemption letter as part of your application. Also, your organization will only get more complex as time passes—filing early in the process may mean less work for you overall.

Some Tips to Make Filing Easier

- Form 1023 is your application to the IRS. Fill out the application before you read Form 1023 Guidelines; then refer to the guidelines for those questions that you find confusing. Reading the guidelines prior to filling out Form 1023 tends to create doubt and confusion about the application.

- The IRS website can be a very helpful resource for you as you fill out your application. Check their Frequently Asked Questions page, as you have questions about your forms. Chances are, you will find the information you are looking for.

- While you can download the forms from the IRS website, you cannot submit your application online. We recommend you download and save the writable pdf 1023 form to your desktop and work on it from there, before printing your final copy.
• If possible, obtain an approved 501(c)(3) application from another nonprofit organization who has filed within the last 2-3 years. The approved application will give you an idea of the information you must include to complete Form 1023 and the best way to answer the form’s questions.

• Make sure you are aware of any changes to filing form 1023 and are using the most recent version of all forms. Double check all information related to forms. While we have done our best to provide accurate information, it is important you have the most recent information available on the IRS website.

• We also recommend having a lawyer, consultant or experienced nonprofit founder review your form 1023 before you submit. This can help you avoid mistakes and requests for additional information, which can slow down the process of being granted exempt status.

Forms & Publications You’ll Need
You can call the IRS and have forms sent to you, but you should be prepared to wait several weeks, maybe longer to receive them. The forms are available on-line at: www.irs.gov and then click on “Forms & Publications” box on the left-hand side of the home page. Alternatively, you can enter a form number into the search box in the upper right hand corner of the IRS home page, and it will take you directly to search results listing of the form and its instructions.

You will need the following forms:

• Form SS-4, the form you will need to file for your federal Employer Identification Number (EIN).
• Form 1023, the primary form for applying for 501(c)(3) status for recognition of exemption. This package should also include:
Form 5768, *Election/Revocation of Election by an Eligible Section 501(c)(3) Organization To Make Expenditures To Influence Legislation.*

- Form 1023 Guidelines, a packet of instructions that you will use selectively.
- Form 8718, which you will need to determine your application fee.
- Form 2848, which you will only use if your application is being submitted by a person outside your organization, like an accountant or attorney.

**Sending in your Application**

Before you send in your application, make sure you keep at least one complete copy of the form and any attachments.

The IRS requests you assemble your package in a specific way to expedite processing. The details of how to assemble your package can be found on pages 3 and 4 of the Instructions for filing form 1023.

Mail your completed application, all required attachments and the application fee to the following address (please double check this address in the filing instructions, just to make sure it hasn’t changed):

  Internal Revenue Service  
  PO Box 192  
  Covington, KY 41012-0192

**What to Expect Once you've Applied**

The IRS reviews applications in the order in which they are received, unless the application has been expedited due to specific conditions which are detailed can be found at [Expediting Exempt Application Processing](#).

The IRS will send you a letter either awarding your exempt status or requesting additional information. It is very common for the IRS to request additional information,
so don’t be too concerned. If additional information is requested, it is critical for you to respond as soon as possible. You are generally given 20 days to respond. If you do not respond within 20 days, your application can be denied. If you are not able to obtain answers to the questions within the 20-day period, call the IRS at the number given on the letter to work out arrangements. If any of the questions are unclear, you can also call this number for clarification from the IRS officer assigned to process your application.

Once the IRS is satisfied they have all necessary information to make a decision, you will receive an IRS Determination Letter. This letter is a document issued by the Internal Revenue Service to a nonprofit organization confirming its status as an organization exempt from paying federal income taxes and the section of the Internal Revenue Code under which its exemption was granted (generally 501(c)(3)). This letter can take between two and nine months to arrive.

Though filing can be a daunting process, remember that the most likely response to your application will be a favorable ruling, granting you exempt status for an initial period of five years, at which time a permanent ruling will be made.

**Raising Money Prior to Receiving Exempt Status**

When the IRS approves a timely-filed exemption application, exempt status is recognized back to the date your organization was created. Thus, while an application is pending, your organization can treat itself as exempt from federal income tax under section 501(c)(3). For example, you must file Form 990 (instead of an income tax return) while your application is pending.

However, individual donors to the organization do not have advance assurance of donation deductibility because your organization’s exemption is pending. You should disclose this to any one making a contribution. If your organization ultimately qualifies for exemption for the period in which the contribution is made, the contribution will then
be tax-deductible by the donor. Alternatively, if the organization ultimately does not qualify for exemption, then the contribution will not be tax deductible for the donor who made the contribution.

(http://www.irs.gov/charities/charitable/article/0,,id=164254,00.html)

Proof of Your Exempt Status
You may think that now you’ve been granted 501(c)(3) status, you will be given some sort of special identification you can use to be easily identified as tax exempt. In fact, this is not the case. Your Federal Employer Identification Number (EIN) does not indicate that your organization is tax exempt. The most important proof you will have as an organization will be your approval letter from the IRS, granting your tax exempt status. You will be asked for a copy of this letter as part of grant applications, when you apply for exemption on purchases for your organization, and to apply for discounted mail rates. Keep your original in a safe place and make sure you have copies on hand at all times.

Filing for State & Local Tax Exemptions

Don’t assume you are automatically exempt from state, local, and other types of taxes (like property, sales, and telephone), just because you received your federal designation. It is very important you check your state and local government departments of revenue regarding their resources and guidelines on securing tax exempt status. You may need to apply separately for different types of tax exemptions; for example, you may need to apply for sales tax exemption at both the state and city level. Property tax exemptions might be more complicated to secure than sales tax. Receiving tax exemption at all of these levels can be time consuming, but if you do some analysis on how much money in taxes will be saved by pursuing these exemptions, they may very well be worth it to your organization to do so.

Filing for a Bulk Mail Permit
501(c)(3) Nonprofits are eligible for special discounted postage rates from the United States Post Office. You can inquire about details at your closest major post office. You will be required to fill out form 3624, Application to Mail at Nonprofit Standard Mail Rates, and submit all required documentation. Your completed form must be submitted at the post office where you intend to do your bulk mailing. You must closely follow the procedures outlined by the post office for marking and bundling your bulk mail, otherwise you might need to redo your efforts.

**Step Four: Early Implementation**

**Put your Planning into Action**

If you’ve completed this workbook, you’ve done an incredible amount of planning and work to get your organization off to a good start. As you implement, it is important to work from your planning to achieve your goals. Your business plan, funding plan, and budget are great places to start. Using your implementation time-line from your business plan can be a great way to stay on track and to see how you are doing.

We have compiled an early implementation evaluation sheet for you so that as you get started you can see if you are continuing to meet new nonprofit best practices. Revisit this evaluation often as parts that may not seem relevant to your immediate needs will become more important as your organization grows and becomes more complex. Continue to use it as a way to ensure you are getting your organization off to the best possible start and are thinking about aspects you may not have previously considered.
The evaluation is broken into core sections of nonprofit management, including:

- Mission & Program Planning
- Governance
- Transparency & Accountability
- Fundraising
- Financial Management
- Human Resources
- Evaluation
- Civic Engagement & Public Policy
- Strategic Alliances
- Capacity Building
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<thead>
<tr>
<th>Item</th>
<th>Measurement</th>
<th>Notes</th>
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<tr>
<td></td>
<td>Yes</td>
<td>In Process</td>
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<tr>
<td><strong>Mission and Program Planning</strong></td>
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<tr>
<td>The organization has a clear and well-defined 1-2 sentence mission statement.</td>
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<td>The organization has developed at least one program (charitable, education, religious and/or scientific) that falls within the mission</td>
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<tr>
<td>The organization has a diverse and broad-based constituency reflecting the community it serves that embraces the mission and programs</td>
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<td>There are other people, besides you, who believe strongly in the organization that you propose</td>
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<tr>
<td>The organization has developed an operational plan (1-2 years) of broad goals and measurable objectives</td>
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<td>The organization has researched other organizations providing similar and/or complementary services in the same area and region of focus</td>
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<td>The organization has identified what makes their organization unique and developed a compelling case statement (mission, values and program impact)</td>
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<tr>
<td><strong>Governance</strong></td>
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<td>The organization has identified a group of at least three disinterested (unrelated by family or business ties) individuals to serve on the initial board of directors</td>
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<tr>
<td>The board of directors has individuals to fulfill the following officer positions: President, Treasurer and Secretary</td>
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<td>At least 2/3 of board members are disinterested individuals (not related through family or business)</td>
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<tr>
<td>Board members understand their specific roles and expectations in fundraising for the organization</td>
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<tr>
<td>Every board member plans to contribute financially in a personally meaningful way to the organization</td>
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<tr>
<td>The board has established roles, responsibilities and expectations for board members and officers</td>
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<tr>
<td>The board has the organization’s legal obligations as a 501(c)(3) nonprofit organization including complying with local, state and federal laws</td>
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<tr>
<td>Board members have developed and adopted organizational bylaws to govern the organization’s internal operations</td>
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<tr>
<td>The board and staff have a clear understanding of their different roles and responsibilities as laid out in formal job descriptions</td>
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<tr>
<td><strong>Transparency and Accountability</strong></td>
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<tr>
<td>The organization has developed Articles of Incorporation including a purpose clause and dissolution clause to attach when registering for the Secretary of State</td>
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<tr>
<td>As a publicly controlled and funded organization, board and staff members understand they must make their Annual Information Return, Annual Tax Return and Form 1023 public</td>
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<tr>
<td>The board understands that no part of the organization’s net earnings will inure to the benefit of any individual</td>
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</table>
The organization has a conflict of interest policy that board members have read and agree to adhere to.

The board understands that the organization should establish and implement policies and procedures to protect and preserve the organizations important documents and records.

**Fundraising**

The organization seeks to have at least 30% of all its revenue coming from public sources including federal/state and foundation grants and individual contributions.

Board members understand and comply with all federal, state and local laws concerning fundraising practices.

The organization plans to file a registration statement with your state’s Secretary of State to solicit contributions and annually renews its statement.

The organization acknowledges all “quid pro quo” gifts over $75 and cash gifts over $250 in writing.

The board and staff involved in fundraising activities are familiar and in compliance with the Association of Fundraising Professionals Code of Ethical Principles and Standards of Professional Practice.

The organization agrees to apply a high percentage of each dollar raised to programs and services.

**Financial Management**

The board has developed an estimated annual budget for the next year which is approved by the board.
The nonprofit organization ensures separation of financial duties as a check and balance system

The nonprofit organization understands its responsibility to ensure that all of its assets are used solely for the benefit of the organization and not for private gains

The nonprofit understands that the majority of its annual budget be spent on programs in pursuance of its mission

The organization’s board understands how to read and interpret financial statements and reviews them regularly

<table>
<thead>
<tr>
<th>Human Resources</th>
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<tr>
<td>If the organization intends to have an executive director, he/she does not serve as a voting member of the board, and the board has developed a written job description for the executive director</td>
</tr>
<tr>
<td>The organization will develop written job descriptions for volunteers to track, evaluate and reward performance</td>
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<tr>
<th>Evaluation</th>
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<tbody>
<tr>
<td>The organization will regularly engage in nonprofit service and program evaluation with a variety of stakeholders</td>
</tr>
<tr>
<td>The organization knows what it wants to accomplish not just what it will do</td>
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<tr>
<th>Civic Engagement and Public Policy</th>
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<tbody>
<tr>
<td>The nonprofit organization understands that no more than 20% of its operating budget should be spent on direct lobbying efforts</td>
</tr>
<tr>
<td><strong>Strategic Alliances</strong></td>
</tr>
<tr>
<td>------------------------</td>
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<tr>
<td>The nonprofit organization has developed strategic alliances as a means to achieve goals and improve efficiency and effectiveness</td>
</tr>
<tr>
<td>The organization understands that it should work to establish natural alliances among government, nonprofit, and for profit sectors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Capacity Building</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization has the capacity and resources to carry out its mission and programs, including ongoing training for its Board, Executive Director, employees, and volunteers</td>
</tr>
</tbody>
</table>
As you continue on your journey to make your mission-based vision a reality, we hope you feel better-informed, supported, and prepared as a result of the hard work you’ve put into completing the thought and action exercises in this toolkit. We wish you the best of luck as you start up for success.